DYNAVAX TECHNOLOGIES CORP
Form 10-Q
November 08, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission file number: 001-34207

Dynavax Technologies Corporation

(Exact name of registrant as specified in its charter)

Delaware 33-0728374

(State or other jurisdiction of (IRS Employer

incorporation or organization) Identification No.)
2929 Seventh Street, Suite 100

Berkeley, CA 94710-2753

(510) 848-5100

(Address, including Zip Code, and telephone number, including area code, of the registrant s principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registration was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x

Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of November 5, 2013, the registrant had outstanding 262,625,110 shares of common stock.

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DYNAVAX TECHNOLOGIES CORPORATION

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to a number of risks and uncertainties. Forward-looking statements are based on our beliefs and assumptions and on information currently available to our management. In some cases, you can identify forward-looking statements by terms such as may , will , should , could , would, expect, plan, anticipate, believe, estim predict, potential, future, intend, certain, and similar expressions intended to identify forward-looking statement forward-looking statements include discussions regarding our business and financing strategies, research and development, preclinical and clinical product development efforts, intellectual property rights and ability to commercialize our product candidates, as well as the timing of the clinical development and potential regulatory approval of our products, the effect of GAAP accounting pronouncements, the potential for entry into collaborative arrangements, uncertainty regarding our future operating results and prospects for profitability, anticipated sources of funds as well as our plans, objectives, expectations and intentions. Our actual results may vary materially from those in such forward-looking statements as a result of various factors that are identified in Item 1A Risk Factors and elsewhere in this document. All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. We assume no obligation to update any forward-looking statements.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Dynavax Technologies Corporation

Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

	September 30, 2013 (unaudited)	December 31, 2012 (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 12,191	$ 7,599
Marketable securities available-for-sale	64,283	117,531
Accounts receivable	2,159	1,005
Prepaid expenses and other current assets	1,120	2,052
Total current assets	79,753	128,187
Property and equipment, net	8,454	7,965
Goodwill	2,532	2,475
Restricted cash	657	652
Other assets	302	473
Total assets	$ 91,698	$ 139,752
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 1,289	$ 2,166
Accrued liabilities	8,148	10,063
Deferred revenues	6,126	6,785
Total current liabilities	15,563	19,014
Deferred revenues, noncurrent	2,751	5,283
Other long-term liabilities	988	629
Total liabilities	19,302	24,926
Commitments and contingencies (Note 5)		
Stockholders equity:		
Preferred stock: $0.001 par value; 5,000 shares authorized and no shares issued and outstanding at September 30, 2013 and December 31, 2012		
Common stock: $0.001 par value; 350,000 and 250,000 shares authorized at September 30, 2013 and December 31, 2012, respectively; 183,055 and 182,792 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	183	183
Additional paid-in capital	561,687	550,729
Accumulated other comprehensive loss:		
Unrealized gain on marketable securities available-for-sale	22	45
Cumulative translation adjustment	(341)	(640)

Total accumulated other comprehensive loss		(319)		(595)
Accumulated deficit		(489,155)		(435,491)
Total stockholders equity		72,396		114,826
Total liabilities and stockholders equity	$	91,698	$	139,752

See accompanying notes.

Dynavax Technologies Corporation

Condensed Consolidated Statements of Operations

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Collaboration revenue	$ 1,110	$ 1,050	$ 3,349	$ 3,602
Grant revenue	1,700	1,219	3,855	3,188
Service and license revenue	117	605	1,200	1,118
Total revenues	2,927	2,874	8,404	7,908
Operating expenses:				
Research and development	11,770	12,850	38,739	36,631
General and administrative	5,807	7,121	22,243	18,871
Unoccupied facility expense	918		918	
Total operating expenses	18,495	19,971	61,900	55,502
Loss from operations	(15,568)	(17,097)	(53,496)	(47,594)
Interest income	37	91	163	208
Interest expense	(24)	(589)	(83)	(1,765)
Other expense	(120)	(196)	(248)	(255)
Net loss	$ (15,675)	$ (17,791)	$ (53,664)	$ (49,406)
Basic and diluted net loss per share	$ (0.09)	$ (0.10)	$ (0.29)	$ (0.30)
Weighted-average shares used to compute basic and diluted net loss per share	183,022	177,870	182,960	167,039

Condensed Consolidated Statements of Comprehensive Loss

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net loss	$ (15,675)	$ (17,791)	$ (53,664)	$ (49,406)
Other comprehensive income (loss):				
Unrealized gain (loss) on marketable securities available-for-sale	18	59	(23)	32
Cumulative translation adjustment	473	249	299	38

Other comprehensive income	491	308	276	70
Total comprehensive loss	$ (15,184)	$ (17,483)	$ (53,388)	$ (49,336)

See accompanying notes.

Dynavax Technologies Corporation

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
Operating activities		
Net loss	$ (53,664)	$ (49,406)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	986	898
Gain on disposal of property and equipment	4	6
Accretion of discounts and amortization of premiums of marketable securities	692	970
Interest associated with long-term note payable to Holdings		1,642
Unoccupied facility expense	918	
Stock compensation expense	10,847	6,294
Changes in operating assets and liabilities:		
Accounts receivable	(1,154)	5,842
Prepaid expenses and other current assets	932	(1,289)
Restricted cash and other assets	166	(74)
Accounts payable	(877)	(462)
Accrued liabilities and other long term liabilities	(2,489)	1,011
Deferred revenues	(3,191)	(1,649)
Net cash used in operating activities	(46,830)	(36,217)
Investing activities		
Purchases of marketable securities	(48,573)	(169,634)
Proceeds from maturities of marketable securities	101,105	127,085
Purchases of property and equipment, net	(1,316)	(1,727)
Net cash provided by (used in) investing activities	51,216	(44,276)
Financing activities		
Payments and proceeds from issuances of common stock and warrants, net of issuance costs	(143)	71,124
Proceeds from exercise of stock options and restricted stock awards	30	1,789
Proceeds from employee stock purchase plan	224	307
Net cash provided by financing activities	111	73,220
Effect of exchange rate on cash and cash equivalents	95	(18)
Net increase (decrease) in cash and cash equivalents	4,592	(7,291)
Cash and cash equivalents at beginning of year	7,599	31,941
Cash and cash equivalents at end of year	$ 12,191	$ 24,650
Supplemental disclosure of cash flow information		
Non-cash investing and financing activities:		
Disposal of fully depreciated property and equipment	$ 8	$ 29
Net change in unrealized gain on marketable securities	$ (23)	$ 32

See accompanying notes.

Dynavax Technologies Corporation

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization and Summary of Significant Accounting Policies

Dynavax Technologies Corporation (we, our, us, Dynavax or the Company), a clinical-stage biopharmaceutical company that discovers and develops novel products to prevent and treat infectious and inflammatory diseases and cancer. Our lead product candidate is HEPLISAV , a hepatitis B vaccine product candidate in Phase 3 development.

In addition to HEPLISAV, our pipeline comprises clinical-stage product candidates including an autoimmune program partnered with GlaxoSmithKline, an asthma program partnered with AstraZeneca AB and a cancer immunotherapy program as well as a preclinical development program utilizing nanoparticle adjuvant technology. We compete with pharmaceutical companies, biotechnology companies, academic institutions and research organizations in developing therapies to prevent or treat infectious and inflammatory diseases and cancer.

Basis of Presentation

Our accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. In our opinion, these unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, which we consider necessary to fairly state our financial position and the results of our operations and cash flows. As permitted under those rules, certain footnotes or other financial information that are normally required by GAAP can be condensed or omitted. Interim-period results are not necessarily indicative of results of operations or cash flows for a full-year period or any other interim-period. The condensed consolidated balance sheet at December 31, 2012, has been derived from audited financial statements at that date, but excludes disclosures required by GAAP for complete financial statements.

The unaudited condensed consolidated financial statements and these notes should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange Commission (the SEC).

The unaudited condensed consolidated financial statements include the accounts of Dynavax and our wholly-owned subsidiaries, Rhein Biotech GmbH (Rhein or Dynavax Europe) and Dynavax International, B.V. All significant intercompany accounts and transactions have been eliminated. We operate in one business segment, which is the discovery and development of biopharmaceutical products.

Liquidity and Financial Condition

We have incurred significant operating losses and negative cash flows from operations since our inception. As of September 30, 2013, we had cash, cash equivalents and marketable securities of $76.5 million. We currently estimate that we have sufficient cash resources to meet our anticipated cash needs through at least the next 12 months based on cash, cash equivalents and marketable securities on hand as of September 30, 2013 and anticipated revenues and funding from existing agreements.

We expect to continue to spend substantial funds in connection with the development and manufacturing of our product candidates, particularly HEPLISAV, various human clinical trials for our product candidates and protection of our intellectual property. In order to continue development of our product candidates, including HEPLISAV, and depending upon the cost and timing of an additional clinical study for HEPLISAV, we may need to raise additional funds. This may occur through strategic alliance and licensing arrangements and/or future public or private financings. Sufficient additional funding may not be available on acceptable terms, or at all. Additional equity financings, if completed, could result in significant dilution or otherwise adversely affect the rights of existing shareholders. If adequate funds are not available in the future, we may need to delay, reduce the scope of or put on hold the HEPLISAV program or our other development programs while we seek strategic alternatives.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results may differ materially from these estimates and assumptions. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, research and development activities, stock-based compensation, asset impairment, contingencies and the valuation of certain liabilities.

Summary of Significant Accounting Policies

There have been no significant changes in our significant accounting policies during the nine months ended September 30, 2013, as compared with those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

Revenue Recognition

Our revenues consist of amounts earned from collaborations, grants and fees from services and licenses. We enter into license and manufacturing agreements and collaborative research and development arrangements with pharmaceutical and biotechnology partners that may involve multiple deliverables. Our arrangements may include one or more of the following elements: upfront license payments, cost reimbursement for the performance of research and development activities, milestone payments, other contingent payments, contract manufacturing service fees, royalties and license fees. Each deliverable in the arrangement is evaluated to determine whether it meets the criteria to be accounted for as a separate unit of accounting or whether it should be combined with other deliverables. In order to account for the multiple-element arrangements, the Company identifies the deliverables included within the arrangement and evaluates which deliverables represent separate units of accounting. Analyzing the arrangement to identify deliverables requires the use of judgment, and each deliverable may be an obligation to deliver services, a right or license to use an asset, or another performance obligation. We recognize revenue when there is persuasive evidence that an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured.

On January 1, 2011, we adopted on a prospective basis Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2009-13, Multiple-Deliverable Revenue Arrangements, which amends the criteria related to identifying separate units of accounting and provides guidance on whether multiple deliverables exist, how an arrangement should be separated and the consideration allocated.

Non-refundable upfront fees received for license and collaborative agreements entered into prior to January 1, 2011 and other payments under collaboration agreements where we have continuing performance obligations related to the payments are deferred and recognized over our expected performance period. Revenue is recognized on a ratable basis, unless we determine that another methodology is more appropriate, through the date at which our performance obligations are completed. Management makes its best estimate of the period over which we expect to fulfill our performance obligations, which may include clinical development activities. Given the uncertainties of research and development collaborations, significant judgment is required to determine the duration of the performance period. We recognize cost reimbursement revenue under collaborative agreements as the related research and development costs are incurred, as provided for under the terms of these agreements.

On January 1, 2011, we elected to prospectively adopt the milestone method as described in FASB ASU 2010-17, Milestone Method of Revenue Recognition. Under the milestone method, contingent consideration received from the achievement of a substantive milestone is recognized in its entirety in the period in which the milestone is achieved. A milestone is defined as an event having all of the following characteristics: (i) there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved, (ii) the event can only be achieved based in whole or in part on either the entity s performance or a specific outcome resulting from the entity s performance and (iii) if

achieved, the event would result in additional payments being due to the entity.

Our license and collaboration agreements with our partners provide for payments to be paid to us upon the achievement of development milestones. Given the challenges inherent in developing biologic products, there is substantial uncertainty whether any such milestones will be achieved at the time we entered into these agreements. In addition, we evaluate whether the development milestones meet the criteria to be considered substantive. The conditions include: (i) the development work is contingent on either of the following: (a) the vendor s performance to achieve the milestone or (b) the enhancement of the value of the deliverable item or items as a result of a specific outcome resulting from the vendor s performance to achieve the milestone; (ii) it relates solely to past performance and; (iii) it is reasonable relative to all the deliverable and payment terms within the arrangement. As a result of our analysis, we consider our development milestones to be substantive and, accordingly, we expect to recognize as revenue future payments received from such milestones as we achieve each milestone.

Milestone payments that are contingent upon the achievement of substantive at-risk performance criteria are recognized in full upon achievement of those milestone events in accordance with the terms of the agreement and assuming all other revenue recognition criteria have been met. All revenue recognized to date under our collaborative agreements has been nonrefundable.

Our license and collaboration agreements with certain partners also provide for contingent payments to be paid to us based solely upon the performance of our partner. For such contingent payments we expect to recognize the payments as revenue upon receipt, provided that collection is reasonably assured and the other revenue recognition criteria have been satisfied.

Revenues from manufacturing services are recognized upon meeting the criteria for substantial performance and acceptance by the customer.

Revenue from royalty payments is contingent on future sales activities by our licensees. As a result, we recognize royalty revenue when reported by our licensees and when collection is reasonably assured.

Revenue from government and private agency grants are recognized as the related research expenses are incurred and to the extent that funding is approved. Additionally, we recognize revenue based on the facilities and administrative cost rate reimbursable per the terms of the grant awards.

Recent Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income. This ASU expands the presentation of changes in accumulated other comprehensive income. The new guidance requires an entity to disaggregate the total change of each component of other comprehensive income either on the face of the statement of operations or as a separate disclosure in the financial statement footnotes. ASU 2013-02 is effective for fiscal years beginning after December 15, 2012. The Company adopted this guidance in the first quarter of 2013 and the adoption did not have any impact on our financial position, results of operations or cash flows as there were no amounts reclassified out of accumulated other comprehensive income during the periods ended September 30, 2013 and 2012.

2. Fair Value Measurements

The Company defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used

to measure fair value which are the following:

- Level 1 Quoted prices in active markets for identical assets or liabilities;

- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

·Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Recurring Fair Value Measurements

The following table represents the fair value hierarchy for our financial assets measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012 (in thousands):

	Level 1	Level 2	Level 3	Total
September 30, 2013				
Money market funds	$ 9,598	$	$	$ 9,598
U.S. government agency securities		62,283		62,283
U.S. treasury securities		2,500		2,500
Total	$ 9,598	$ 64,783	$	$ 74,381

	Level 1	Level 2	Level 3	Total
December 31, 2012				
Money market funds	$ 3,140	$	$	$ 3,140
U.S. government agency securities		119,233		119,233
U.S. treasury securities		500		500
Municipal securities		715		715
Total	$ 3,140	$ 120,448	$	$ 123,588

Money market funds are highly liquid investments and are actively traded. The pricing information on these investment instruments is readily available and can be independently validated as of the measurement date. This approach results in the classification of these securities as Level 1 of the fair value hierarchy.

U.S. Government agency securities, U.S. treasury securities and municipal securities are measured at fair value using Level 2 inputs. We review trading activity and pricing for these investments as of each measurement date. When sufficient quoted pricing for identical securities is not available, we use market pricing and other observable market inputs for similar securities obtained from various third party data providers. These inputs represent quoted prices for similar assets in active markets or these inputs have been derived from observable market data. This approach results in the classification of these securities as Level 2 of the fair value hierarchy.

3. Cash, cash equivalents and marketable securities

The following is a summary of cash, cash equivalents and marketable securities available-for-sale as of September 30, 2013 and December 31, 2012 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
September 30, 2013				
Cash and cash equivalents:				
Cash	$ 2,093	$	$	$ 2,093
Money market funds	9,598			9,598
U.S. government agency securities	500			500
Total cash and cash equivalents	12,191			12,191
Marketable securities available-for-sale:				
U.S. treasury securities	2,500			2,500
U.S. government agency securities	61,761	22		61,783
Total marketable securities available-for-sale	64,261	22		64,283
Total cash, cash equivalents and marketable securities	$ 76,452	$ 22	$	$ 76,474
December 31, 2012				
Cash and cash equivalents:				
Cash	$ 1,542	$	$	$ 1,542
Money market funds	3,140			3,140
Municipal securities	2,202			2,202
U.S. government agency securities	715			715
Total cash and cash equivalents	7,599			7,599
Marketable securities available-for-sale:				
U.S. government agency securities	116,986	46	(1)	117,031
U.S. treasury securities	500			500
Total marketable securities available-for-sale	117,486	46	(1)	117,531
Total cash, cash equivalents and marketable securities	$ 125,085	$ 46	$ (1)	$ 125,130

The following is a summary of the amortized cost and estimated fair value of marketable securities available-for-sale, by contractual maturity (in thousands):

	September 30, 2013	
	Amortized Cost	Estimated Fair Value

Mature in one year or less	$ 55,761	$ 55,778
Mature after one year through two years	8,500	8,505
	$ 64,261	$ 64,283

We have classified our entire investment portfolio as available-for-sale. We view our available-for-sale portfolio as available for use in current operations and accordingly have classified all investments as short-term. Available-for-sale securities are carried at fair value based on inputs that are observable, either directly or indirectly, such as quoted market prices for similar securities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the securities with unrealized gains and losses included in accumulated other comprehensive income (loss) in stockholders equity. Realized gains and losses and declines in value, if any, judged to be other than temporary on available-for-sale securities are included in interest income or expense. The cost of securities sold is based on the specific identification method. Management assesses whether declines in the fair value of investment securities are other than temporary. In determining whether a decline is other than temporary, management considers the following factors:

·Whether the investment has been in a continuous realized loss position for over 12 months;

·the duration to maturity of our investments;

- our intention to hold the investments to maturity and if it is not more likely than not that we will be required to sell the investment before recovery of the amortized cost basis;

- the credit rating, financial condition and near-term prospects of the issuer; and

- the type of investments made.

To date, there have been no declines in fair value that have been identified as other than temporary.

4. Financing Agreements

On March 29, 2013, we entered into an At Market Issuance Sales Agreement (the Agreement) with MLV & Co. LLC (MLV) under which we may offer and sell our common stock having aggregate sales proceeds of up to $50,000,000 from time to time through MLV as our sales agent. Sales of our common stock through MLV, if any, will be made by means of ordinary brokers transactions on the NASDAQ Capital Market or otherwise at market prices prevailing at the time of sale, in block transactions, or as otherwise agreed upon by us and MLV. MLV will use commercially reasonable efforts to sell our common stock from time to time, based upon instructions from us (including any price, time or size limits or other customary parameters or conditions we may impose). We will pay MLV a commission of up to 3.0% of the gross sales proceeds of any common stock sold through MLV under the Agreement. No sales of our common stock have taken place under this Agreement as of September 30, 2013.

5. Commitments and Contingencies

We lease our facilities in Berkeley, California (Berkeley Lease) and Düsseldorf, Germany (Düsseldorf Lease) under operating leases that expire in June 2018 and March 2023, respectively. The Berkeley Lease provides for periods of escalating rent. The total cash payments over the life of the lease are divided by the total number of months in the lease period and the average rent is charged to expense each month during the lease period. We entered into sublease agreements under the Düsseldorf Lease for a certain portion of the leased space. The sublease income is offset against our rent expense.

During September 2013, we decided not to occupy a portion of our facility in Berkeley, California. As a result, we recorded a one-time estimated unoccupied facility expense of $0.9 million for the three and nine months ended September 30, 2013, representing the present value of the rent payments and other costs associated with the lease, net of estimated sublease income, for the remaining life of the operating lease.

Total net rent expense related to our operating leases for the three months ended September 30, 2013 and 2012, was $0.6 million and $0.4 million, respectively. Total net rent expense related to our operating leases for the nine months ended September 30, 2013 and 2012, was $1.4 million and $1.3 million, respectively. Deferred rent was $0.6 million as of both September 30, 2013 and December 31, 2012.

Future minimum payments under the non-cancelable portion of our operating leases at September 30, 2013, excluding payments from sublease agreements, are as follows (in thousands):

Years ending December 31,	
2013 (remaining months)	$ 559
2014	2,223
2015	2,272
2016	2,323
2017	2,372
Thereafter	3,794
Total	$ 13,543

In addition to the non-cancelable commitments included above, we have entered into contractual arrangements that obligate us to make payments to the contractual counterparties upon the occurrence of future events. In addition, in the normal course of operations, we have entered into license and other agreements and intend to continue to seek additional rights relating to compounds or technologies in connection with our discovery, manufacturing and development programs. Under the terms of the agreements, we may be required to pay future up-front fees, milestones, royalties on net sales of products originating from the licensed technologies, if any, or other payments contingent upon the occurrence of future events that cannot reasonably be estimated.

We rely on research institutions, contract research organizations, clinical investigators as well as clinical and commercial material manufacturers of our product candidates. As of September 30, 2013, under the terms of our agreements, we are obligated to make future payments as services are provided of approximately $6.3 million through 2015. These agreements are terminable by us upon written notice. Generally, we are liable only for actual effort expended by the organizations at any point in time during the contract through the notice period.

Under the terms of our exclusive license agreements with The Regents of the University of California, as amended, for certain technology and related patent rights and materials, we pay annual license or maintenance fees and will be required to pay milestones and royalties on net sales, if any, of certain products originating from the licensed technologies.

6. Collaborative Research and Development Agreements

GlaxoSmithKline

In December 2008, we entered into a worldwide strategic alliance with GSK to discover, develop and commercialize toll-like receptor (TLR) inhibitors. Under the terms of the arrangement, we agreed to conduct research and early clinical development in up to four programs: the Lead TLR 7/9 program, a Follow-On TLR 7/9 program, and up to two other TLR programs. In 2011 we began development of a TLR8 program as one of the two additional programs under the collaboration.

We are currently conducting a Phase 1 clinical trial in the Lead TLR 7/9 program with DV1179 in systemic lupus erythematosus patients. The Company is not currently performing any activities on the Follow-On TLR 7/9 program or the TLR8 program. GSK has not yet chosen to initiate development of the remaining program under the agreement.

GSK can exercise its exclusive option to license each program. If GSK exercises an option, GSK would carry out further development and commercialization of the corresponding products. If GSK exercises their option on the Lead TLR 7/9 program, then we are eligible to receive payments of up to approximately $125 million, comprised of contingent option exercise payments and additional payments based on GSK s achievement of certain development, regulatory and commercial objectives.

We are also eligible to receive up to $60 million if aggregate worldwide annual net sales milestones are achieved and tiered royalties ranging from the mid single digit to mid-teens on sales of any products originating from the collaboration. We have retained an option to co-develop and co-promote one product under this agreement.

We received an initial payment of $10 million in 2008. The deliverables under this arrangement did not have stand-alone value and so did not qualify as separate units of accounting. In 2011, we earned and recognized $12 million in substantive development milestone payments related to the initiation of Phase I and proof-of-mechanism clinical trials of DV1179 in systemic lupus erythematosus patients. In 2011, we earned and recognized $3 million in substantive development milestone payments related to the initiation of development of theTLR8 program.

Revenue from the initial payment from GSK was deferred and is being recognized over the expected period of performance under the agreement, which is estimated to be seven years.

The following table summarizes the revenues recognized under our agreement with GSK (in thousands):

	Three months Ended September 30,		Nine months Ended September 30,	
	2013	2012	2013	2012
Initial payment	$ 357	$ 357	$ 1,071	$ 1,071

As of September 30, 2013 and December 31, 2012, deferred revenue relating to the initial payment was $3.2 million and $4.2 million, respectively.

Absent early termination, the agreement will expire when all of GSK s payment obligations expire. Either party may terminate the agreement early upon written notice if the other party commits an uncured material breach of the agreement. Either party may terminate the agreement in the event of insolvency of the other party. GSK also has the option to terminate the agreement without cause upon prior written notice within a specified window of time dependent upon the stage of clinical development of the programs.

AstraZeneca

In September 2006, we entered into a three-year research collaboration and license agreement with AstraZeneca for the discovery and development of TLR9 agonist-based therapies for the treatment of asthma and chronic obstructive pulmonary disease.

In October 2011, we amended our agreement with AstraZeneca to provide that we will conduct initial clinical development of AZD 1419. Under the terms of the amended agreement, AstraZeneca will fund all program expenses to cover the cost of development activities through Phase 2a, estimated to total approximately $20 million. We received an initial payment of $3 million to begin the clinical development program. In the first quarter of 2012, we received a $2.6 million payment to advance AZD1419 into preclinical toxicology studies and these toxicology studies were completed in the third quarter of 2012. We and AstraZeneca have agreed to advance AZD 1419 towards a Phase 1 clinical trial, which resulted in a development funding payment of $6 million, received in the fourth quarter of 2012. If AstraZeneca chooses to advance the program following completion of Phase 2a, we will receive a $20 million milestone payment and AstraZeneca will retain its rights to develop the candidate therapy and to commercialize the resulting asthma product. We are eligible to receive additional milestone payments, which we have determined to be substantive milestones, of up to approximately $100 million, based on the achievement of certain development and regulatory objectives. Additionally, upon commercialization, we are eligible to receive tiered royalties ranging from the mid to high single-digits based on product sales of any products originating from the collaboration. We have the option to co-promote in the United States products arising from the collaboration, if any. AstraZeneca has the right to sublicense its rights upon our prior consent.

Revenue from the initial payment was deferred and is being recognized over the expected period of performance under the agreement, which is approximately 50 months. Revenue from the development funding payment is being recognized as the development work is performed.

The following table summarizes the revenues earned under our agreement with AstraZeneca (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Initial payment	$ 180	$ 180	$ 540	$ 540
Performance of research activities	573	513	1,738	1,991
Total	$ 753	$ 693	$ 2,278	$ 2,531

As of September 30, 2013 and December 31, 2012, total deferred revenue from the initial payment and development funding payments was $5.7 million and $7.7 million, respectively.

Absent early termination, the agreement will expire when all of AstraZeneca s payment obligations expire. AstraZeneca has the right to terminate the agreement at any time upon prior written notice and either party may terminate the agreement early upon written notice if the other party commits an uncured material breach of the agreement.

National Institutes of Health (NIH) and Other Funding

We have been awarded various grants from the NIH and the NIH s National Institute of Allergy and Infectious Disease (NIAID) in order to fund research. The awards are related to specific research objectives and we earn revenue as the related research expenses are incurred. We have earned revenue during the periods ended September 30, 2013 and 2012 from the following awards:

- September 2013, NIH awarded us $0.2 million to fund research in developing TLR antagonists for therapy of hepatic fibrosis and cirrhosis.

- June 2012, NIH awarded us $0.6 million to fund research in screening for inhibitors of TLR8 for treatment of autoimmune diseases.

- May 2012, NIH awarded us $0.4 million to fund development of TLR8 inhibitors for treatment of rheumatoid arthritis.

- July 2011, NIH awarded us $0.6 million to fund research in preclinical models of skin autoimmune inflammation.

- August 2010, NIAID awarded us a grant to take a systems biology approach to study the differences between individuals who do or do not respond to vaccination against the hepatitis B virus. This study will be one of several projects conducted under a grant to the Baylor Institute of Immunology Research in Dallas as part of the Human Immune Phenotyping Centers program. We have been awarded a total of $1.4 million under this grant.

- July 2010, NIH awarded us $0.6 million to explore the feasibility of developing a universal vaccine to prevent infection by human papilloma virus.

- September 2008, NIAID awarded us a five-year $17 million contract to develop our ISS technology using TLR9 agonists as vaccine adjuvants. The contract supports adjuvant development for anthrax as well as other disease models.

The following table summarizes the revenues recognized under the various arrangements with the NIH and NIAID (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
NIAID contracts	$ 1,465	$ 1,100	$ 3,125	$ 2,840
All other NIH contracts	235	119		