DYNAVAX TECHNOLOGIES CORP
Form 10-Q
November 02, 2012
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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, 2012

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 incorporation or organization)	**(IRS Employer 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 October 26, 2012, the registrant had outstanding 178,707,300 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, estimate, project, predict, potential, future, intend, certain, and similar expressions intended to identify forward-looking statements. Our 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.

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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, 2012 (Unaudited)	December 31, 2011 (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 24,650	$ 31,941
Marketable securities available-for-sale	123,629	82,020
Accounts receivable	3,685	9,527
Prepaid expenses and other current assets	2,419	1,130
Total current assets	154,383	124,618
Property and equipment, net	6,948	6,163
Goodwill	2,408	2,312
Restricted cash	645	647
Other assets	438	362
Total assets	$ 164,822	$ 134,102
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 1,578	$ 2,040
Accrued liabilities	9,163	8,159
Deferred revenues	4,172	4,210
Note payable to Symphony Dynamo Holdings LLC (Holdings)	14,452	12,810
Total current liabilities	29,365	27,219
Deferred revenues, noncurrent	4,775	6,386
Other long-term liabilities	624	617
Total liabilities	34,764	34,222
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, 2012 and December 31, 2011		
Common stock: $0.001 par value; 250,000 shares authorized; 178,270 and 154,626 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	178	155
Additional paid-in capital	545,767	466,276
Accumulated other comprehensive loss:		
Unrealized gain (loss) on marketable securities available-for-sale	29	(3)
Cumulative translation adjustment	(968)	(1,006)

Total accumulated other comprehensive loss	(939)	(1,009)
Accumulated deficit	(414,948)	(365,542)
Total stockholders equity	130,058	99,880
Total liabilities and stockholders equity	$ 164,822	$ 134,102

See accompanying notes.

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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,	
	2012	2011	2012	2011
Revenues:				
Collaboration revenue	$ 1,050	$ 369	$ 3,602	$ 7,098
Grant revenue	1,219	658	3,188	2,437
Service and license revenue	605	147	1,118	652
Total revenues	2,874	1,174	7,908	10,187
Operating expenses:				
Research and development	12,850	11,777	36,631	39,706
General and administrative	7,121	4,217	18,871	13,025
Amortization of intangible assets				299
Total operating expenses	19,971	15,994	55,502	53,030
Loss from operations	(17,097)	(14,820)	(47,594)	(42,843)
Interest income	91	18	208	74
Interest expense	(589)	(485)	(1,765)	(1,462)
Other income (expense)	(196)	58	(255)	(99)
Net loss	$ (17,791)	$ (15,229)	$ (49,406)	$ (44,330)
Basic and diluted net loss per share	$ (0.10)	$ (0.12)	$ (0.30)	$ (0.37)
Shares used to compute basic and diluted net loss per share	177,870	124,069	167,039	119,244

Condensed Consolidated Statements of Comprehensive Loss

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net loss	$ (17,791)	$ (15,229)	$ (49,406)	$ (44,330)
Other comprehensive income (loss):				
Unrealized gain (loss) on marketable securities available-for-sale	59	(8)	32	11
Cumulative translation adjustment	249	(438)	38	117

Total other comprehensive income (loss)	308	(446)	70	128
Total comprehensive loss	$ (17,483)	$ (15,675)	$ (49,336)	$ (44,202)

See accompanying notes.

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Dynavax Technologies Corporation

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
Operating activities		
Net loss	$ (49,406)	$ (44,330)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	898	1,009
Amortization of intangible assets		299
Loss (gain) on disposal of assets	6	(8)
Non-cash interest associated with the note payable to Holdings	1,642	1,403
Fair value adjustment of the warrant and contingent liabilities to Holdings		34
Accretion of discounts and amortization of premiums of marketable securities	970	895
Stock-based compensation expense	6,294	3,934
Changes in operating assets and liabilities:		
Accounts receivable	5,842	218
Prepaid expenses and other current assets	(1,289)	(33)
Restricted cash and other assets	(74)	(164)
Accounts payable	(462)	(1,016)
Accrued liabilities and other long term liabilities	1,011	(2,997)
Deferred revenues	(1,649)	(1,072)
Net cash used in operating activities	(36,217)	(41,828)
Investing activities		
Purchases of marketable securities	(169,634)	(38,007)
Proceeds from maturities of marketable securities	127,085	52,675
Purchases of property and equipment, net	(1,727)	(564)
Net cash (used in) provided by investing activities	(44,276)	14,104
Financing activities		
Proceeds from offering of common stock, net of issuance costs	69,619	24,078
Proceeds from exercise of warrants	1,505	7
Proceeds from employee stock purchase plan	307	132
Proceeds from exercise of stock options	1,789	169
Net cash provided by financing activities	73,220	24,386
Effect of exchange rate on cash and cash equivalents	(18)	(43)
Net decrease in cash and cash equivalents	(7,291)	(3,381)
Cash and cash equivalents at beginning of period	31,941	22,453
Cash and cash equivalents at end of period	$ 24,650	$ 19,072

Supplemental disclosure of cash flow information

Disposal of fully depreciated property and equipment	$	29	$	845
Net change in unrealized gain on marketable securities	$	32	$	11

See accompanying notes.

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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, discovers and develops novel products to prevent and treat infectious and inflammatory diseases. Our lead product candidate is HEPLISAV™, a Phase 3 investigational adult hepatitis B vaccine designed to provide higher and earlier protection with fewer doses than currently licensed vaccines. A U.S. Biologics License Application (BLA) for HEPLISAV has been accepted for review by the U.S. Food and Drug Administration. A Marketing Authorization Application (MAA) has been accepted for review by the European Medicines Agency (EMA).

Our pipeline of product candidates includes: HEPLISAV, our autoimmune program partnered with GlaxoSmithKline (GSK) and our therapy for asthma partnered with AstraZeneca AB (AstraZeneca). We compete with pharmaceutical companies, biotechnology companies, academic institutions and research organizations in developing therapies to prevent or treat infectious and inflammatory diseases. Our product candidates are based on the use of immunostimulatory sequences (ISS) and immunoregulatory sequences. We were incorporated in California in August 1996 under the name Double Helix Corporation, and we changed our name to Dynavax Technologies Corporation in September 1996. We reincorporated in Delaware in 2000.

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. 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, 2011, 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, 2011, 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, 2012, we had cash, cash equivalents and marketable securities of $148.3 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, 2012, as well as anticipated revenues and funding from existing agreements.

If we are unable to generate significant revenues from HEPLISAV, if it is approved, and to continue development of our product candidates, 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 from these estimates.

Summary of Significant Accounting Policies

We believe that there have been no significant changes in our critical accounting policies during the nine months ended September 30, 2012, as compared with those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011. Below we describe our accounting policy related to revenue recognition.

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Revenue Recognition

Our revenues are derived from collaborative and service agreements as well as grants. We enter into license and manufacturing agreements and collaborative research and development arrangements with pharmaceutical and biotechnology partners that may include 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. 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 before January 1, 2011 and other payments under collaboration agreements where we have continuing performance obligations 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: (1) there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved, (2) 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 (3) 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 would be achieved at the time we enter into these agreements. We evaluate whether the development milestones meet the criteria to be considered substantive. The conditions include: (1) the development work is contingent upon 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; (2) it relates solely to past performance and; (3) 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 are 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.

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Revenue from government and private agency grants is 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

Accounting Standards Update 2011-04

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. This ASU is the result of joint efforts by the FASB and International Accounting Standards Board to develop a single, converged fair value framework. While this ASU is largely consistent with existing fair value measurement principles in GAAP, it expands Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement* (ASC 820) existing disclosure requirements for fair value measurements and makes other amendments. Many of these amendments were made to eliminate unnecessary wording differences between GAAP and International Financial Reporting Standards (IFRS), which could change how fair value measurement guidance in ASC 820 is applied. We adopted the disclosure requirements in the quarter ended March 31, 2012, and included the required disclosure in Note 2 Fair Value Measurements.

Accounting Standards Update 2011-05

In June 2011, the FASB issued ASU No. 2011-05, *Presentation of Comprehensive Income*. This ASU gives an entity the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU No. 2011-05 was effective on a retrospective basis for us on January 1, 2012. We adopted this presentation of comprehensive income in the quarter ended March 31, 2012.

2. Fair Value Measurements

ASC 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 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 under ASC 820 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 as follows:

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.

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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, 2012 and December 31, 2011 (in thousands):

	Level 1	Level 2	Level 3	Total
September 30, 2012:				
Money market funds	$ 18,862	$	$	$ 18,862
U.S. government agency securities		102,174		102,174
Corporate debt securities, secured by U.S. government		24,578		24,578
Total	$ 18,862	$ 126,752	$	$ 145,614
December 31, 2011:				
Money market funds	$ 17,171	$	$	$ 17,171
U.S. Government agency securities		35,920		35,920
Corporate debt securities, secured by U.S. government		58,580		58,580
Total	$ 17,171	$ 94,500	$	$ 111,671

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.

Marketable securities primarily comprise U.S. government sponsored and corporate debt securities which are measured at fair value using Level 2 inputs. We review trading activity and pricing for these investments as of the 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 have been derived from observable market data. This approach results in the classification of these securities as Level 2 of the fair value hierarchy.

When determining if there are any other-than-temporary impairments on our investments, we evaluate: (1) whether the investment has been in a continuous unrealized loss position for over 12 months, (2) the duration to maturity of our investments, (3) 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 investments before recovery of the amortized cost bases, (4) the credit rating of each investment and (5) the type of investments made. Through September 30, 2012, we have not recognized any other-than-temporary losses on our investments. There were no sales of marketable securities during the nine months ended September 30, 2012 and 2011.

Liabilities for Which Fair Value Is Disclosed

In connection with the acquisition of all of the outstanding equity of Symphony Dynamo, Inc. in December 2009, we issued to Symphony Dynamo Holdings LLC a note in the principal amount of $15 million, due December 31, 2012, payable in cash, our common stock or a combination thereof at our discretion. As of September 30, 2012, the carrying value and estimated fair value of the note payable was $14.5 million and this balance was classified as a short term liability. We estimated the fair value of the note using a net present value model with a discount rate of 17%. This approach resulted in the classification of the note as Level 3 in the fair value hierarchy. Imputed interest is recorded as interest expense over the term of the loan using the interest rate method. We recorded interest expense of $0.5 million and $1.6 million for the three and nine months ended September 30, 2012, respectively, and $0.5 million and $1.4 million for the three and nine months ended September 30, 2011, respectively. If we elect to pay all or a portion of the note in shares of our common stock, the number of shares issued will be equal to the portion of the outstanding principal amount of the note to be repaid using our common stock, divided by the average closing price of our common stock for the 30 trading days immediately preceding (but not including) the second trading day before the date of such payment multiplied by 1.15.

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3. Cash, cash equivalents and marketable securities

The following is a summary of cash, cash equivalents and available-for-sale marketable securities as of September 30, 2012 and December 31, 2011 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
September 30, 2012:				
Cash and cash equivalents:				
Cash	$ 2,665	$	$	$ 2,665
Money market funds	18,862			18,862
U.S. government agency securities	870			870
Corporate debt securities	2,253			2,253
Total cash and cash equivalents	24,650			24,650
Marketable securities available-for-sale:				
U.S. government agency securities	101,274	34	(4)	101,304
Corporate debt securities	22,326		(1)	22,325
Total marketable securities available-for-sale	123,600	34	(5)	123,629
Total cash, cash equivalents and marketable securities	$ 148,250	$ 34	$ (5)	$ 148,279
December 31, 2011:				
Cash and cash equivalents:				
Cash	$ 2,290	$	$	$ 2,290
Money market funds	17,171			17,171
U.S. government agency securities	9,438			9,438
Corporate debt securities	3,044		(2)	3,042
Total cash and cash equivalents	31,943		(2)	31,941
Marketable securities available-for-sale:				
U.S. Government agency securities	26,488		(6)	26,482
Corporate debt securities	55,533	9	(4)	55,538
Total marketable securities available-for-sale	82,021	9	(10)	82,020
Total cash, cash equivalents and marketable securities	$ 113,964	$ 9	$ (12)	$ 113,961

The following is a summary of the amortized cost and estimated fair value of available-for-sale securities at September 30, 2012, by contractual maturity (in thousands):

	September 30, 2012	
	Amortized Cost	Estimated Fair Value
Mature in one year or less	$ 76,342	$ 76,360
Mature after one year through two years	47,258	47,269

	$ 123,600	$ 123,629

There were no realized gains or losses from the sale of marketable securities in the three and nine months ended September 30, 2012 and 2011. All of our investments are classified as short-term and available-for-sale, as we may not hold our investments until maturity. The corporate debt securities held as of September 30, 2012 and December 31, 2011, were secured by the Federal Deposit Insurance Corporation through the Temporary Liquidity Guarantee Program.

4. Public Financing

On May 9, 2012, we sold 17,500,000 shares of our common stock at a price of $4.25 per share in an underwritten public offering. The sale of common stock resulted in aggregate net proceeds to us of approximately $69.6 million after deducting offering expenses.

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5. Commitments and Contingencies

We lease our facilities in Berkeley, California (Berkeley Lease) and Düsseldorf, Germany (Düsseldorf Lease) under operating leases that expire in September 2017 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. Total net rent expense related to our operating leases for the three months ended September 30, 2012 and 2011, was $0.4 million and $0.4 million, respectively. Total net rent expense related to our operating leases for the nine months ended September 30, 2012 and 2011, was $1.3 million and $1.3 million, respectively. Deferred rent was $0.6 million as of September 30, 2012 and December 31, 2011.

Future minimum payments under the non-cancelable portion of our operating leases at September 30, 2012, excluding payments from sublease agreements, are as follows (in thousands):

Year ending December 31,	
2012 (remaining three months)	$ 450
2013	1,799
2014	1,763
2015	1,799
2016	1,836
Thereafter	4,417
Total	$ 12,064

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, 2012, under the terms of our agreements, we are obligated to make future payments as services are provided of approximately $10.5 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. We received an initial payment of $10 million and agreed to conduct research and early clinical development in up to four programs. In 2011, we earned $15 million in milestone payments related to the initiation of Phase 1 and proof-of-mechanism clinical trials of DV1179 in systemic lupus erythematosus patients and expansion of our collaboration with GSK to develop a TLR8 inhibitor. We are eligible to receive future development milestone payments which we have determined to be substantive milestones. GSK can exercise its exclusive option to license each program upon achievement of certain events and we are eligible to receive contingent option exercise payments. If GSK exercises an option, GSK would carry out further development and commercialization of the corresponding products. We are eligible to receive tiered, up to double-digit royalties on sales of any products originating from the collaboration and have retained an option to co-develop and co-promote one product under this agreement.

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. For the three months ended September 30, 2012 and 2011, we recognized revenue of $0.4 million in each period, respectively, related to the initial payment. For the nine months ended September 30, 2012 and 2011, we recognized revenue of $1.1 million in each period, respectively, related to the initial payment. As of September 30, 2012 and December 31, 2011, deferred revenue relating to the initial payment was $4.6 million and $5.7 million, respectively. For the three and nine months ended September 30, 2011, we recorded $6 million in revenue from a milestone payment we received from GSK.

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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. We received an upfront payment of $10 million. In 2008, we received a milestone payment of $4.5 million for the nomination of the first candidate drug, AZD1419, for asthma. The research term of this agreement was extended through July 2010.

In October 2011, we amended our agreement with AstraZeneca to provide that we will conduct initial clinical development of AZD1419. 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 $20.0 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. In the fourth quarter of 2012, we and AstraZeneca agreed to advance AZD1419 towards a Phase 1 clinical trial, which entitles us to a development milestone payment of $6 million. 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. Additionally, we are eligible to receive potential future development payments and, upon commercialization, we are eligible to receive royalties 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 2011 amendment has been deferred and is being recognized as the development work is performed over the estimated performance period of approximately five years. For the three months