

DYNAVAX TECHNOLOGIES CORP

Form 10-Q

August 03, 2011

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2011

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)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**33-0728374**  
(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  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  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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

As of July 28, 2011, the registrant had outstanding 123,418,023 shares of common stock.

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<i>This Quarterly Report on Form 10-Q includes Dynavax and HEPLISAV which are trademarks of Dynavax Technologies Corporation. Other brands, names and trademarks mentioned in this Quarterly Report on Form 10-Q are property of their respective owners.</i>	

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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 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, uncertainty regarding our future operating results and prospects for profitability. 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.*

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Dynavax Technologies Corporation****Condensed Consolidated Balance Sheets****(In thousands, except per share amounts)**

	<b>June 30, 2011 (Unaudited)</b>	<b>December 31, 2010 (Note 1)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 27,479	\$ 22,453
Marketable securities	34,245	49,701
Accounts receivable	1,139	1,001
Prepaid expenses and other current assets	1,788	1,360
<b>Total current assets</b>	<b>64,651</b>	<b>74,515</b>
Property and equipment, net	6,570	6,404
Goodwill	2,312	2,312
Other intangible assets, net		299
Restricted cash	673	652
Other assets	224	67
<b>Total assets</b>	<b>\$ 74,430</b>	<b>\$ 84,249</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 1,742	\$ 2,329
Accrued liabilities	7,113	10,159
Deferred revenues	1,429	1,429
<b>Total current liabilities</b>	<b>10,284</b>	<b>13,917</b>
Deferred revenues, noncurrent	4,940	5,655
Long-term note payable to Symphony Dynamo Holdings LLC	11,874	10,939
Long-term contingent liability to Symphony Dynamo Holdings LLC	860	843
Other long-term accrued liabilities	642	784
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock: \$0.001 par value; 5,000 shares authorized and no shares issued and outstanding at June 30, 2011 and December 31, 2010		
Common stock: \$0.001 par value; 250,000 and 150,000 shares authorized at June 30, 2011 and December 31, 2010, respectively; 123,418 and 115,611 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively	123	116
Additional paid-in capital	391,925	369,686
Accumulated other comprehensive loss:		
Unrealized gain (loss) on marketable securities available-for-sale	2	(17)
Cumulative translation adjustment	(174)	(729)

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Total accumulated other comprehensive loss	(172)	(746)
Accumulated deficit	(346,046)	(316,945)
Total stockholders' equity	45,830	52,111
Total liabilities and stockholders' equity	\$ 74,430	\$ 84,249

*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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>Revenues:</b>				
Collaboration revenue	\$ 6,363	\$ 1,341	\$ 6,729	\$ 8,762
Grant revenue	890	617	1,779	1,479
Service and license revenue	16	233	505	294
<b>Total revenues</b>	<b>7,269</b>	<b>2,191</b>	<b>9,013</b>	<b>10,535</b>
<b>Operating expenses:</b>				
Research and development	13,257	14,045	27,929	26,525
General and administrative	4,054	4,173	8,808	8,743
Amortization of intangible assets	54	245	299	490
<b>Total operating expenses</b>	<b>17,365</b>	<b>18,463</b>	<b>37,036</b>	<b>35,758</b>
<b>Loss from operations</b>	<b>(10,096)</b>	<b>(16,272)</b>	<b>(28,023)</b>	<b>(25,223)</b>
Interest income	23	39	56	41
Interest expense	(487)	(431)	(977)	(830)
Other income (expense)	(75)	(11,340)	(157)	(11,176)
<b>Net loss</b>	<b>\$ (10,635)</b>	<b>\$ (28,004)</b>	<b>\$ (29,101)</b>	<b>\$ (37,188)</b>
<b>Basic and diluted net loss per share</b>	<b>\$ (0.09)</b>	<b>\$ (0.34)</b>	<b>\$ (0.25)</b>	<b>\$ (0.54)</b>
<b>Shares used to compute basic and diluted net loss per share</b>	<b>117,864</b>	<b>82,012</b>	<b>116,801</b>	<b>68,264</b>

*See accompanying notes.*

**Table of Contents****Dynavax Technologies Corporation****Condensed Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	<b>Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Operating activities</b>		
Net loss	\$ (29,101)	\$ (37,188)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	704	771
Amortization of intangible assets	299	490
(Gain)/Loss on disposal of assets	(8)	
Non-cash interest associated with long-term note payable to Symphony Dynamo Holdings LLC	935	798
Fair value adjustment of the warrant and contingent liabilities to Symphony Dynamo Holdings LLC	17	11,134
Accretion and amortization of marketable securities	617	42
Stock-based compensation expense	2,647	966
Changes in operating assets and liabilities:		
Accounts receivable	(138)	(454)
Prepaid expenses and other current assets	(428)	(231)
Restricted cash and other assets	(178)	(2,028)
Accounts payable	(587)	(653)
Accrued liabilities and other long term liabilities	(3,188)	7,061
Deferred revenues	(715)	(2,003)
Net cash used in operating activities	(29,124)	(21,295)
<b>Investing activities</b>		
Purchases of marketable securities	(19,509)	(28,357)
Proceeds from maturities of marketable securities	34,367	
Purchases of property and equipment, net	(419)	(39)
Net cash provided (used) by investing activities	14,439	(28,396)
<b>Financing activities</b>		
Proceeds from issuance of common stock, net of issuance costs	19,487	42,060
Proceeds from employee stock purchase plan	40	42
Proceeds from exercise of stock options	65	43
Proceeds from exercise of warrants	7	
Net cash provided by financing activities	19,599	42,145
Effect of exchange rate on cash and cash equivalents	112	(121)
Net increase (decrease) in cash and cash equivalents	5,026	(7,667)
Cash and cash equivalents at beginning of period	22,453	36,720
Cash and cash equivalents at end of period	\$ 27,479	\$ 29,053

**Supplemental disclosure of cash flow information**

Disposal of fully depreciated assets	\$	845	\$	
Net change in unrealized gain on marketable securities	\$	19	\$	10

*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 ( 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 rapid and superior protection with fewer doses than current licensed vaccines.

Our pipeline of product candidates includes: HEPLISAV; clinical-stage programs for our Universal Flu vaccine, autoimmune program partnered with GlaxoSmithKline ( GSK ) and hepatitis C and hepatitis B therapies; and a preclinical program 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 and immunoregulatory sequences. We originally incorporated in California on August 29, 1996 under the name Double Helix Corporation, and we changed our name to Dynavax Technologies Corporation in September 1996. We reincorporated in Delaware on March 26, 2001.

**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, 2010 has been derived from audited financial statements at that date, but does not include all 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, 2010 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 Symphony Dynamo, Inc. ( SDI ). All significant intercompany accounts and transactions have been eliminated. We have reclassified the prior year deferred rent balance from current accrued liabilities to other long-term in order to conform to the current year presentation. 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 June 30, 2011, we had cash, cash equivalents and marketable securities of \$61.7 million, restricted cash of \$0.7 million and working capital of \$54.4 million. We currently estimate that we have sufficient cash resources to meet our anticipated cash needs through the next twelve months based on cash and cash equivalents and marketable securities on hand at June 30, 2011, anticipated revenues from existing agreements and the funding available to us under the September 2010 Common Stock Purchase Agreement (the Purchase Agreement ) with Aspire Capital Fund, LLC ( Aspire Capital ).

In order to continue development of our product candidates, particularly HEPLISAV, we will need to raise additional funds. This may occur through our Purchase Agreement with Aspire Capital, future public or private financings, and/or strategic alliance and licensing arrangements. Sufficient 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 stockholders. If adequate funds are not available in the future, we would need to delay, reduce the scope of, or put on hold the HEPLISAV program or our other development programs while we seek strategic alternatives.

The accompanying financial statements have been prepared assuming we will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from uncertainty related to our ability to continue as a going concern.



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### **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.

### **Significant Accounting Policies**

We believe that there have been no substantive changes in our significant accounting policies during the six months ended June 30, 2011 as compared with those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010 other than the changes to our accounting policies related to revenue recognition as discussed below.

### **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 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, 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 Accounting Standards Update (ASU) 2009-13, Multiple-Deliverable Revenue Arrangements (ASU 2009-13) 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. The adoption of the standard did not impact our financial position or results of operations as of and for the six months ended June 30, 2011 as we did not enter into or materially modify any multiple-element arrangements during that period. The adoption of this standard may result in revenue recognition patterns for future agreements that are different from those recognized for our existing multiple-element arrangements.

Non-refundable upfront fees received for license and collaborative agreements entered into prior to January 1, 2011 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 ASU 2010-17, Milestone Method of Revenue Recognition (ASU 2010-17). 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 (i) that can only be achieved based in whole or in part on either the entity's performance or on the occurrence of a specific outcome resulting from the entity's performance, (ii) for which there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved, and (iii) that would result in additional payments being due to the entity. A milestone does not include events for which the occurrence is contingent solely on the passage of time or solely on a collaboration partner's performance. A milestone is substantive if the consideration earned from the achievement of the milestone is consistent with our performance required to achieve the milestone or the increase in value to the collaboration resulting from our performance, relates solely to our past performance, and is reasonable relative to all of the other deliverables and payments within the arrangement.

Our license and collaboration agreements with our partners provide for payments to us upon the achievement of development milestones. Given the challenges inherent in developing biologic products, there was substantial uncertainty whether any such milestones would be achieved at the time we entered into these agreements. In addition, we evaluated whether the development milestones met the remaining criteria to be considered substantive. 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. The election to adopt the milestone method did not impact our financial position or results of operations as of and for the six months ended June 30, 2011.



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Milestone payments that were contingent upon the achievement of substantive at-risk performance criteria were recognized on a ratable basis through the date at which our performance obligations were completed. 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 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**

### *Accounting Standards Update 2010-17*

In March 2010, the Financial Accounting Standards Board ( FASB ) reached a consensus on Accounting Standards Update ( ASU ) No. 2010-17, Milestone Method of Revenue Recognition ( ASU 2010-17 ). ASU 2010-17 provides guidance on applying the milestone method to milestone payments for achieving specified performance measures when those payments are related to uncertain future events. Under the consensus, entities can make an accounting policy election to use the milestone method and recognize arrangement consideration received for achieving specified performance measures during the period in which the milestones are achieved, provided certain criteria are met. The scope of this issue is limited to transactions involving research or development. This new guidance was effective for fiscal years beginning on or after June 15, 2010, and we adopted it prospectively as of January 1, 2011 such that it is applicable to milestones under existing agreements achieved after that date. The adoption of this standard did not have a material impact on our financial position or results of operations.

### *Accounting Standards Update 2009-13*

In October 2009, the FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements ( ASU 2009-13 ). ASU 2009-13 eliminates the requirement to establish the fair value of undelivered products and services in order to treat deliverables in an arrangement as separate units of accounting and provides for separate revenue recognition based upon management's estimate of the relative selling price for each deliverable in an arrangement. This new guidance was effective for fiscal years beginning on or after June 15, 2010, and we adopted it prospectively as of January 1, 2011 such that it is applicable to revenue arrangements entered into or materially modified on or after that date. Although the adoption of this standard did not have a material impact on our financial position and results of operations, this standard may impact us in the future in the event we enter into new collaboration arrangements or modify existing collaborative relationships.

## **2. Fair Value Measurements**

FASB Accounting Standards Codification ( 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;

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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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The following table represents the fair value hierarchy for our financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 (in thousands):

<b>June 30, 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Money market funds	\$ 25,769	\$	\$	\$ 25,769
U.S. government agency securities		24,421		24,421
Corporate debt securities		9,825		9,825
<b>Total assets</b>	<b>\$ 25,769</b>	<b>\$ 34,246</b>	<b>\$</b>	<b>\$ 60,015</b>
<b>Liabilities:</b>				
Long-term contingent liability to Symphony Dynamo Holdings LLC	\$	\$	\$ 860	\$ 860
<b>Total liabilities</b>	<b>\$</b>	<b>\$</b>	<b>\$ 860</b>	<b>\$ 860</b>
<b>December 31, 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Money market funds	\$ 18,980	\$	\$	\$ 18,980
U.S. government agency securities		49,039		49,039
Corporate debt securities		1,764		1,764
<b>Total assets</b>	<b>\$ 18,980</b>	<b>\$ 50,803</b>	<b>\$</b>	<b>\$ 69,783</b>
<b>Liabilities:</b>				
Long-term contingent consideration liability to Holdings	\$	\$	\$ 843	\$ 843
<b>Total liabilities</b>	<b>\$</b>	<b>\$</b>	<b>\$ 843</b>	<b>\$ 843</b>

**Assets**

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 are primarily comprised of 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 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.

When determining if there are any other-than-temporary impairments on our investments, we evaluate: (i) whether the investment has been in a continuous realized loss position for over twelve months, (ii) the duration to maturity of our investments, (iii) our intention to hold the investments to maturity and if it is more likely than not that we will be required to sell the investment before recovery of the amortized cost bases, (iv) the credit rating of each investment, and (v) the type of investments made. Through June 30, 2011, we have not recognized any other-than-temporary losses on our investments. There were no sales of marketable securities during the quarters ended June 30, 2011 and 2010.

**Liabilities**

In connection with our acquisition of SDI in December 2009, we are obligated to make future contingent cash payments to the former Symphony Dynamo Holdings LLC ( Holding ) shareholders related to certain payments received by us, if any, from future partnering agreements

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pertaining to our hepatitis C and cancer therapy programs. We estimated the fair value of this contingent liability using a discounted cash flow model. The discounted cash flow model was derived from management's assumptions regarding the timing, amounts and probability of potential upfront and milestone payments for the development and/or commercialization of the hepatitis C program based on transactions for similar stage programs by other companies. These cash flows were discounted at a 15% rate at June 30, 2011.

Changes in the fair value of the contingent liability are recognized in Other income (expense) in the statement of operations in the period of the change. Certain events including, but not limited to, the timing and terms of any strategic partnership agreement

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related to the hepatitis C therapy program could have a material impact on the fair value of the contingent liability, and as a result, our results of operations and financial position. Based on our assumptions regarding our beta and risk free interest rate used in the discounted cash flow model, the change in fair value of the contingent liability resulted in other expense of \$17 thousand for the six months ended June 30, 2011.

The following table represents a reconciliation of the change in the fair value measurement of the contingent liability for the six months ended June 30, 2011 (in thousands):

<b>Contingent Liability to Holdings</b>	<b>Amount</b>
Fair value measurement at December 31, 2010	\$ 843
Adjustment to fair value measurement	17
<b>Balance as of June 30, 2011</b>	<b>\$ 860</b>

**3. Available-for-Sale Securities**

The following is a summary of available-for-sale securities included in cash and cash equivalents and marketable securities as of June 30, 2011 and December 31, 2010 (in thousands):

	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>
<b>June 30, 2011:</b>				
Certificates of deposit and money market funds	\$ 26,607	\$	\$	\$ 26,607
U.S. government agency securities	24,417	4		24,421
Corporate debt securities	9,827		(2)	9,825
<b>Total</b>	<b>\$ 60,851</b>	<b>\$ 4</b>	<b>\$ (2)</b>	<b>\$ 60,853</b>
<b>December 31, 2010:</b>				
Certificates of deposit and money market funds	\$ 19,797	\$	\$	\$ 19,797
U.S. Government agency securities	49,056		(17)	49,039
Corporate debt securities	1,764			1,764
<b>Total</b>	<b>\$ 70,617</b>	<b>\$</b>	<b>\$ (17)</b>	<b>\$ 70,600</b>

There were no realized gains or losses from the sale of marketable securities in the quarters ended June 30, 2011 and 2010. As of June 30, 2011 and December 31, 2010, all of our investments have a stated maturity date that is within one year of the balance sheet date. All of our investments are classified as short-term and available-for-sale, as we may not hold our investments until maturity.

**4. Intangible Assets**

Intangible assets consist primarily of a manufacturing process and customer relationships. The manufacturing process intangible derives from the methods for making proteins in Hansenula yeast, which is a key component in the production of hepatitis B vaccine. The customer relationships derive from Rhein's ability to sell existing, in-process and future products to its existing customers. Purchased intangible assets other than goodwill are amortized on a straight-line basis over their respective useful lives. The following table presents details of the purchased intangible assets, which were fully amortized at June 30, 2011 (in thousands, except years):

Gross

Net

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	<b>Original Estimated Useful Life (in Years)</b>		<b>Accumulated Amortization</b>	
Manufacturing process	5	\$ 3,670	\$ (3,670)	\$
Customer relationships	5	1,230	(1,230)	
<b>Total</b>	<b>5</b>	<b>\$ 4,900</b>	<b>\$ (4,900)</b>	<b>\$</b>

**Table of Contents****5. Financing Agreements**

On September 20, 2010, we entered into a Purchase Agreement with Aspire Capital, which provides that, upon the terms and subject to the conditions and limitations set forth therein, Aspire Capital is committed to purchase up to an aggregate of \$30.0 million of shares of Dynavax common stock over the 25-month term of the Purchase Agreement. Under the Purchase Agreement, we agreed to pay Aspire Capital a commitment fee equal to 4% of \$30.0 million in consideration for Aspire Capital's obligation to purchase up to \$30.0 million of Dynavax common stock. We paid this commitment fee of \$1.2 million by the issuance of 600,000 shares of our common stock and this fee was recorded as a cost of raising capital and netted against the gross proceeds from the Purchase Agreement in September 2010. Upon execution of the Purchase Agreement, we sold 1,000,000 shares of common stock to Aspire Capital at a purchase price of \$2.00 per share, for an aggregate purchase price of \$2.0 million.

Pursuant to the Purchase Agreement, on any business day on which the closing sale price of our common stock exceeds \$1.00, over the 25-month term of the Purchase Agreement, we have the right, in our sole discretion, to present Aspire Capital with a purchase notice directing Aspire Capital to purchase up to 150,000 Purchase Shares per business day (defined in the Purchase Agreement as any day on which the principal market is open for trading including any day on which the principal market is open for trading for a period of time less than the customary time). We and Aspire Capital may mutually agree to increase the number of shares that may be sold per business day to as much as an additional 1,000,000 Purchase Shares per business day. The purchase price per Purchase Share is the lower of (i) the lowest sale price for the common stock on the date of sale or (ii) the arithmetic average of the three lowest closing sale prices for the common stock during the 12 consecutive business days ending on the business day immediately preceding the purchase date of those securities. During the six months ended June 30, 2011, we sold through Aspire Capital an aggregate of 7,700,000 shares of common stock for net proceeds of \$19.5 million. As of June 30, 2011, we could offer and sell from time to time through Aspire Capital up to an additional \$7.2 million in aggregate offering proceeds of our common stock under the Purchase Agreement.

**6. Commitments and Contingencies**

We lease our facilities in Berkeley, California, or the Berkeley Lease, and Düsseldorf, Germany, or the 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 six months ended June 30, 2011 and 2010 was \$0.9 million and \$1.2 million, respectively. Deferred rent was \$0.6 million as of June 30, 2011.

Future minimum payments under the non-cancelable portion of our operating leases at June 30, 2011, excluding payments from the sublease agreements, are as follows (in thousands):

<b>Year ending December 31,</b>	
2011 (remaining six months)	\$ 916
2012	1,855
2013	1,873
2014	1,828
Thereafter	8,592
<b>Total</b>	<b>\$ 15,064</b>

During the fourth quarter of 2004, we established a letter of credit with Silicon Valley Bank as security for our Berkeley Lease in the amount of \$0.4 million. The letter of credit remained outstanding as of June 30, 2011 and is collateralized by a certificate of deposit which has been included in restricted cash in the consolidated balance sheets as of June 30, 2011 and December 31, 2010. Under the terms of the Berkeley Lease, if the total amount of our cash, cash equivalents and marketable securities falls below \$20.0 million for a period of more than 30 consecutive days during the lease term, the amount of the required security deposit will increase to \$1.1 million, until such time as our projected cash and cash equivalents will exceed \$20.0 million for the remainder of the lease term, or until our actual cash and cash equivalents remains above \$20.0 million for a period of 12 consecutive months.

We established a letter of credit with Deutsche Bank as security for our Düsseldorf Lease in the amount of \$0.3 million. The letter of credit remained outstanding as of June 30, 2011 and is collateralized by a certificate of deposit which has been included in restricted cash in the

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consolidated balance sheet as of June 30, 2011 and December 31, 2010.

As part of the consideration transferred from Dynavax to Holdings for the acquisition of SDI, we are obligated to make contingent cash payments equal to 50% of the first \$50 million from any upfront, pre-commercialization milestone or similar

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payments received by us from any agreement with any third party with respect to the development and/or commercialization of the cancer and hepatitis C therapies. Using a discounted cash flow model, we estimated the fair value of the contingent liability to be \$0.9 million as of June 30, 2011.

In connection with the exercise of our purchase of all of the outstanding equity of SDI on December 30, 2009, we issued a note to Holdings in the principal amount of \$15 million. We estimated the fair value of the non-interest bearing note payable to Holdings using a net present value model using a discount rate of 17%. Imputed interest will be recorded as interest expense over the term of the loan. The principal amount of \$15 million is due on December 31, 2012 and is payable in cash, our common stock or a combination thereof at our discretion. If we elect to pay the note in shares of our common stock, the number of shares issued will be determined by our stock price at the date of payment.

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 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 and royalties on net sales of products originating from the licensed technologies. We consider these potential obligations to be contingent and have summarized all significant arrangements below.

We rely on research institutions, contract research organizations, clinical investigators and clinical material manufacturers. As of June 30, 2011, under the terms of our agreements, we are obligated to make future payments as services are provided of approximately \$12.3 million through 2015. These agreements are terminable by us upon written notice. We are generally only liable 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 of products originating from the licensed technologies.

## **7. 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 for diseases such as lupus, psoriasis and rheumatoid arthritis. We received an initial payment of \$10 million and agreed to conduct research and early clinical development in up to four programs. We are eligible to receive potential contingent development payments which we have determined to be substantive milestones. During the quarter ended June 30, 2011, we received a milestone payment of \$6.0 million for the initiation of a Phase 1 clinical trial. GSK can exercise its exclusive option to license each program upon achievement of proof-of-concept or earlier upon certain circumstances, and we are eligible to receive contingent option exercise payments. If GSK exercises its option, GSK would carry out further development and commercialization of these products. We are eligible to receive tiered, up to double-digit royalties on sales, if any, and have retained an option to co-develop and co-promote one product under this agreement.

Revenue from the initial payment is deferred and is being recognized over the expected period of performance which is estimated to be seven years. For the six months ended June 30, 2011 and 2010, we recognized revenue of \$0.7 million in each year related to the initial payment and, as of June 30, 2011, deferred revenue of \$6.4 million relates to the initial payment. Revenue from the milestone payment of \$6 million was recorded as revenue during the quarter ended June 30, 2011.

### **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. The research term of this agreement was extended through July 2010. The collaboration is using our proprietary second-generation TLR9 agonist immunostimulatory sequences ( ISS ). AstraZeneca has the right to sublicense its rights upon our prior consent. We have the option to co-promote in the United States products arising from the collaboration, if any. We received an upfront payment of \$10 million, a milestone payment of \$4.5 million for the nomination of a candidate drug, and are eligible to receive potential future development milestones. Upon commercialization, we are also eligible to receive royalties based on product sales, if any.

Revenue from the upfront payment had been deferred until we amended certain indemnification obligations in our agreement with AstraZeneca which allowed for the upfront payment to be fully recognized as collaboration revenue in the third quarter of 2010. Revenue from the milestone

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payment was deferred and recognized ratably over the estimated research period through July 2010. Revenues from this agreement were immaterial for 2011. For the six months ended June 30, 2010, we recognized revenue of \$0.8 million related to the milestone for the nomination of a candidate drug and \$3.3 million from the performance of research services.

**Table of Contents****National Institutes of Health and Other Funding**

In September 2008, we were awarded a five-year \$17 million contract to develop our ISS technology using TLR9 agonists as vaccine adjuvants. The contract was awarded by the National Institutes of Health (NIH) National Institute of Allergy and Infectious Diseases (NIAID) to develop novel vaccine adjuvant candidates that signal through receptors of the innate immune system. The contract supports adjuvant development for anthrax as well as other disease models. NIAID is funding 100% of the total \$17 million cost of Dynavax's program under Contract No. HHSN272200800038C. For the six months ended June 30, 2011 and 2010, we recognized revenue of approximately \$1.1 million in each year related to this contract.

In August 2010, we awarded a grant from the NIH's NIAID to take a systems biology approach to study the differences between individuals that do or do not respond to vaccination against the HBV. This study will be one of several projects covered in a five-year, \$17.6 million grant to the Baylor Institute of Immunology Research in Dallas as part of the Human Immune Phenotyping Centers program. For the six months ended June 30, 2011, we recognized revenue of approximately \$0.4 million related to this grant.

In July 2010, we were awarded a \$0.6 million grant from the NIH to explore the feasibility of developing a universal vaccine to prevent infection by human papilloma virus (HPV). For the six months ended June 30, 2011 we recognized revenue of approximately \$0.1 million related to this grant.

In July 2008, we were awarded a two-year \$1.8 million grant from the NIH to develop a therapy for systemic lupus erythematosus (SLE), an autoimmune disease. For the six months ended June 30, 2011 and 2010, we recognized revenue of approximately \$57 thousand and \$0.2 million respectively.

**8. Net Loss Per Share**

Basic net loss per share is calculated by dividing the net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss by the weighted-average number of common shares outstanding during the period and dilutive potential common shares using the treasury-stock method. For purposes of this calculation, common stock subject to repurchase by us, options, restricted stock units and warrants are considered to be potential common shares and are only included in the calculation of diluted net loss per share when their effect is dilutive. Outstanding warrants and equity awards to purchase 37.0 million and 32.6 million shares of common stock as of June 30, 2011 and 2010, respectively, were excluded from the calculation of diluted net loss per share for the quarters ended June 30, 2011 and 2010 because the effect would have been anti-dilutive.

**9. Comprehensive Loss**

Comprehensive loss is comprised of net loss and other comprehensive income or loss. Other comprehensive income or loss includes certain changes in stockholders' equity not included in net loss. Comprehensive loss is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net loss	\$ (10,635)	\$ (28,004)	\$ (29,101)	\$ (37,188)
Increase (decrease) in unrealized gain on marketable securities available-for-sale	(7)	10	19	10
Increase (decrease) in cumulative translation adjustment	150	(604)	555	(1,052)
Comprehensive loss	\$ (10,492)	\$ (28,598)	\$ (28,527)	\$ (38,230)

**10. Stockholders' Equity**

As of June 30, 2011, we had four share-based compensation plans: the 2004 Stock Incentive Plan, which includes the 2004 Non-Employee Director Option Program (the 2004 Plan); the 2004 Employee Stock Purchase Plan; 2010 Employment Inducement Stock Awards Plan (the 2010 Inducement Plan); and the 2011 Equity Incentive Plan (the 2011 Plan). The 1997 Equity Incentive Plan (the 1997 Plan) expired in the first quarter of 2007. Upon expiration of the 1997 Plan, 273,188 shares previously available for grant expired. Prior to the adoption of the 2011 Plan,

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any outstanding options under the 1997 Plan that are cancelled in future periods will automatically expire and will no longer be available for grant. In January 2011, the Company's stockholders approved the 2011 Plan.

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The 2011 Plan provides for the issuance of up to 15,000,000 shares of Dynavax Common Stock to employees and non-employees of the Company and became effective on January 6, 2011. The 2011 Plan is administered by the Company's Board of Directors (the Board), or a designated committee of the Board, and awards granted under the 2011 Plan have a term of 10 years unless earlier terminated by the Board. Upon the effectiveness of the 2011 Plan, no additional awards will be granted under either the 2004 Plan or the 2010 Inducement Plan. As of January 6, 2011, all shares currently subject to awards outstanding under the 1997 Plan, 2004 Plan or 2010 Inducement Plan that expire or are forfeited will be included in the reserve for the 2011 Plan to the extent such shares would otherwise return to such plans.

Under our stock-based compensation plans, option awards generally vest over a 4-year period contingent upon continuous service and expire 10 years from the date of grant (or earlier upon termination of continuous service). The fair value of each option is estimated on the date of grant using the Black-Scholes option valuation model and the following weighted-average assumptions:

	Employee Stock Options				Employee Stock Purchase Plan	
	Three Months Ended		Six Months Ended		Six Months Ended	
	June 30,		June 30,		June 30,	
	2011	2010	2011	2010	2011	2010
Weighted-average fair value per share	\$ 2.30	\$ 1.35	\$ 2.78	\$ 1.40	\$ 2.52	\$ 1.54
Risk-free interest rate	1.3%	2.1%	1.6%	2.0%	0.52%	0.4%
Expected life (in years)	4.0	4.0	4.0	4.0	1.2	0.6
Volatility	1.6	1.6	1.6	1.6	1.6	1.6

**Expected dividends**

Expected volatility is based on historical volatility of our stock and comparable peer data. The expected life of options granted is estimated based on historical option exercise and employee termination data. Executive level employees, who hold a majority of the options outstanding, and non-executive level employees were grouped and considered separately for valuation purposes. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield is 0% for all years and is based on our history and expectation of dividend payouts.

Compensation expense is based on awards ultimately expected to vest and reflects estimated forfeitures. For equity awards with time-based vesting, the fair value is amortized to expense on a straight-line basis over the vesting periods. For equity awards with performance-based vesting criteria, the fair value begins to be amortized to expense when the achievement of the vesting criteria becomes probable. As of June 30, 2011, the total unrecognized compensation cost related to non-vested equity awards amounted to \$10.1 million, which is expected to be recognized over the remaining weighted-average vesting period of 2.3 years and one year for options and restricted stock units, respectively.

We recognized the following amounts of stock-based compensation expense (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Employee and director stock-based compensation expense	\$ 1,167	\$ 418	\$ 2,647	\$ 933
Other stock-based compensation expense		7		33
<b>Total</b>	<b>\$ 1,167</b>	<b>\$ 425</b>	<b>\$ 2,647</b>	<b>\$ 966</b>

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Research and development expense	\$ 531	\$ 148	\$ 1,043	\$ 89
General and administrative expense	636	277	1,604	877
<b>Total</b>	<b>\$ 1,167</b>	<b>\$ 425</b>	<b>\$ 2,647</b>	<b>\$ 966</b>

Activity under the stock option plans was as follows:

	<b>Options and Awards Available for Grant</b>	<b>Number of Options Outstanding</b>	<b>Weighted-Average Price Per Share</b>
Balance at December 31, 2010	646,392	6,868,037	\$ 3.05
2011 Plan options authorized	15,000,000		
Options granted	(4,259,400)	4,259,400	\$ 3.10
Options exercised		(45,250)	\$ 1.34
Options cancelled:			
Options forfeited (unvested)	230,075	(230,075)	\$ 1.82
Options expired (vested)	13,704	(13,704)	\$ 2.92
Awards cancelled (unvested)			
Balance at June 30, 2011	11,630,771	10,838,408	\$ 3.10

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The following table summarizes outstanding options that are net of expected forfeitures (vested and expected to vest) and options exercisable under our stock option plans as of June 30, 2011:

	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding options (vested and expected to vest)	9,670,324	\$ 3.16	7.55	\$ 4,526,905
Options exercisable	3,973,869	\$ 4.08	5.27	\$ 1,675,235

**Employee Stock Purchase Plan**

As of June 30, 2011, 996,000 shares were reserved and approved for issuance under the Employee Stock Purchase Plan (the Purchase Plan), subject to adjustment for a stock split, any future stock dividend or other similar change in our common stock or capital structure. To date, employees have acquired 508,876 shares of our common stock under the Purchase Plan. At June 30, 2011, 487,124 shares of our common stock remained available for future purchases.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve a number of risks and uncertainties. Our actual results could differ materially from those indicated by forward-looking statements as a result of various factors, including but not limited to those set forth under Risk Factors and those that may be identified from time to time in our reports and registration statements filed with the Securities and Exchange Commission.*

*The following discussion and analysis is intended to provide an investor with a narrative of our financial results and an evaluation of our financial condition and results of operations. This discussion should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and related Notes included in Item 1 of this Quarterly Report and the Consolidated Financial Statements and related Notes and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K.*

**Overview**

Dynavax Technologies Corporation (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 rapid and superior protection with fewer doses than current licensed vaccines.

Our pipeline of product candidates includes: HEPLISAV; clinical-stage programs for our Universal Flu vaccine, autoimmune program partnered with GlaxoSmithKline (GSK) and hepatitis C and hepatitis B therapies; and a preclinical program 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 and immunoregulatory sequences.

**Recent Developments****HEPLISAV**

In July 2011, we reported top-line data from our Phase 3 trial comparing HEPLISAV to a currently marketed hepatitis B virus (HBV) vaccine, Engerix-B®. The study, which included 2,449 healthy adults 40 to 70 years of age, evaluated a two-dose regimen of HEPLISAV administered at 0 and 1 month compared to a three-dose regimen of Engerix-B administered at 0, 1 and 6



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months, and demonstrated non-inferiority, superiority and the safety of HEPLISAV. Data supporting lot consistency in this trial was submitted to the Food and Drug Administration (FDA), and we were notified that the Center for Biologics Evaluation and Research at the FDA agreed that clinical consistency of three consecutively manufactured lots of HEPLISAV had been demonstrated.

### *DV1179 (IRS) for Autoimmune and Inflammatory Diseases*

In April 2011, we initiated a Phase 1 trial in our lupus program and subsequently received a \$6 million milestone payment from GSK. The study will assess the safety of DV1179, an inhibitor of TLR7 and TLR9, in multiple ascending doses. A total of 24 healthy subjects, divided into three dose groups, each receive four weekly injections of DV1179.

## **Critical Accounting Policies and the Use of Estimates**

The accompanying discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements and the related disclosures, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses for the periods presented. 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. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe that there have been no significant changes in our critical accounting policies during the six months ended June 30, 2011 as compared with those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010 other than the changes to our revenue recognition policy as discussed below.

## **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 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, 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 Accounting Standards Update (ASU) 2009-13, *Multiple-Deliverable Revenue Arrangements* ( ASU 2009-13 ) 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. The adoption of the standard did not impact our financial position or results of operations as of and for the six months ended June 30, 2011 as we did not enter into or materially modify any multiple-element arrangements during that period. The adoption of this standard may result in revenue recognition patterns for future agreements that are different from those recognized for our existing multiple-element arrangements.

Non-refundable upfront fees received for license and collaborative agreements entered into prior to January 1, 2011 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. 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 ASU 2010-17, *Milestone Method of Revenue Recognition* ( ASU 2010-17 ). 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 (i) that can only be

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achieved based in whole or in part on either the entity's performance or on the occurrence of a specific outcome resulting from the entity's performance, (ii) for which there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved, and (iii) that would result in additional payments being due to the entity. A milestone does not include events for which the occurrence is contingent solely on the passage of time or solely on a collaboration partner's performance. A milestone is substantive if the consideration earned from the achievement of the milestone is consistent with our performance required to achieve the milestone or the increase in value to the collaboration resulting from our performance, relates solely to our past performance, and is reasonable relative to all of the other deliverables and payments within the arrangement.

Our license and collaboration agreements with our partners provide for payments to us upon the achievement of development milestones. Given the challenges inherent in developing biologic products, there was substantial uncertainty whether any such milestones would be achieved at the time we entered into these agreements. In addition, we evaluated whether the development milestones met the remaining criteria to be considered substantive. 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. The election to adopt the milestone method did not impact our financial position or results of operations as of and for the six months ended June 30, 2011.

Milestone payments that were contingent upon the achievement of substantive at-risk performance criteria were recognized in full upon achievement of those milestone events in accordance with the terms of the agreement and assuming all other revenue recognition criteria were 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 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.

**Results of Operations***Revenues*

Revenues consist of amounts earned from collaborations, grants, and services and license fees. Collaboration revenue includes amounts recognized under our collaboration agreements. Grant revenue includes amounts earned under government and private agency grants. Service and license fees include revenues related to research and development and contract manufacturing services, license fees and royalty payments.

The following is a summary of our revenues (in thousands, except for percentages):

	Three Months Ended		Increase (Decrease)		Six Months Ended		Increase (Decrease)	
	June 30, 2011	2010	from 2010 to 2011 \$	%	June 30, 2011	2010	from 2010 to 2011 \$	%
<b>Revenues:</b>								
Collaboration revenue	\$ 6,363	\$ 1,341	\$ 5,022	374%	\$ 6,729	\$ 8,762	\$ (2,033)	(23%)
Grant revenue	890	617	273	44%	1,779	1,479	300	20%
Service and license revenue	16	233	(217)	(93%)	505	294	211	72%
<b>Total revenues</b>	<b>\$ 7,269</b>	<b>\$ 2,191</b>	<b>\$ 5,078</b>	<b>232%</b>	<b>\$ 9,013</b>	<b>\$ 10,535</b>	<b>\$ (1,522)</b>	<b>(14%)</b>



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Total revenues for the three months ended June 30, 2011 increased by \$5.1 million, or 232%, as compared to the same period in 2010. The increase was primarily due to a milestone payment of \$6.0 million from GSK for the initiation of a Phase 1 clinical trial offset by a reduction in collaboration revenue from our asthma program during the second quarter of 2011. Grant revenue for the three months ended June 30, 2011 increased due to grants awarded by the Baylor Institute and the NIH. Service and license revenue for the three months ended June 30, 2011 decreased as compared to 2010 as a result of the timing of royalties received by Rhein Biotech GmbH ( Rhein or Dynavax Europe ).

Total revenues for the six months ended June 30, 2011 decreased by \$1.5 million, or 14%, as compared to the same period in 2010 primarily due to the reduction in collaboration revenue from our asthma program and from our terminated collaboration with Merck. Collaboration revenue in 2010 included \$4.0 million from Merck in satisfaction of its obligations for the wind down period following termination and \$4.0 million from AstraZeneca for research services that completed in July 2010. Grant revenue for the six months ended June 30, 2011 increased due to grants awarded by the Baylor Institute and the NIH. Service and license revenue for the six months ended June 30, 2011 increased as compared to 2010 as a result of the timing of royalties received by Rhein.

*Research and Development Expense*

Research and development expense consists of compensation and related personnel costs which include benefits, recruitment, travel and supply costs; outside services; allocated facility costs and non-cash stock-based compensation. Outside services relate to our preclinical experiments and clinical trials, regulatory filings, manufacturing our product candidates and cost of sales relating to service and license revenue.

The following is a summary of our research and development expense (in thousands, except for percentages):

	Three Months Ended		Increase (Decrease)		Six Months Ended		Increase (Decrease)	
	June 30, 2011	2010	from 2010 to 2011	%	June 30, 2011	2010	from 2010 to 2011	%
	\$	\$	\$	%	\$	\$	\$	%
<b>Research and development:</b>								
Compensation and related personnel costs	\$ 4,694	\$ 3,838	\$ 856	22%	\$ 9,201	\$ 7,242	\$ 1,959	27%
Outside services	6,653	8,490	(1,837)	(22%)	14,833	15,994	(1,161)	(7%)
Facility costs	1,379	1,568	(189)	(12%)	2,852	3,200	(348)	(11%)
Non-cash stock-based compensation	531	149	382	256%	1,043	89	954	1,072%
Total research and development	\$ 13,257	\$ 14,045	\$ (788)	(6%)	\$ 27,929	\$ 26,525	\$ 1,404	5%

Research and development expense for the three months ended June 30, 2011 decreased by \$0.8 million, or 6%, from the same period in 2010 primarily due to a decline in outside services following the completion of certain clinical development activities for HEPLISAV. The decrease in research and development expense was partially offset by an increase in compensation costs and non-cash stock-based compensation, resulting from increased personnel and expense incurred for option grants with performance-based vesting criteria associated with the HEPLISAV program.

Research and development expense for the six months ended June 30, 2011 increased by \$1.4 million, or 5%, from the same period in 2010 primarily due to the increase in compensation costs that resulted from additional headcount and the increase in non-cash stock-based compensation related to option grants with performance-based vesting criteria. These increases in research and development expense were partially offset by the decrease in outside services resulting from a decline in clinical development costs for HEPLISAV.

*General and Administrative Expense*

General and administrative expense consists primarily of compensation and related personnel costs; outside services such as accounting, consulting, business development, investor relations and insurance services; legal costs that include corporate and patent-related expenses; allocated facility costs and non-cash stock-based compensation.

The following is a summary of our general and administrative expense (in thousands, except for percentages):

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	Three Months Ended		Increase (Decrease)		Six Months Ended		Increase (Decrease)	
	June 30, 2011	2010	from 2010 to 2011		June 30, 2011	2010	from 2010 to 2011	
			\$	%			\$	%
<b>General and administrative:</b>								
Compensation and related personnel costs	\$ 1,792	\$ 1,802	\$ (10)	(1%)	\$ 3,618	\$ 3,135	\$ 483	15%
Outside services	1,002	945	57	6%	2,053	1,981	72	4%
Legal costs	407	926	(519)	(56%)	1,163	2,308	(1,145)	(50%)
Facility costs	228	231	(3)	(1%)	399	457	(58)	(13%)
Non-cash stock-based compensation	625	269	356	132%	1,575	862	713	83%
Total general and administrative	\$ 4,054	\$ 4,173	\$ (119)	(3%)	\$ 8,808	\$ 8,743	\$ 65	1%

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General and administrative expense for the three months ended June 30, 2011 decreased by \$0.1 million, or 3%, from the same period in 2010 due primarily to a reduction in legal costs related to patent activities.

General and administrative expense for the six months ended June 30, 2011 increased by \$65 thousand, or 1%, from the same period in 2010. Compensation costs and non-cash stock-based compensation increased due to growth in the number of administrative employees to support the overall organization and expense incurred for option grants with performance-based vesting criteria. These increases were almost entirely offset by reductions in legal costs related to patent activities and facility costs.

*Amortization of Intangible Assets*

Intangible assets consist of the manufacturing process and customer relationships resulting from our April 2006 acquisition of Rhein and were being amortized over 5 years from the date of acquisition. Amortization of intangible assets was \$0.3 million and \$0.5 million for the six months ended June 30, 2011 and 2010, respectively. The intangible assets were fully amortized at June 30, 2011.

*Interest Income, Interest Expense, and Other Income (Expense)*

Interest income is reported net of amortization of premiums and discounts on marketable securities and realized gains and losses on investments. Other income (expense) includes gains and losses on foreign currency translation, gains and losses on disposals of property and equipment, and the change in fair value of financial assets and liabilities such as the warrants and contingent consideration liabilities assumed in connection with the acquisition of Symphony Dynamo Inc., ( SDI ) on December 30, 2009. Interest expense relates to the note payable issued to Symphony Dynamo Holdings LLC ( Holdings ) in connection with our acquisition of SDI. The following is a summary of our interest income and expense and other income and expense (in thousands, except for percentages):

	Three Months Ended		Increase (Decrease)		Six Months Ended		Increase (Decrease)	
	June 30, 2011	June 30, 2010	\$	%	June 30, 2011	June 30, 2010	\$	%
Interest Income	\$ 23	\$ 39	\$ (16)	(41%)	\$ 56	\$ 41	\$ 15	37%
Interest Expense	(487)	(431)	56	13%	(977)	(830)	147	18%
Other Income (Expense)	(75)	(11,340)	(11,265)	(99%)	(157)	(11,176)	(11,019)	(99%)

Interest income for the six months ended June 30, 2011 increased slightly over the same period in 2010 due to higher investment balances.

Interest expense for the six months ended June 30, 2011 increased over the same period in 2010 due to interest accreted on the note payable to Holdings.

Other income (expense) for the three and six months ended June 30, 2011 was comprised of the change in fair value of the contingent liability to Holdings and foreign currency translation adjustments.

Other income (expense) for the three and six months ended June 30, 2010 primarily included the fair value of the shares and incremental fair value of the warrants provided to Symphony Capital Partners, L.P. and certain of its affiliates (together, Symphony ) in April 2010, as measured upon issuance and remeasured at June 30, 2010, which resulted in non-operating expense of \$11.1 million. Following the expiration of Symphony s anti-dilution protection on July 1, 2010, the value of these warrants was classified in stockholders equity in the consolidated balance sheet.

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### **Recent Accounting Pronouncements**

#### *Accounting Standards Update 2010-17*

In March 2010, the Financial Accounting Standards Board ( FASB ) reached a consensus on Accounting Standards Update ( ASU ) No. 2010-17, Milestone Method of Revenue Recognition ( ASU 2010-17 ). ASU 2010-17 provides guidance on applying the milestone method to milestone payments for achieving specified performance measures when those payments are related to uncertain future events. Under the consensus, entities can make an accounting policy election to use the milestone method and recognize arrangement consideration received for achieving specified performance measures during the period in which the milestones are achieved, provided certain criteria are met. The scope of this issue is limited to transactions involving research or development. This new guidance was effective for fiscal years beginning on or after June 15, 2010, and we adopted it prospectively as of January 1, 2011 such that it is applicable to milestones under existing agreements achieved after that date. The adoption of this standard did not have a material impact on our financial position or results of operations.

#### *Accounting Standards Update 2009-13*

In October 2009, the FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements ( ASU 2009-13 ). ASU 2009-13 eliminates the requirement to establish the fair value of undelivered products and services in order to treat deliverables in an arrangement as separate units of accounting and provides for separate revenue recognition based upon management's estimate of the relative selling price for each deliverable in an arrangement. This new guidance was effective for fiscal years beginning on or after June 15, 2010, and we adopted it prospectively as of January 1, 2011 such that it is applicable to revenue arrangements entered into or materially modified on or after that date. Although the adoption of this standard did not have a material impact on our financial position and results of operations, this standard may impact us in the future in the event we enter into new collaboration arrangements or modify existing collaborative relationships.

### **Liquidity and Capital Resources**

As of June 30, 2011, we had \$61.7 million in cash, cash equivalents and marketable securities. Our funds are currently invested in short-term money market funds, government agency securities and corporate obligations.

Cash used in operating activities was \$29.1 million during the six months ended June 30, 2011 compared to \$21.3 million for the same period in 2010. The increase in cash usage compared to the prior year was due primarily to the net loss and payments of liabilities.

Cash provided by investing activities was \$14.4 million during the six months ended June 30, 2011 compared to cash used in investing activities of \$28.4 million for the same period in 2010. The increase was attributed to the net proceeds from maturities of marketable securities.

Cash provided by financing activities was \$19.6 million during the six months ended June 30, 2011 compared to cash provided of \$42.1 million for the same period in 2010. During the six months ended June 30, 2011, we sold 7,700,000 shares of common stock under the agreement with Aspire Capital for net proceeds of \$19.5 million. During the first half of 2010, we completed a public offering which resulted in net proceeds of \$41.1 million.

We expect to continue to spend substantial funds in connection with 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, particularly HEPLISAV, we will need to raise additional funds. This may occur through our Purchase Agreement with Aspire Capital, future public or private financings and/or strategic alliance and licensing arrangements. Sufficient funding may not be available on acceptable terms or at all. Additionally equity financings, if completed, could result in significant dilution or otherwise adversely affect the rights of existing stockholders. If adequate funds are not available in the future, we would need to delay, reduce the scope of, or put on hold the HEPLISAV program or other development programs while we seek strategic alternatives.

We currently estimate that we will have sufficient cash resources to meet our cash needs through the next twelve months based on cash and cash equivalents and marketable securities on hand at June 30, 2011, anticipated revenues from existing agreements and the funding available to us under the Purchase Agreement with Aspire Capital. We note that our independent registered public accounting firm included in their audit opinion for the fiscal year ended December 31, 2010, a statement with respect to substantial doubt regarding our ability to continue as a going concern. Our consolidated financial statements have been prepared assuming we will continue to operate as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.



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The following summarizes our significant contractual obligations as of June 30, 2011 and the effect those obligations are expected to have on our liquidity and cash flows in future periods (in thousands):

<b>Contractual Obligations:</b>	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>More Than 5 years</b>
Future minimum payments under our operating leases, excluding payments from sublease agreements	\$ 15,064	\$ 916	\$ 5,556	\$ 3,776	\$ 4,826
Long-term note payable to Symphony Dynamo Holdings	15,000		15,000		
<b>Total</b>	<b>\$ 30,064</b>	<b>\$ 916</b>	<b>\$ 20,556</b>	<b>\$ 3,776</b>	<b>\$ 4,826</b>

We lease our facilities in Berkeley, California (the Berkeley Lease ) and Düsseldorf, Germany (the Düsseldorf Lease ) under operating leases that expire in September 2017 and March 2023, respectively.

In connection with the exercise of our purchase of all of the outstanding equity of SDI on December 30, 2009, we issued a note to Holdings in the principal amount of \$15 million. We estimated the fair value of the non-interest bearing note payable to Holdings using a net present value model using a discount rate of 17%. Imputed interest will be recorded as interest expense over the term of the loan. The principal amount of \$15 million is due on December 31, 2012 and is payable in cash, our common stock or a combination thereof at our discretion. If we elect to pay the note in shares of our common stock, the number of shares issued will be determined by our stock price at the date of payment.

As part of the consideration transferred from Dynavax to Holdings for the acquisition of SDI, we are obligated to make contingent cash payments equal to 50% of the first \$50 million from any upfront, pre-commercialization milestone or similar payments received by us from any agreement with any third party with respect to the development and/or commercialization of the cancer and hepatitis C therapies. Using a discounted cash flow model, we estimated the fair value of the contingent liability to be \$0.9 million as of June 30, 2011.

During the fourth quarter of 2004, we established a letter of credit with Silicon Valley Bank as security for our Berkeley Lease in the amount of \$0.4 million. The letter of credit remained outstanding as of June 30, 2011 and is collateralized by a certificate of deposit which has been included in restricted cash in the consolidated balance sheets as of June 30, 2011 and December 31, 2010. Under the terms of the Berkeley Lease, if the total amount of our cash, cash equivalents and marketable securities falls below \$20.0 million for a period of more than 30 consecutive days during the lease term, the amount of the required security deposit will increase to \$1.1 million, until such time as our projected cash and cash equivalents will exceed \$20.0 million for the remainder of the lease term, or until our actual cash and cash equivalents remains above \$20.0 million for a period of 12 consecutive months.

We established a letter of credit with Deutsche Bank as security for our Düsseldorf Lease in the amount of \$0.3 million. The letter of credit remained outstanding as of June 30, 2011 and is collateralized by a certificate of deposit which has been included in restricted cash in the consolidated balance sheet as of June 30, 2011 and December 31, 2010.

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 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 and royalties on net sales of products originating from the licensed technologies. We consider these potential obligations to be contingent and have summarized all significant arrangements below.

We rely on research institutions, contract research organizations, clinical investigators and clinical material manufacturers. As of June 30, 2011, under the terms of our agreements, we are obligated to make future payments as services are provided of approximately \$12.3 million through 2015. These agreements are terminable by us upon written notice. We are generally only liable 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 of

products originating from the licensed technologies, if any.

***Off-balance Sheet Arrangements***

We do not have any off-balance sheet arrangements as defined by rules enacted by the Securities and Exchange Commission and accordingly, no such arrangements are likely to have a current or future effect on our financial position.

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### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The primary objective of our investment activities is to preserve principal while at the same time to maximize the income we receive from our investments without significantly increasing risk. Some of the securities that we invest in may have market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. To minimize this risk, we maintain our portfolio of cash equivalents and investments in a variety of securities, including money market funds, government agency securities and corporate obligations, some of which are government-secured. We do not invest in auction rate securities or securities collateralized by home mortgages, mortgage bank debt or home equity loans. Because of the short-term maturities of our cash equivalents and marketable securities, we do not believe that an increase in market rates would have any significant negative impact on the realized value of our investments.

*Interest Rate Risk.* We do not use derivative financial instruments in our investment portfolio. Due to the short duration and conservative nature of our cash equivalents and marketable securities, we do not expect any material loss with respect to our investment portfolio.

*Foreign Currency Risk.* We have certain investments outside the U.S. for the operations of Dynavax Europe and have some exposure to foreign exchange rate fluctuations. The cumulative translation adjustment reported in the consolidated balance sheet as of June 30, 2011 was a negative \$0.2 million primarily related to translation of Dynavax Europe assets, liabilities and operating results from Euros to U.S. dollars. To date, the effect of our exposure to these exchange rate fluctuations has not been material, and we do not expect it to become material in the foreseeable future. We do not hedge our foreign currency exposures and have not used derivative financial instruments for speculation or trading purposes.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **(a) Evaluation of disclosure controls and procedures**

The Company's management, under the supervision and with the participation of the Company's Chief Executive Officer ( CEO ) and Vice President ( VP ), Finance, our principal financial officer, performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the CEO and VP, Finance concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of period covered by this report are effective.

#### **(b) Changes in internal controls**

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time in the ordinary course of business, we receive claims or allegations regarding various matters, including employment, vendor and other similar situations in the conduct of our operations. We do not believe any of the current claims or allegations are material to our current business or operations.

**ITEM 1A. RISK FACTORS**

*Various statements in this Quarterly Report on Form 10-Q are forward-looking statements concerning our ability to obtain regulatory approval for and commercialize our future products, timing of development activities, expenses, revenues, liquidity and cash needs, as well as our plans and strategies. These forward-looking statements are based on current expectations and we assume no obligation to update this information. Numerous factors could cause our actual results to differ significantly from the results described in these forward-looking statements, including the following risk factors.*

**Risks Related to our Finances and Capital Requirements**

*We have incurred substantial losses since inception and do not have any commercial products that generate revenue.*

We have experienced significant net losses in each year since our inception. Our accumulated deficit was \$346.0 million as of June 30, 2011. To date, our revenue has resulted from collaboration agreements, services and license fees from our customers and customers of Rhein Biotech GmbH ( Rhein or Dynavax Europe ), and government and private agency grants. The grants are subject to annual review based on the achievement of milestones and other factors. We anticipate that we will incur substantial additional net losses in future years as a result of our continuing investment in research and development activities.

We do not have any products that generate revenue. There can be no assurance whether HEPLISAV can be further developed, financed or commercialized in a timely manner without significant additional studies or patient data or significant expense; whether current development efforts will be sufficient to support approval of HEPLISAV; or if approved, whether the market for HEPLISAV will be sufficient for us to reach profitability.

Clinical trials for certain of our product candidates other than HEPLISAV are ongoing, and our other product candidates may never be commercialized or achieve profitability. Our ability to generate revenue depends upon demonstrating in clinical trials that our product candidates are safe and effective, obtaining regulatory approvals for our product candidates and entering into and maintaining successful collaborative relationships.

If we are unable to generate significant revenues or achieve profitability, we may be required to reduce or discontinue our current and planned operations, enter into a transaction that constitutes a change in control of the company or raise additional capital on less than favorable terms. Additionally, if we continue to incur substantial additional net losses without additional equity funding, we will continue to deplete our stockholders' equity, and if such equity balance falls below the listing requirement threshold of \$2.5 million for the NASDAQ Capital Market, we may be delisted.

*We require substantial additional capital to continue development of our product candidates, in particular for our most advanced candidate, HEPLISAV. We cannot be certain that funds will be available and, if they are not available, we may not be able to continue as a going concern which may result in actions that could adversely impact our stockholders.*

In order to continue development of our product candidates, particularly HEPLISAV, we still need to raise significant additional funds. This may occur through our September 2010 Purchase Agreement (the Purchase Agreement ) with Aspire Capital Fund, LLC ( Aspire Capital ), future public or private financings and/or strategic alliance and licensing arrangements. We expect to continue to spend substantial funds in connection with:

development and manufacturing of our product candidates, particularly HEPLISAV;

various human clinical trials for our product candidates; and

protection of our intellectual property.

We currently estimate that we have will sufficient resources to meet our anticipated cash needs through the next twelve months based on cash and cash equivalents and marketable securities on hand at June 30, 2011, anticipated revenues from existing agreements and the funding available to us under the Purchase Agreement with Aspire Capital.

Sufficient additional financing through future public or private financings, strategic alliance and licensing arrangements or other financing sources may not be available on acceptable terms or at all. Additional equity financings, if completed, could result in

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significant dilution or otherwise adversely affect the rights of existing stockholders. If adequate funds are not available in the future, we would need to delay, reduce the scope of, or put on hold the HEPLISAV program or other development programs while we seek strategic alternatives.

*The sale of our common stock to Aspire Capital may cause dilution to our existing stockholders and the sale of the shares of common stock acquired by Aspire Capital could cause the price of our common stock to decline.*

Shares offered to Aspire Capital under the Purchase Agreement may be sold over a period of up to 25 months from the date of the Purchase Agreement subject to the limitations and conditions of the agreement. The number of our shares ultimately offered for sale by Aspire Capital is dependent upon the number of shares we elect to sell to Aspire Capital under the Purchase Agreement and the number of authorized shares we have available for sale. Aspire Capital may ultimately purchase all, some or none of the remaining common stock provided for in the Purchase Agreement. As of June 30, 2011, we could offer and sell from time to time through Aspire Capital up to an additional \$7.2 million in aggregate offering proceeds of our common stock under the Purchase Agreement. After Aspire Capital has acquired shares pursuant to the Purchase Agreement, it may sell all, some or none of those shares.

On any business day on which the closing sale price of our common stock exceeds \$1.00 per share, we have a right to sell up to a maximum of 150,000 shares per day under the Purchase Agreement, which total may be increased by mutual agreement up to an additional 1,000,000 shares per day. The capital available under the Purchase Agreement may not be sufficient to fund our current need for capital. The extent to which we rely on Aspire Capital as a source of funding will depend on a number of factors, including the prevailing market price of our common stock and the extent to which we are able to secure working capital from other sources.

Depending upon market liquidity at the time, sales of shares of our common stock by Aspire Capital may cause the trading price of our common stock to decline. In addition, sales to Aspire Capital by us pursuant to the Purchase Agreement may result in dilution to the interests of other holders of our common stock. The sale of a substantial number of shares of our common stock to Aspire Capital, or anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales. However, we have the right to control the timing and amount of any sales of our shares to Aspire Capital and the Purchase Agreement may be terminated by us at any time at our discretion without any cost to us.

*Our independent registered public accountants have indicated that our financial condition raises substantial doubt as to our ability to continue as a going concern.*

Our independent registered public accounting firm included in their audit opinion on our consolidated financial statements for the year ended December 31, 2010 a statement with respect to substantial doubt regarding our ability to continue as a going concern. Our consolidated financial statements have been prepared assuming we will continue to operate as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. If we became unable to continue as a going concern, we may have to liquidate our assets and the values we receive for our assets in liquidation or dissolution could be significantly lower than the values reflected in our consolidated financial statements.

### **Risks Related to our Business**

*The success of our product candidates depends on timely achievement of successful clinical results and adequate evidence of a product manufactured by a well-controlled process that is safe and effective for its intended use and regulatory approval. The FDA or foreign regulatory agencies may determine our clinical trials or other data regarding safety, efficacy or consistency of manufacture are insufficient for regulatory approval. Failure to obtain regulatory approvals could require us to discontinue operations.*

None of our product candidates has been approved for sale by any regulatory agency. Any product candidate we develop is subject to extensive regulation by federal, state and local governmental authorities in the United States, including the U.S. Food and Drug Administration ( FDA ) and by foreign regulatory agencies. Our success is primarily dependent on our ability to timely enroll patients in clinical trials, achieve successful clinical results, provide adequate evidence of a product manufactured by a well-controlled process that is safe and effective for its intended use and obtain regulatory approvals for our most advanced product candidates. Approval processes in the United States and in other countries are uncertain, can take many years and require the expenditure of substantial resources.

We will need to demonstrate in clinical trials that a product candidate is safe and effective before we can obtain the necessary approvals from the FDA and foreign regulatory agencies. If we identify any safety issues associated with our product candidates, we may be restricted from initiating further trials for those products. Moreover, we may not see sufficient signs of efficacy in those studies. For our lead product, HEPLISAV, we must prepare and submit a Biologics License Application (a BLA ) to the FDA and corresponding applications to foreign regulatory agencies that must be approved by those agencies before we may sell the product.



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Obtaining approval of a BLA by the FDA and corresponding foreign applications is highly uncertain and we may fail to obtain approval even if we are able to submit a BLA for HEPLISAV that is acceptable for review. The BLA review process is extensive, lengthy, expensive and uncertain, and the FDA or foreign regulatory agencies may delay, limit or deny approval of our application for HEPLISAV for many reasons, including: whether the data arising from our clinical trials, including the Phase 3 results, or the development program is satisfactory to the FDA; disagreement with the number, design, size, conduct or implementation of our clinical trials or a conclusion that the data fails to meet statistical or clinical significance; acceptability of data generated at our clinical trial sites that are monitored by third party clinical research organizations; the results of a FDA or other advisory committee that may recommend against approval of our BLA or may recommend that the FDA or other agencies require, as a condition of approval, additional preclinical studies or clinical trials; and deficiencies in our manufacturing processes or facilities or those of our third party contract manufacturers and suppliers, if any. In addition, we obtain guidance from regulatory authorities on certain aspects of our clinical development activities and seek to comply with written guidelines provided by the authorities. These discussions and written guidelines are not binding obligations on the part of the regulatory authorities and the regulatory authorities may require additional patient data or studies to be conducted. Regulatory authorities may revise or retract previous guidance during the course of a clinical trial or after completion of the trial. The authorities may also disqualify a clinical trial from consideration in support of approval of a potential product if they deem the guidelines have not been met. The FDA or foreign regulatory agencies may determine our clinical trials or other data regarding safety, efficacy or consistency of manufacture are insufficient for regulatory approval.

Failure to timely and successfully complete clinical trials, show that our products are safe and effective and timely file and receive approval for our BLA would have a material adverse effect on our business and results of operations. Even if approved, the labeling approved by the relevant regulatory authority for a product may restrict to whom we and our partners may market the product or in the manner in which our product may be administered, which could significantly limit the commercial opportunity for such product.

Prior to granting product approval, the FDA must determine that our or our third party contractor's manufacturing facilities meet current good manufacturing practice ( GMP ) requirements before we can use them in the commercial manufacture of our products. We and all of our contract manufacturers are required to comply with the applicable GMP current regulations. Manufacturers of biologics must also comply with FDA's general biological product standards. Failure to comply with the statutory and regulatory requirements subjects the manufacturer to possible legal or regulatory action, such as suspension of manufacturing, seizure of product or voluntary recall of a product. GMP regulations require quality control and quality assurance as well as the corresponding maintenance of records and documentation sufficient to ensure the quality of the approved product.

***Our clinical trials may be extended, suspended, delayed or terminated at any time. Even short delays in the commencement and progress of our trials may lead to substantial delays in the regulatory approval process for our product candidates, which will impair our ability to generate revenues.***

We may extend, suspend or terminate clinical trials at any time for various reasons, including regulatory actions by the FDA or foreign regulatory agencies, actions by institutional review boards, failure to comply with good clinical practice requirements, concerns regarding health risks to test subjects, failure to enroll patients in a timely manner, or delays due to manufacturing an inadequate supply of the product candidate. Even a short delay in a trial for any product candidate could require us to delay commencement or continuation of a trial until the target population is available for testing, which could result in a delay of a year or more. The FDA may require larger or additional clinical trials for our HEPLISAV product candidate than we currently expect before granting regulatory approval, if at all.

Our registration and commercial timelines depend on successful completion of current and planned clinical trials, successful results from such trials, and further discussions with the FDA and corresponding foreign regulatory agencies. Any extension, suspension, modification, termination or unanticipated delays of our clinical trials could:

adversely affect our ability to timely and successfully commercialize or market these product candidates;

result in significant additional costs;

potentially diminish any competitive advantages for those products;

potentially limit the markets for those products;

adversely affect our ability to enter into collaborations or receive milestone payments or royalties from potential collaborators;

cause us to abandon the development of the affected product candidate; or

limit our ability to obtain additional financing on acceptable terms, if at all.

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***We rely on contract research organizations to conduct our clinical trials. If these third parties do not fulfill their contractual obligations or meet expected deadlines, our planned clinical trials may be delayed and we may fail to obtain the regulatory approvals necessary to commercialize our product candidates.***

We rely on third parties to conduct our clinical trials. If these third parties do not perform their obligations or meet expected deadlines our planned clinical trials may be extended, delayed, modified or terminated. While we conduct regular reviews of the data, we are dependent on the processes and quality control efforts of our third party contractors to ensure that detailed, quality records are maintained to support the results of the clinical trials which they are conducting on our behalf. Any extension, delay, modification or termination of our clinical trials or failure to ensure adequate documentation and the quality of the results in the clinical trials could delay or otherwise adversely affect our ability to commercialize our products and could have a material adverse effect on our business and operations.

***HEPLISAV and most of our earlier stage programs rely on immunostimulatory sequences ( ISS )-based technology. Serious adverse safety data relating to either 1018 ISS or other ISS-based technology may require us to reduce the scope of or discontinue our operations.***

HEPLISAV is based on our 1018 ISS compound, and most of our research and development programs use ISS-based technology. If any of our product candidates in clinical trials produce serious adverse safety data, we may be required to delay, discontinue or modify our clinical trials or our clinical trial strategy. For example, from March 2008 until September 2009, the two investigational new drug ( IND ) applications for HEPLISAV were placed on clinical hold by the FDA following a serious adverse event that occurred in one of our clinical trials. In September 2009, the FDA removed the clinical hold on the IND application for individuals with chronic kidney disease but the other IND application for HEPLISAV remains on clinical hold. In addition, most of our clinical product candidates contain ISS, and if a common safety risk across therapeutic areas were identified, it may hinder our ability to enter into potential collaborations and if adverse safety data are found to apply to our ISS-based technology as a whole, we may be required to significantly reduce or discontinue our operations.

***We rely on our facility in Düsseldorf, Germany and third parties to supply materials necessary to manufacture our clinical product candidates. We have limited experience in manufacturing sufficient quantities of ISS for our clinical trials and rely on limited third parties to produce the ISS we need for our clinical trials. Additionally, we have limited experience in manufacturing our product candidates in commercial quantities. If we reduce our clinical product candidates, we may not require this manufacturing capacity.***

We rely on a number of third parties for the multiple steps involved in the manufacturing process of our product candidates, including ISS, the production of certain antigens, the combination of the antigens and ISS and the fill and finish. Termination or interruption of these relationships may occur due to circumstances that are outside of our control, resulting in higher cost or delays in our product development efforts.

We have relied on a limited number of suppliers to produce ISS for clinical trials and a single supplier to produce our 1018 ISS for HEPLISAV. To date, we have manufactured only small quantities of ISS and 1018 ISS ourselves for development purposes. If we were unable to maintain our existing source for 1018 ISS, we would have to establish an alternate qualified manufacturing capability, which would result in significant additional operating costs and delays in developing and commercializing our product candidates, particularly HEPLISAV. We or other third parties may not be able to produce 1018 ISS at a cost, quantity and quality that are available from our current third-party supplier.

We currently utilize our facility in Düsseldorf to manufacture the hepatitis B surface antigen for HEPLISAV. The commercial manufacturing of vaccines and other biological products is a time-consuming and complex process, which must be performed in compliance with current GMP regulations. We may not be able to comply with these and comparable foreign regulations, and our manufacturing process may be subject to delays, disruptions or quality control/quality assurance problems. Noncompliance with these regulations or other problems with our manufacturing process may limit or delay the development or commercialization of our product candidates and could result in significant expense. Moreover, if our HEPLISAV clinical trials are sufficient for approval and depending on the level of market acceptance of the product, we may not have the capacity in our existing facility to meet all of our commercial supply needs in the future.

If HEPLISAV cannot be successfully developed or is not commercially viable, we will have to use the Düsseldorf facility for alternative manufacturing or research activities that may not fully utilize the facility's capacity, resulting in continued operating costs that may not be offset by corresponding revenues. We may also consider other alternatives for the Düsseldorf facility, including its sale or closure, which would result in certain costs of disposal or discontinuation of operations. Discontinuation of operations in

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Düsseldorf would be complex, expensive, time-consuming and difficult to execute without significant additional costs due to, among other things, international legal and tax considerations related to those operations. As a result, we may not realize cost savings associated with a potential closure of the Düsseldorf operations, if at all.

*If we receive regulatory approval for our product candidates, we will be subject to ongoing FDA and foreign regulatory obligations and continued regulatory review.*

We and our third party suppliers are required to comply with applicable current GMP regulations and other international regulatory requirements. The regulations require that our product candidates be manufactured and our records maintained in a prescribed manner with respect to manufacturing, testing and quality control/quality assurance activities. Suppliers of key components and materials must be named in a BLA submitted to the FDA for any product candidate for which we are seeking FDA approval. Additionally, these third parties and our manufacturing facility must undergo a pre-approval inspection before we can obtain marketing authorization for any of our product candidates. Even after a manufacturer has been qualified by the FDA, the manufacturer must continue to expend time, money and effort in the area of production and quality control to ensure full compliance with GMP. Manufacturers are subject to regular, periodic inspections by the FDA following initial approval. Further, to the extent that we contract with third parties for the manufacture of our products, our ability to control third-party compliance with FDA requirements will be limited to contractual remedies and rights of inspection.

If, as a result of these inspections, the FDA determines that the equipment, facilities, laboratories or processes do not comply with applicable FDA regulations and conditions of product approval, the FDA may suspend the manufacturing operations. If the manufacturing operations of any of the suppliers for our product candidates are suspended, we may be unable to generate sufficient quantities of commercial or clinical supplies of product to meet market demand, which would harm our business. In addition, if delivery of material from our suppliers were interrupted for any reason, we may be unable to ship our approved product for commercial supply or to supply our products in development for clinical trials. Significant delays can occur if the qualification of a new supplier is required.

Any regulatory approvals that we receive for our product candidates are likely to contain requirements for post-marketing follow-up studies, which may be costly. Product approvals, once granted, may be modified based on data from subsequent studies or commercial use. As a result, limitations on labeling indications or marketing claims, or withdrawal from the market may be required if problems occur after commercialization.

Failure to comply with regulatory requirements could prevent or delay marketing approval or require the expenditure of money or other resources to correct. Failure to comply with applicable requirements may also result in warning letters, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, refusal of the government to renew marketing applications and criminal prosecution, any of which could be harmful to our ability to generate revenues and our stock price.

*We may develop, seek regulatory approval for and market our product candidates outside the United States, requiring a significant commitment of resources. Failure to successfully manage our international operations could result in significant unanticipated costs and delays in regulatory approval or commercialization of our product candidates.*

We may introduce certain of our product candidates in various markets outside the United States. Developing, seeking regulatory approval for and marketing our product candidates outside the United States could impose substantial burdens on our resources and divert management's attention from domestic operations. International operations are subject to risk, including:

the difficulty of managing geographically distant operations, including recruiting and retaining qualified employees, locating adequate facilities and establishing useful business support relationships in the local community;

compliance with varying international regulatory requirements, laws and treaties;

securing international distribution, marketing and sales capabilities;

adequate protection of our intellectual property rights;

legal uncertainties and potential timing delays associated with tariffs, export licenses and other trade barriers;

diverse tax consequences;

the fluctuation of conversion rates between foreign currencies and the U.S. dollar; and

regional and geopolitical risks.

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To date, we have not filed for marketing approval for any of our product candidates outside the United States. We may not obtain foreign regulatory approvals on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory agencies in other foreign countries. However, a failure or delay in obtaining regulatory approval in one jurisdiction may have a negative effect on the regulatory approval process in other jurisdictions, including approval by the FDA. If we are unable to successfully manage our international operations, we may incur significant unanticipated costs and delays in regulatory approval or commercialization of our product candidates, which would impair our ability to generate revenues.

***If any products we develop are not accepted by the market or if regulatory agencies limit our labeling indications or marketing claims, we may be unable to generate significant revenues, if any.***

Even if we obtain regulatory approval for our product candidates and are able to commercialize them, our products may not gain market acceptance among physicians, patients, health care payors and the medical community.

The degree of market acceptance of any of our approved products will depend upon a number of factors, including:

- the indication for which the product is approved and its approved labeling;
- the presence of other competing approved therapies;
- the potential advantages of the product over existing and future treatment methods;
- the relative convenience and ease of administration of the product;
- the strength of our sales, marketing and distribution support;
- the price and cost-effectiveness of the product; and
- sufficient third-party reimbursement.

The FDA or other regulatory agencies could limit the labeling indication for which our product candidates may be marketed or could otherwise limit marketing efforts for our products. For example, in connection with the removal of the clinical hold on HEPLISAV in September 2009 and related discussions with the FDA, it is expected that further development of HEPLISAV in the United States initially will be limited to individuals who are less responsive to current licensed vaccines, including adults over 40 years of age and individuals with chronic kidney disease. If we are unable to achieve approval or successfully market any of our product candidates, or marketing efforts are restricted by regulatory limits, our ability to generate revenues could be significantly impaired.

***We face uncertainty related to coverage, pricing and reimbursement and the practices of third party payors, which may make it difficult or impossible to sell our product candidates on commercially reasonable terms.***

In both domestic and foreign markets, our ability to achieve profitability will depend in part on the negotiation of a favorable price or the availability of appropriate reimbursement from third party payors, in particular for HEPLISAV where existing products are approved for our target indications. Existing laws affecting the pricing and coverage of pharmaceuticals and other medical products by government programs and other third party payors may change before any of our product candidates are approved for marketing. In addition, third party payors are increasingly challenging the price and cost-effectiveness of medical products and services, and pricing and reimbursement decisions may not allow our products to compete effectively with existing or competitive products. Because we intend to offer products, if approved, that involve new technologies and new approaches to treating disease, the willingness of third party payors to reimburse for our products is particularly uncertain. We will have to charge a price for our products that is sufficiently high to enable us to recover our considerable investment in product

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development. Adequate third-party reimbursement may not be available to enable us to maintain price levels sufficient to achieve profitability and could harm our future prospects and reduce our stock price.

We are unable to predict what impact the Health Care and Education Reconciliation Act of 2010 or other reform legislation will have on our business or future prospects. The uncertainty as to the nature and scope of the implementation of any proposed reforms limits our ability to forecast changes that may affect our business. In Europe, the success of our products, in particular HEPLISAV, will depend largely on obtaining and maintaining government reimbursement because many providers in European countries are unlikely to use medical products that are not reimbursed by their governments.

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*A key part of our business strategy is to establish collaborative relationships to commercialize and fund development of our product candidates. We may not succeed in establishing and maintaining collaborative relationships, which may significantly limit our ability to develop and commercialize our products successfully, if at all.*

We will need to establish collaborative relationships to obtain domestic and international sales, marketing and distribution capabilities for our product candidates, in particular with respect to the commercialization of HEPLISAV. Failure to obtain a collaborative relationship for HEPLISAV, particularly in the European Union, may significantly impair the potential for this product and our ability to successfully develop, manufacture and commercialize HEPLISAV as a product candidate. We also will need to enter into collaborative relationships to provide funding to support our other research and development programs. The process of establishing and maintaining collaborative relationships is difficult, time-consuming and involves significant uncertainty, including:

our partners may seek to renegotiate or terminate their relationships with us due to unsatisfactory clinical results, manufacturing issues, a change in business strategy, a change of control or other reasons;

our shortage of capital resources may impact the willingness of companies to collaborate with us;

our contracts for collaborative arrangements are terminable at will on written notice and may otherwise expire or terminate and we may not have alternative funding available;

our partners may choose to pursue alternative technologies, including those of our competitors;

we may have disputes with a partner that could lead to litigation or arbitration;

we have limited control over the decisions of our partners and they may change the priority of our programs in a manner that would result in termination of the agreement or add significant delay in the partnered program;

our ability to generate future event payments and royalties from our partners depends upon the abilities of our partners to establish the safety and efficacy of our drug candidates, obtain regulatory approvals, successfully manufacture, and achieve market acceptance of products developed from our drug candidates;

we or our partners may fail to properly initiate, maintain or defend our intellectual property rights, where applicable, or a party may utilize our proprietary information in such a way as to invite litigation that could jeopardize or potentially invalidate our proprietary information or expose us to potential liability;

our partners may not devote sufficient capital or resources towards our product candidates; and

our partners may not comply with applicable government regulatory requirements.

If any collaborator fails to fulfill its responsibilities in a timely manner, or at all, our research, clinical development, manufacturing, or commercialization efforts related to that collaboration could be delayed or terminated, or it may be necessary for us to assume responsibility for expenses or activities that would otherwise have been the responsibility of our collaborator. If we are unable to establish and maintain collaborative relationships on acceptable terms or to successfully transition terminated collaborative agreements, we may have to delay or discontinue further development of one or more of our product candidates, undertake development and commercialization activities at our own expense or find alternative sources of capital.

*The financial terms of future collaborative licensing or financing arrangements could result in dilution of our share value.*

Funding from collaboration partners and other parties may in the future involve issuance of our equity securities. Because we do not currently have any such arrangements, we cannot be certain how the terms under which such shares are issued will be determined or when such determinations will be made. The current market for financing or collaborative arrangements often involves the issuance of warrants as additional consideration in establishing the purchase price of the equity securities issued. Any such issuance could result in dilution in the value of our issued and outstanding shares.

*Many of our competitors have greater financial resources and expertise than we do. If we are unable to successfully compete with existing or potential competitors despite these disadvantages we may be unable to generate revenues and our business will be harmed.*

We compete with pharmaceutical companies, biotechnology companies, academic institutions and research organizations, in developing therapies to prevent or treat infectious and inflammatory diseases. Competitors may develop more effective, more affordable or more convenient products or may achieve earlier patent protection or commercialization of their products. These competitive products may render our product candidates obsolete or limit our ability to generate revenues from our product candidates. Many of the companies developing competing technologies and products have significantly greater financial resources and expertise in research and development, general and administrative support, manufacturing, preclinical and clinical testing, obtaining regulatory approvals and marketing than we do.

Existing and potential competitors may also compete with us for qualified scientific and management personnel, as well as for technology that would be advantageous to our business. Our success in developing marketable products and achieving a competitive

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position will depend, in part, on our ability to attract and retain qualified scientific, manufacturing, sales, marketing, general and administrative and management personnel. If we do not succeed in attracting new personnel and retaining and motivating existing personnel, our operations may suffer and we may be unable to implement our current initiatives. If we are unable to compete successfully, we may not be able to obtain financing, enter into collaborative arrangements, sell our product candidates or generate revenues.

*The loss of key personnel, including our Chief Executive Officer or our President, could delay or prevent achieving our objectives.*

Our research, product development and business efforts could be adversely affected by the loss of one or more key members of our scientific or management staff, including our Chief Executive Officer, Dr. Dino Dina, or our President, Dr. J. Tyler Martin. We currently have no key person insurance on any of our employees.

*We face product liability exposure, which, if not covered by insurance, could result in significant financial liability.*

While we have not experienced any product liability claims to date, the use of any of our product candidates in clinical trials and the sale of any approved products will subject us to potential product liability claims and may raise questions about a product's safety and efficacy. As a result, we could experience a delay in our ability to commercialize one or more of our product candidates or reduced sales of any approved product candidates. In addition, a product liability claim may exceed the limits of our insurance policies and exhaust our internal resources. We have obtained limited clinical trial liability and umbrella insurance coverage for our clinical trials. This coverage may not be adequate or may not continue to be available in sufficient amounts, at an acceptable cost or at all. We also may not be able to obtain commercially reasonable product liability insurance for any product approved for marketing in the future. A product liability claim, product recalls or other claims, as well as any claims for uninsured liabilities or in excess of insured liabilities, would divert our management's attention from our business and could result in significant financial liability.

*We use hazardous materials in our business. Any claims or liabilities relating to improper handling, storage or disposal of these materials could be time consuming and costly to resolve.*

Our research and product development activities involve the controlled storage, use and disposal of hazardous and radioactive materials and biological waste. We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of these materials and certain waste products. We believe we are currently in compliance with all government permits that are required for the storage, use and disposal of these materials. However, we cannot eliminate the risk of accidental contamination or injury to persons or property from these materials. In the event of an accident related to hazardous materials, we could be held liable for damages, cleanup costs or penalized with fines, and this liability could exceed the limits of our insurance policies and exhaust our internal resources. We may have to incur significant costs to comply with future environmental laws and regulations.

### **Risks Related to our Intellectual Property**

*We rely on licenses to intellectual property from third parties. Impairment of these licenses or our inability to maintain them would severely harm our business.*

Our current research and development efforts depend upon our license arrangements for intellectual property owned by third parties. Our dependence on these licenses subjects us to numerous risks, such as disputes regarding the use of the licensed intellectual property and the creation and ownership of new discoveries under such license agreements. In addition, these license arrangements require us to make timely payments in order to maintain our licenses and typically contain diligence or milestone-based termination provisions. Our failure to meet any obligations pursuant to these agreements could allow our licensors to terminate our agreements or undertake other remedies such as converting exclusive to non-exclusive licenses if we are not able to cure or obtain waivers for such failures or amend such agreements on terms acceptable to us. In addition, our license agreements may be terminated or may expire by their terms, and we may not be able to maintain the exclusivity of these licenses. If we cannot obtain and maintain licenses that are advantageous or necessary to the development or the commercialization of our product candidates, we may be required to expend significant time and resources to develop or license similar technology or to find other alternatives to maintaining the competitive position of our products. If such alternatives are not available to us in a timely manner or on acceptable terms, we may be unable to continue development or commercialize our product candidates. In addition, we must make timely payments or meet diligence obligations in order to maintain any such licenses in effect. In the absence of a current license, we may be required to redesign our technology so it does not infringe a third party's patents, which may not be possible or could require substantial funds and time.

*If third parties successfully assert that we have infringed their patents and proprietary rights or challenge our patents and proprietary rights, we may become involved in intellectual property disputes and litigation that would be costly, time consuming, and delay or prevent development or commercialization of our product candidates.*



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We may be exposed to future litigation by third parties based on claims that our product candidates or proprietary technologies infringe their intellectual property rights, or we may be required to enter into litigation to enforce patents issued or licensed to us or to determine the ownership, scope or validity of our or another party's proprietary rights, including a challenge as to the validity of our issued and pending claims. We are involved in various interference and other administrative proceedings related to our intellectual property which has caused us to incur certain legal expenses. If we become involved in any litigation and/or other significant interference proceedings related to our intellectual property or the intellectual property of others, we will incur substantial additional expenses and it will divert the efforts of our technical and management personnel.

Two of our potential competitors, Merck and GlaxoSmithKline ( GSK ), are exclusive licensees of broad patents covering hepatitis B surface antigen, a component of HEPLISAV. In addition, the Institut Pasteur also owns or has exclusive licenses to patents covering hepatitis B surface antigen. While some of these patents have expired or will soon expire outside the United States, they remain in force in the United States. To the extent we are able to commercialize HEPLISAV in the United States while these patents remain in force, Merck, GSK or the Institut Pasteur may bring claims against us.

If we or our collaborators are unsuccessful in defending or prosecuting our issued and pending claims or in defending potential claims against our products, for example, as may arise in the commercialization of HEPLISAV or any similar product candidate, we or our collaborator could be required to pay substantial damages or be unable to commercialize our product candidates or use our proprietary technologies without a license from such third party. A license may require the payment of substantial fees or royalties, require a grant of a cross-license to our technology or may not be available on acceptable terms, if at all. Any of these outcomes could require us to change our business strategy and could materially impact our business and operations.

One of our potential competitors, Pfizer Inc., has issued patent claims, as well as patent claims pending with the U.S. Patent and Trademark Office and foreign patent offices, that may be asserted against our ISS products. We may need to obtain a license to one or more of these patent claims held by Pfizer by paying fees or royalties or offering rights to our own proprietary technologies in order to commercialize one or more of our formulations of ISS in other than with respect to HEPLISAV, for which we have a license. A license for other uses may not be available to us on acceptable terms, if at all, which could preclude or limit our ability to commercialize our products.

***If the combination of patents, trade secrets and contractual provisions that we rely on to protect our intellectual property is inadequate, the value of our product candidates will decrease.***

Our success depends on our ability to:

obtain and protect commercially valuable patents or the rights to patents both domestically and abroad;

operate without infringing upon the proprietary rights of others; and

prevent others from successfully challenging or infringing our proprietary rights.

We will be able to protect our proprietary rights from unauthorized use only to the extent that these rights are covered by valid and enforceable patents or are effectively maintained as trade secrets. We try to protect our proprietary rights by filing and prosecuting U.S. and foreign patent applications. However, in certain cases such protection may be limited, depending in part on existing patents held by third parties, which may only allow us to obtain relatively narrow patent protection. In the United States, legal standards relating to the validity and scope of patent claims in the biopharmaceutical field can be highly uncertain, are still evolving and involve complex legal and factual questions for which important legal principles remain unresolved.

The biopharmaceutical patent environment outside the United States is even more uncertain. We may be particularly affected by this uncertainty since several of our product candidates may initially address market opportunities outside the United States, where we may only be able to obtain limited patent protection.

The risks and uncertainties that we face with respect to our patents and other proprietary rights include the following:

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we may not receive an issued patent for any of our patent applications or for any patent applications that we have exclusively licensed;

the pending patent applications we have filed or to which we have exclusive rights may take longer than we expect to result in issued patents;

the claims of any patents that are issued may not provide meaningful protection or may not be valid or enforceable;

we might not be able to develop additional proprietary technologies that are patentable;

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the patents licensed or issued to us or our collaborators may not provide a competitive advantage;

patents issued to other parties may limit our intellectual property protection or harm our ability to do business;

other parties may independently develop similar or alternative technologies or duplicate our technologies and commercialize discoveries that we attempt to patent; and

other parties may design around technologies we have licensed, patented or developed.

We also rely on trade secret protection and confidentiality agreements to protect our interests in proprietary know-how that is not patentable and for processes for which patents are difficult to enforce. We cannot be certain that we will be able to protect our trade secrets adequately. Any disclosure of confidential data in the public domain or to third parties could allow our competitors to learn our trade secrets. If we are unable to adequately obtain or enforce proprietary rights we may be unable to commercialize our products, enter into collaborations, generate revenues or maintain any advantage we may have with respect to existing or potential competitors.

### **Risks Related to an Investment in our Common Stock**

*Our stock price is subject to volatility, and your investment may suffer a decline in value.*

The market prices for securities of biopharmaceutical companies have in the past been, and are likely to continue in the future to be, very volatile. The market price of our common stock is subject to substantial volatility depending upon many factors, many of which are beyond our control, including:

progress or results of any of our clinical trials or regulatory efforts, in particular any announcements regarding the progress or results of our planned trials and communications from the FDA or other regulatory agencies;

our ability to establish and maintain collaborations for the development and commercialization of our product candidates;

our ability to raise additional capital to fund our operations;

technological innovations, new commercial products or drug discovery efforts and preclinical and clinical activities by us or our competitors;

changes in our intellectual property portfolio or developments or disputes concerning the proprietary rights of our products or product candidates;

our ability to obtain component materials and successfully enter into manufacturing relationships for our product candidates or establish manufacturing capacity on our own;

our ability to establish and maintain licensing agreements for intellectual property necessary for the development of our product candidates;

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changes in government regulations, general economic conditions or industry announcements;

issuance of new or changed securities analysts' reports or recommendations;

actual or anticipated fluctuations in our quarterly financial and operating results;

our ability to maintain continued listing on the NASDAQ markets or similar exchanges; and

the volume of trading in our common stock.

One or more of these factors could cause a substantial decline in the price of our common stock. In addition, securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk may be particularly relevant for us because we have experienced greater than average stock price volatility. We may in the future be the target of such litigation. Securities litigation could result in substantial costs, and divert management's attention and resources, which could harm our business, operating results and financial condition.

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***The anti-takeover provisions of our certificate of incorporation, bylaws, Delaware law and our share purchase rights plan may prevent or frustrate a change in control, even if an acquisition would be beneficial to our stockholders, which could affect our stock price adversely and prevent attempts by our stockholders to replace or remove our current management.***

Provisions of our certificate of incorporation and bylaws may delay or prevent a change in control, discourage bids at a premium over the market price of our common stock and adversely affect the market price of our common stock and the voting or other rights of the holders of our common stock. These provisions include:

authorizing our Board of Directors to issue additional preferred stock with voting rights to be determined by the Board of Directors;

limiting the persons who can call special meetings of stockholders;

prohibiting stockholder actions by written consent;

creating a classified board of directors pursuant to which our directors are elected for staggered three year terms;

providing that a supermajority vote of our stockholders is required for amendment to certain provisions of our certificate of incorporation and bylaws; and

establishing advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

Our share purchase rights plan may have certain anti-takeover effects. Specifically, the rights issued pursuant to the plan will cause substantial dilution to a person or group that attempts to acquire the Company on terms not approved by the Company's Board of Directors. Although the rights should not interfere with any merger or other business combination approved by the Board of Directors since the rights issued may be amended to permit such acquisition or redeemed by the Company at \$0.001 per right prior to the earliest of (i) the time that a person or group has acquired beneficial ownership of 20% or more of the Common Shares or (ii) the final expiration date of the rights, the effect of the rights plan may deter a potential acquisition of the Company. In addition, we remain subject to the provisions of the Delaware corporation law that, in general, prohibit any business combination with a beneficial owner of 15% or more of our common stock for three years unless the holder's acquisition of our stock was approved in advance by our Board of Directors.

***We will continue to incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could affect our operating results.***

As a public company, we will continue to incur legal, accounting and other expenses associated with reporting requirements and corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, the Dodd-Frank Act of 2010, as well as new rules implemented by the Securities and Exchange Commission and the NASDAQ Stock Market LLC. We may need to continue to implement additional financial and accounting systems, procedures and controls in order to accommodate changes in our business and organization and to comply with new reporting requirements. There can be no assurance that we will be able to maintain a favorable assessment as to the adequacy of our internal control over financial reporting. If we are unable to reach an unqualified assessment, or our independent registered public accounting firm is unable to issue an unqualified attestation as to the effectiveness of our internal control over financial reporting as of the end of our fiscal year, investors could lose confidence in the reliability of our financial reporting which could harm our business and could impact the price of our common stock.

***Future sales of our common stock or the perception that such sales may occur in the public market could cause our stock price to fall.***

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. As of June 30,

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2011, we had 123,418,023 shares of common stock outstanding, all of which shares were eligible for sale in the public market, subject in some cases to the volume limitations and manner of sale requirements under Rule 144 of the Securities Act of 1933, as amended.

We also have filed registration statements on Form S-3 under the Securities Act of 1933, as amended, to register the shares of our common stock reserved for issuance under the Purchase Agreement, the warrants issued as part of our public offering closed in April 2010, the warrants issued to Symphony Dynamo Holdings LLC ( Holdings ) in connection with our acquisition of SDI in December 2009, and warrants issued to Deerfield Management in connection with the July 2007 Loan Agreement.

In addition, we have filed registration statements on Form S-8 under the Securities Act of 1933, as amended, to register the shares of our common stock reserved for issuance under our stock option plans, and intend to file additional registration statements on Form S-8 to register the shares automatically added each year to the share reserves under these plans.

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*Symphony Capital Partners, L.P. and Symphony Strategic Partners, LLC collectively control a substantial percentage of the voting power of our outstanding common stock as well as \$15 million of our debt.*

Symphony Capital Partners, L.P. and Symphony Strategic Partners, LLC (collectively, Symphony ) currently collectively control approximately 9,031,431 shares of our common stock and warrants to purchase approximately 4,515,717 shares of our common stock. Based on the number of shares of our common stock that are outstanding as of June 30, 2011, Symphony owns approximately 7% of our total outstanding shares of our common stock. If Symphony exercises all of the warrants held by it and assuming no other issuances of our common stock, Symphony would own approximately 11% of our total outstanding shares of common stock as of June 30, 2011. In addition, Holdings, an affiliate of Symphony, holds a promissory note in the principal amount of \$15 million, which may be satisfied in cash, Dynavax common stock or a combination of cash and Dynavax common stock, at our election. Finally, under the terms of the Standstill and Corporate Governance Letter Agreement we entered into with Holdings on December 30, 2009, for as long as Holdings and its affiliates, which include Symphony, beneficially own 10% or more of our outstanding common stock, we agreed to use our commercially reasonable efforts to cause to be elected and remain as directors on our Board of Directors one individual designated by Holdings and a second individual who shall be an independent third party designated by Holdings and reasonably acceptable to us. Holdings designated Mark Kessel, a partner of Symphony Capital LLC, as its designee and Mr. Kessel has been appointed to our Board of Directors. On July 22, 2010, the Board of Directors nominated Daniel L. Kisner, M.D. to the Board of Directors as the independent third party designee. As a result, Symphony, Holdings and their affiliates will be able to exercise substantial influence over the direction of the Company.

**ITEM 5. OTHER INFORMATION**

None.

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<b>Exhibit</b>	
<b>Number</b>	<b>Document</b>
3.1 <sup>(1)</sup>	Sixth Amended and Restated Certificate of Incorporation
3.2 <sup>(2)</sup>	Amended and Restated Bylaws
3.3 <sup>(3)</sup>	Form of Certificate of Designation of Series A Junior Participating Preferred Stock
3.4 <sup>(4)</sup>	Certificate of Amendment of Amended and Restated Certificate of Incorporation
3.5 <sup>(5)</sup>	Certificate of Amendment of Amended and Restated Certificate of Incorporation
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3, 3.4 and 3.5 above.
4.2 <sup>(6)</sup>	Registration Rights Agreement
4.3 <sup>(6)</sup>	Form of Warrant
4.4 <sup>(7)</sup>	Form of Specimen Common Stock Certificate
4.5 <sup>(3)</sup>	Rights Agreement dated as of November 5, 2008, by and between Dynavax Technologies Corporation and Mellon Investor Services LLC
4.6 <sup>(3)</sup>	Form of Rights Certificate
4.7 <sup>(8)</sup>	Form of Restricted Stock Unit Award Agreement.
4.8 <sup>(9)</sup>	Form of Amended Warrant
4.9 <sup>(10)</sup>	Form of Warrant
4.10 <sup>(11)</sup>	Registration Rights Agreement dated as of September 20, 2010, by and between Dynavax Technologies Corporation and Aspire Capital Fund, LLC.
10.65	Third Amendment to Lease, dated as of April 1, 2011, between the Dynavax Technologies Corporation and 2929 Seventh Street, L.L.C.
10.66	2004 Non-employee Director Option Program (Revised) and 2005 Non-employee Director Cash Compensation Program, effective April 14, 2005 and amended April 6, 2011.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Vice President, Finance pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Vice President, Finance pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.
(1)	Incorporated by reference from such document filed with the SEC as an exhibit to Dynavax Technologies Corporation's Amendment No. 4 to Registration Statement on Form S-1/A, as filed with the SEC on February 5, 2004 (Commission File No. 000- 50577).
(2)	Incorporated by reference from such document filed with the SEC as an exhibit to Dynavax Technologies Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, as filed with the SEC on November 14, 2005.
(3)	

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- Incorporated by reference from such document filed with the SEC as an exhibit to Dynavax Technologies Corporation's Current Report on Form 8-K, as filed with the SEC on November 6, 2008.
- (4) Incorporated by reference from such document filed with the SEC as an exhibit to Dynavax Technologies Corporation's Current Report on Form 8-K, as filed with the SEC on January 4, 2010.
  - (5) Incorporated by reference from such document filed with the SEC as an exhibit to Dynavax Technologies Corporation's Current Report on Form 8-K, as filed with the SEC on January 5, 2011.
  - (6) Incorporated by reference to Dynavax Technologies Corporation's Registration Statement (File No. 333-145836) on Form S-3 filed on August 31, 2007.
  - (7) Incorporated by reference to Dynavax Technologies Corporation's Registration Statement (File No. 333-109965) on Form S-1 filed on January 16, 2004.
  - (8) Incorporated by reference from such document filed with the SEC as an exhibit to Dynavax Technologies Corporation's Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the SEC.

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- (9) Incorporated by reference from such document filed with the SEC as an exhibit to Dynavax Technologies Corporation's Annual Report on Form 10-K, as filed with the SEC on March 16, 2010.
- (10) Incorporated by reference from such document filed with the SEC as an exhibit to Dynavax Technologies Corporation's Current Report on Form 8-K, as filed with the SEC on April 13, 2010.
- (11) Incorporated by reference from such document filed with the SEC as an exhibit to Dynavax Technologies Corporation's Current Report on Form 8-K, as filed with the SEC on September 20, 2010.
- \* Pursuant to applicable securities laws and regulations, the Registrant is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Registrant has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fails to comply with the submission requirements. These interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, are deemed not filed for purposes of section 18 of the Exchange Act and otherwise are not subject to liability under these sections.

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**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Document</b>
3.1 <sup>(1)</sup>	Sixth Amended and Restated Certificate of Incorporation
3.2 <sup>(2)</sup>	Amended and Restated Bylaws
3.3 <sup>(3)</sup>	Form of Certificate of Designation of Series A Junior Participating Preferred Stock
3.4 <sup>(4)</sup>	Certificate of Amendment of Amended and Restated Certificate of Incorporation
3.5 <sup>(5)</sup>	Certificate of Amendment of Amended and Restated Certificate of Incorporation
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3, 3.4 and 3.5 above.
4.2 <sup>(6)</sup>	Registration Rights Agreement
4.3 <sup>(6)</sup>	Form of Warrant
4.4 <sup>(7)</sup>	Form of Specimen Common Stock Certificate
4.5 <sup>(3)</sup>	Rights Agreement dated as of November 5, 2008, by and between Dynavax Technologies Corporation and Mellon Investor Services LLC
4.6 <sup>(3)</sup>	Form of Rights Certificate
4.7 <sup>(8)</sup>	Form of Restricted Stock Unit Award Agreement.
4.8 <sup>(9)</sup>	Form of Amended Warrant
4.9 <sup>(10)</sup>	Form of Warrant
4.10 <sup>(11)</sup>	Registration Rights Agreement dated as of September 20, 2010, by and between Dynavax Technologies Corporation and Aspire Capital Fund, LLC.
10.65	Third Amendment to Lease, dated as of April 1, 2011, between the Dynavax Technologies Corporation and 2929 Seventh Street, L.L.C.
10.66	2004 Non-employee Director Option Program (Revised) and 2005 Non-employee Director Cash Compensation Program, effective April 14, 2005 and amended April 6, 2011.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Vice President, Finance pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Vice President, Finance pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.
(1)	Incorporated by reference from such document filed with the SEC as an exhibit to Dynavax Technologies Corporation's Amendment No. 4 to Registration Statement on Form S-1/A, as filed with the SEC on February 5, 2004 (Commission File No. 000- 50577).
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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Berkeley, State of California.

**DYNAVAX TECHNOLOGIES CORPORATION**

Date: August 3, 2011

By: /s/ DINO DINA, M.D.  
Dino Dina, M.D.  
Chief Executive Officer  
(Principal Executive Officer)

Date: August 3, 2011

By: /s/ JENNIFER LEW  
Jennifer Lew  
Vice President, Finance  
(Principal Accounting and Financial Officer)