IMMUNE DESIGN CORP.
Form 10-K
March 14, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
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: 001-36561

IMMUNE DESIGN CORP.
(Exact name of registrant as specified in its charter)

Delaware	26-2007174
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1616 Eastlake Ave. E., Suite 310 Seattle, Washington	98102
(address of principal executive officers)	(Zip code)

(206) 682-0645
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.001 per share	Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 (§232.405 of this chapter) of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit

and post such files): Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging Growth Company x

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. x

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

As of June 30, 2017, the aggregate market value of the 21,468,462 shares of Common Stock held by non-affiliates of the registrant was approximately $209.3 million, computed by reference to the closing price as reported on The Nasdaq Global Market. The calculation excludes shares of the registrant's common stock held by current executive officers, directors and stockholders that the registrant has concluded are affiliates of the registrant. This determination of affiliate status is not a determination for other purposes.

As of March 12, 2018, the registrant had 48,125,008 shares of common stock, par value $0.001 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the 2018 Annual Meeting of Stockholders of the registrant are incorporated by reference into Part III of this Annual Report on Form 10-K. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2017.

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In this report, unless otherwise stated or as the context otherwise requires, references to “Immune Design,” “the Company,” “we,” “us,” “our” and similar references refer to Immune Design Corp. “ZVex” and “GLAAS” are our registered trademarks, and the Immune Design logo is our unregistered trademark. This report also contains registered marks, trademarks and trade names of other companies. All other trademarks, registered marks and trade names appearing in this report are the property of their respective holders.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS
AND INDUSTRY DATA

This Annual Report on Form 10-K contains forward looking statements. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “esti “predicts,” “potential,” “targets,” “intends” or “continue,” or the negative of these terms or other comparable terminology. Forward-looking statements include, but are not limited to, statements about:

- our estimates regarding our expenses, use of proceeds, future revenues, anticipated capital requirements and our needs for additional financing;
- the implementation of our business model and strategic plans for our business and technology;
- the timing of the commencement, progress and receipt of data from any of our preclinical and clinical trials;
- the expected results of any clinical trial and the impact on the likelihood or timing of any regulatory approval;
- the scope of protection we establish and maintain for intellectual property rights covering our technology;
- the timing or likelihood of regulatory filings and approvals;
- the timing and outcome of any current or future litigation;
- developments relating to our competitors and our industry; and
- our expectations regarding licensing, acquisitions and strategic operations.

These statements are only current predictions and are subject to known and unknown risks, uncertainties and other factors that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from those anticipated by the forward-looking statements. We discuss many of these risks in this report in greater detail under the heading “Risk Factors” and elsewhere in this report. You should not rely upon forward-looking statements as predictions of future events.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by law, after the date of this report, we are under no duty to update or revise any of the forward-looking statements, whether as a result of new information, future events or otherwise.

This report also contains estimates, projections and other information concerning our industry, the market and our business. Information that is based on estimates, forecasts, projections or similar methodologies is inherently subject to uncertainties and actual events or circumstances may differ materially from events and circumstances reflected in this information. We obtained the industry, market and competitive position data in this report from our own internal estimates and research as well as from industry and general publications and research surveys and studies conducted by third parties.

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PART I

Item 1. Business

Overview

We are a late-stage immunotherapy company employing next-generation, diversified in vivo approaches designed to enable the body's immune system to fight disease. Although we believe our approaches have broad potential across multiple therapeutic areas, we are focused in oncology and have designed our technologies to activate the immune system's natural ability to generate and/or expand tumor-specific cytotoxic T cells, or CTLs, while also enhancing other immune effectors, to fight cancer via distinct mechanisms. CMB305 and G100, our lead product candidates, use the body's immune system in different ways that, we believe, address the shortcomings of other therapies and have the potential to treat a broad patient population either as monotherapies or in combination with other mechanisms of action. In 2017, we presented positive single-arm and randomized data for CMB305 and G100 in soft tissue sarcoma and follicular NHL patients, respectively, and after meeting with the U.S. Food and Drug Administration, or FDA, we are planning to move CMB305 into a pivotal Phase 3 monotherapy trial in synovial sarcoma patients in 2018.

The following is our primary oncology product development pipeline produced by our internal discovery platforms:

CMB305: Antigen Specific, Next-Generation Cancer Vaccine - Moving to Phase 3

CMB305 is a prime-boost cancer vaccine targeting the NY-ESO-1 tumor antigen, in which a prime called LV305 from our ZVex® platform is dosed sequentially with a boost from our GLAAS® platform. We believe that prime-boost therapies are an optimal way to trigger a robust immune response and generate memory CTLs with long-term immune surveillance, particularly when distinct, but complementary, parts of the immune response are stimulated. CMB305 induces and expands a specific, integrated anti-tumor immune response and is currently being evaluated in Phase 1 clinical trials in patients with soft tissue sarcoma as a monotherapy and a randomized Phase 2 clinical trial in later-stage patients with soft tissue sarcoma in combination with the anti-PD-L1 cancer immunotherapy, atezolizumab (Tecentriq®). Based on positive data to date and FDA interactions, we plan to commence a CMB305 Phase 3 clinical trial in 2018 in synovial sarcoma patients as a monotherapy.

CMB305 Monotherapy

In June 2017, at the American Society of Clinical Oncology, or ASCO, 2017 Annual Meeting, we presented data on 25 patients with recurrent soft tissue sarcoma treated with CMB305 monotherapy, which included 14 synovial sarcoma patients. In a population where 92% of the patients had metastatic disease and 56% were progressing upon trial entry, the presentation showed that the median overall survival, or OS, had not yet been reached and the OS rate was 83% and 76% at 12 and 18 months, respectively. Subsequently, in March 2018, we reported updated data showing a median OS of 23.7 months among the soft tissue sarcoma patients, and that the median OS for the subset of synovial sarcoma patients had not yet been reached. These data compare favorably to the median OS for approved second line and later chemotherapeutic agents, which is 12.4-13.5 months, as well as a published median OS of 11.7 months for synovial sarcoma patients specifically, which is the population to

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be studied in our planned Phase 3 trial. A disease control rate, or DCR, of 64% was observed, including tumor growth arrest in patients who had evidence of disease progression at study entry. CMB305 was well tolerated, with only one related Grade 3 adverse event and without dose-limiting toxicities. With respect to immunogenicity, CMB305 generated a strong and broad anti-NY-ESO-1 immune response in over 50% of the patients, with 32% of patients experiencing an integrated response demonstrated by production of T cells and antibodies. Induction of an immune response against other tumor antigens not targeted by CMB305, known as antigen spreading, was detected in 33% of evaluable patients following CMB305 therapy. Consistent with the rationale of the prime-boost approach, patients who responded immunologically had a greater degree of antigen-specific T cell response than previously reported in the Phase 1 trial of LV305 alone. In a separate presentation examining data from a pool of 64 patients of various tumor types treated with CMB305 or LV305 monotherapy, we reported a trend towards the association of the induced anti-NY-ESO-1 immune response with improved patient survival, particularly in patients with pre-existing anti-NY-ESO-1 immunity. These immune biomarkers may guide regulatory strategy via the selection of patients more likely to have survival benefit on CMB305 therapy.

After discussions with the FDA, we are planning to commence a Phase 3 clinical trial of CMB305 monotherapy in synovial sarcoma patients in mid 2018. The randomized trial will evaluate CMB305 versus placebo in patients with NY-ESO-1^{+} locally advanced unresectable or metastatic synovial sarcoma, a type of soft tissue sarcoma, who have no evidence of progression after first-line chemotherapy, referred to as a “maintenance” setting. The study is designed to enroll 248 patients who will be randomized 1:1 to receive either CMB305 monotherapy or placebo. The trial will have progression free survival, or PFS, and OS as endpoints, and if the PFS endpoint is successful, the FDA offered that it may support full approval of CMB305. Depending on the rate of events, final PFS analysis may occur as early as 24 months from the first patient dosed. We believe this “maintenance” setting is an ideal patient population for CMB305 because (1) CMB305 appears to induce the desired immune response in months two and three, and (2) based on published literature and internal data, we estimate PFS in this population to be approximately four months from completion of chemotherapy. In contrast, data from the monotherapy Phase 1 study referred to above, which showed a PFS of 4.7 months, was generated from a sicker patient population with later-stage disease than will be enrolled in the Phase 3 trial. If the PFS endpoint is met, we intend to submit a Biologics License Application, or BLA, and seek approval for CMB305 to treat this patient population. We may also develop a companion diagnostic in connection with our CMB305 development program to identify NY-ESO-1 expressing tumors, which test we believe would require FDA approval.

CMB305 in Combination with Tecentriq (atezolizumab)

In September 2017, at the European Society of Medical Oncology, or ESMO, 2017 Congress, we presented an interim analysis of our randomized Phase 2 combination study of CMB305 with atezolizumab. This fully enrolled trial is evaluating the safety, immunogenicity and efficacy of CMB305 in combination with atezolizumab or atezolizumab alone, in a total of 88 patients with locally advanced, relapsed, or metastatic NY-ESO-1+ synovial sarcoma or myxoid/round-cell liposarcoma pursuant to a collaboration with Genentech. Data presented at ESMO evaluated a pre-specified interim analysis of 36 patients in a data cut with median duration of observation of less than six months. The interim analysis data showed that NY-ESO-1+ soft tissue sarcoma patients receiving CMB305 in combination with atezolizumab experienced a greater clinical benefit and immune response than those receiving atezolizumab alone, including a DCR of 61% versus 28%, median PFS of 2.6 months versus 1.4 months, and time to next treatment of 9 months versus 6.3 months, respectively. The trend of greater clinical benefit remained consistent for the full study population, including a DCR of 57% for the CMB305 + atezolizumab group versus 38% for the atezolizumab alone group. At the time of presentation, we also observed three partial responses in the CMB305 + atezolizumab group versus zero responses in the atezolizumab alone group. Patients in the full study population who received CMB305 plus atezolizumab also demonstrated stronger induced anti-NY-ESO-1 immune responses (demonstrated by production of T cells or antibodies) compared to those receiving atezolizumab alone (n=60/88). An exploratory biomarker analysis showed a continued link between induced immune response and improved overall survival.

CMB305 + atezolizumab was observed to be well tolerated, and there were no new safety signals in either arm of the trial. We believe the potential benefit for CMB305 + atezolizumab treatment will be improved survival coupled with a favorable safety profile; although, as of the data collection date, overall survival data were immature due to a median duration of observation of less than six months. We intend to present survival data from this Phase 2 combination study once all patients have at least one year of follow up and the study reaches a minimum number of events.

We have received orphan drug designation for soft tissue sarcoma for CMB305 in the US and for both components of CMB305 in the US and EU. Orphan drug designation provides certain benefits, such as research tax credits and waivers of certain regulatory fees, but does not provide any assurance of regulatory approval or expedite regulatory review.

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CA21: Multi-Targeting Prime Boost

We are currently developing a new prime-boost potential therapy called CA21. Similar to CMB305, CA21 is designed to consist of two separate agents operating as a prime and boost, LA51 and RA41, respectively. In contrast to CMB305, however, it will target multiple tumor antigens and include an immuno-stimulatory component. We therefore expect CA21 to induce a stronger immune response than CMB305. We presented preclinical data at the Society for Immunotherapy of Cancer, or SITC, 2016 Annual Meeting showing the ability of our ZVex vectors to target multiple antigens co-delivered selectively to dendritic cells in vivo without antigen competition. Immune responses were as high as, or higher, than those obtained by combining individually manufactured vectors, demonstrating the versatility and potency of this multi-antigen ZVex approach. At the SITC 2017 Annual Meeting, we presented data showing similar results, but for a larger number of target antigens. We are planning to file investigational new drug, or IND, applications for Phase 1 dose escalation studies of each of LA51 and RA41, followed by the Phase 1 dose escalation study of CA21.

G100: Antigen Agnostic, Intratumoral Approach - Positive Randomized Phase 2 Data

G100, the lead product candidate in our Antigen Agnostic, Intratumoral approach, was developed from the GLAAS platform and functions differently than CMB305. Instead of being designed to target a specific, known antigen, G100 activates both innate and adaptive immunity in the tumor microenvironment, including dendritic cells, to create an immune response against the tumor's pre-existing, diverse set of antigens, including neoantigens. G100 contains a potent, synthetic, small molecule toll-like receptor-4 (TLR-4) agonist called GLA, which stands for Glucopyranosyl Lipid A.

We have been developing G100 as a monotherapy and combination therapy in patients with follicular non-Hodgkin Lymphoma, or FL, in a randomized Phase 1b/2 clinical trial. The monotherapy Phase 1b portion of the trial is evaluating G100 with local radiation at multiple doses, and the randomized Phase 2 portion of the trial is evaluating G100 with local radiation alone or in combination with the anti-PD-1 agent, Keytruda® (pembrolizumab), pursuant to a collaboration with Merck. In December 2017, we presented data from this trial at the American Society of Hematology, or ASH, Annual Meeting, and in March 2018, we reported updated data observing additional responses. The G100 monotherapy and pembrolizumab combination resulted in a 54% objective response rate, or ORR, with a 75% ORR in those patients who expressed a potential predictive biomarker related to high TLR4 expression (6/8 patients). These data compare favorably to the pembrolizumab monotherapy data presented at ASH 2017, which showed an 11% ORR in a separate follicular lymphoma study. In addition, 77% of patients in the combination arm experienced abscopal tumor shrinkage in un-injected tumors, compared to 54% of patients in the monotherapy arm. Given these clinical benefit data and G100's continued favorable safety profile, we are evaluating a development plan for G100 first in FL and then potentially in other lymphomas and solid tumors.

We have received orphan drug designation in the US and EU for G100 in FL. Orphan drug designation provides certain benefits, such as research tax credits and waivers of certain regulatory fees, but does not provide any assurance of regulatory approval or expedite regulatory review. If the ongoing trials produce a sufficiently robust clinical benefit for patients, we may discuss an appropriate development path with the regulatory authorities to pursue FL as the first indication for which we would seek approval for G100.

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Our Strategy

- Develop product candidates to treat a broad patient population. We believe our product candidates may benefit a wide range of patients in both orphan diseases and larger indications because they are designed to create tumor-killing CTLs, could potentially target any tumor and have potential utility as both individual therapies and in combination with multiple types of other anti-cancer mechanisms of action.
- Rapidly advance first-in-class immuno-oncology product candidates through clinical development. We intend to continue to execute a focused clinical development plan that takes selected product candidates through approval. We are initially focused on indications with a significant unmet need in targeted patient populations, such as CMB305 in soft tissue sarcoma.
- Leverage our platforms' ability to address multiple tumor types to build a robust product pipeline. Our ZVex and GLAAS platforms allow us to select any antigen or multiple antigens as the target and create separate product candidates for potentially any tumor type. We believe this ability, and the potential of our vectors to simultaneously express antigens and immuno-regulatory molecules, will be a driver of our future growth beyond the current product candidates.
- Position Immune Design to potentially play a broad role in the immuno-oncology treatment paradigm. Our agents are designed to work either individually or together, as well as with multiple other mechanisms of action. In addition to our ongoing clinical collaborations combining CMB305 and G100 with checkpoint inhibitors, we intend to explore additional combinations with other immuno-oncology approaches to demonstrate this broad potential benefit.
- Selectively monetize non-oncology indications, while retaining optionality for future internal development. ZVex and GLAAS also have potential applications in infectious disease and allergy. We have licensed the right to use the GLAAS platform in specific infectious and allergic disease indications to large pharmaceutical companies. These collaborations provide us with both near- and long-term potential revenue and external validation of our technology, while preserving optionality for future growth beyond oncology.
- Establish infrastructure and capabilities to support the future commercialization of our products. Our management team has extensive experience developing and commercializing pharmaceutical products and as our product candidates advance, we intend to add the appropriate additional expertise to maximize the potential for successful product launches and franchise management. In certain instances, we will seek partners to maximize the commercial potential of our product candidates.

Diversified Immune-Stimulating Technologies Support Broad Potential

We believe our approach to fighting cancer is the first of its kind, and we use multiple platforms to develop product candidates that work in vivo and are designed to create and expand diverse armies of immune cells known as cytotoxic T lymphocytes to fight tumors. An in vivo approach is preferred because it addresses both the cumbersome administration and the need for patient customization inherent in ex vivo approaches, such as engineered CD8 T cells. Although they have distinct mechanisms of action, we designed both CMB305 and G100 to convert "cold" tumors, or those without CTLs, to "hot" tumors, or those with CTLs specific for the antigens expressed by the tumor. Although they are designed to share this effect on tumors, the agents have distinct mechanisms of action and may produce different clinical benefit profiles. For example, it has been noted in literature that although a cancer vaccine therapy may not result in an immediate or early change in tumor burden, like cytotoxic approaches such as chemotherapy, a vaccine may induce a delayed anti-tumor response resulting in longer survival than that seen with the cytotoxic approach. Similarly, and based on our clinical studies to date, we believe that although we may not observe a short-term surrogate endpoint like ORR, ZVex-based cancer vaccines such as CMB305 may nonetheless confer a potentially meaningful clinical benefit like PFS in a population such as those patients in our planned Phase 3 clinical trial, or OS in later-stage patients like those in our randomized Phase 2 trial in combination with atezolizumab. In contrast, G100's distinct mechanism of action has produced ORRs as we've observed in a completed Phase 1 trial in patients with Merkel cell carcinoma, or MCC, and our ongoing Phase 1b/2 trial in FL patients.

To develop CMB305 and G100, we have leveraged our two primary discovery platforms, ZVex and GLAAS. The fundamental discoveries underlying ZVex originated with one of our founders, Nobel laureate David Baltimore, Ph.D. Dr. Baltimore and his colleagues theorized that a lentivirus, which is a virus that works in immune cells such as dendritic cells, or DCs, could be engineered to selectively deliver the specific genetic information of a tumor marker,

called an antigen, directly to DCs in the skin. The expression of this antigen would trigger an immune response of CTLs to eliminate the tumor. In comparison, the core of the GLAAS platform is a potent synthetic stimulator of a specific cellular receptor called TLR4 that is present in DCs. Activation of DCs through TLR4 can safely trigger an anti-tumor immune response and synergize with either pre-existing CTLs or those generated by ZVex for what we believe will be a greater degree of tumor killing than either approach alone. In

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addition, we are working to develop a third platform based on self-replicating RNA. Given the plans for CA21 and potential additional therapies that will be multi-antigen targeting, we believe having an RNA (or other) flexible technology will provide preferable manufacturing process and associated cost of goods.

We believe our existing product candidates and potential future programs have both monotherapy and broad combination potential across the oncology landscape, such as in combination with checkpoint inhibitors in our two ongoing randomized studies and with other approaches, such as engineered T cells.

Our Approaches to Treating Cancer

Immuno-oncology broadly refers to the modulation of the immune system to eradicate tumor cells, and is often colloquially divided into two categories: “create and expand” the anti-tumor immune response and “remove the brakes” placed on the immune response by the tumor’s defenses.

We believe alteration of the tumor microenvironment and trafficking of CTLs into the tumor are increasingly being recognized as important for the efficacy of any immunotherapy. Our platforms focus on the “create and expand” category and are designed to generate strong, tumor-specific CTLs and effector cells in vivo that infiltrate the tumor (known as making the tumor “hot”), while addressing many of the shortcomings of previous approaches. Our platforms can generate individual product candidates, such as G100, or complimentary product candidates administered in sequence, such as CMB305. Additionally, we designed our therapies to be combined with other immuno-oncology therapeutic mechanisms such as checkpoint inhibitors from the “remove the brakes” category, which we believe will generate a greater anti-tumor response.

Our immuno-oncology product candidates are being developed in two separate strategies that we designate as the Antigen Specific and Antigen Agnostic, Intratumoral approaches. Both approaches share the same goal: to make tumors more “hot” and provide patients clinical benefit with a preferable safety profile.

Antigen Specific

Our Antigen Specific approach is based on the observation that human tumor cells make a variety of antigens that are not found in normal tissues, but are present in the patient’s tumor, so there is an opportunity to educate the immune system to recognize a pre-identified tumor antigen and kill tumor cells expressing it. ZVex products carry RNA of a chosen antigen or selected epitopes of multiple antigens, including neoantigens, whereas GLAAS products, in the case of CMB305, are accompanied by a full-length protein of the same antigen or, potentially, a peptide representing the selected epitopes. We have generated a significant amount of preclinical data illustrating the desirable qualities of this approach. The following graph illustrates the ability of ZVex in an in vivo rodent tumor model to generate an immune response against a protein the body recognizes as “self,” which it would therefore tolerate and not normally mount an immune response against. This experiment demonstrates the ability of ZVex to overcome immune tolerance, which is an important element of any potential cancer immunotherapy treatment.

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For our first Antigen Specific product candidates, we have chosen a tumor-associated antigen named NY-ESO-1 that is expressed in a large number of solid and liquid tumors in varying degrees. We conducted an extensive search to choose NY-ESO-1, and we believe it is an attractive target for cancer immunotherapy due to its frequent expression in tumors, limited expression in normal tissue and its immunogenic potential. Among the antigens selected by the National Cancer Institute as the best targets for immunotherapy, only NY-ESO-1 and one other antigen have been shown to be tumor-specific.

In December 2016, we announced an evolution of the ZVex-platform to deliver multiple, full-length antigens and immunomodulatory molecules. ZVex is engineered to avoid potential antigenic competition and enable the delivery of multiple RNA genes selectively to DCs to induce a simultaneous and balanced T cell response against all antigens. We believe this is a potentially significant advancement in our product development capabilities, enabling the development of therapies with the potential to target a wide range of conserved antigens and large number of neo-epitopes. With respect to neo-epitopes, we believe this allows for the expression of a much larger number of epitopes than achievable with other platforms, obviating the need for a proprietary predictive algorithm to derive a limited set of epitopes.

Antigen Agnostic, Intratumoral Activation

Unlike the Antigen Specific approach, the intratumoral approach does not require pre-knowledge of a selected tumor antigen present in the cancer. It instead relies on endogenous conserved antigens or neoantigens released during tumor lysis by treatments such as chemotherapy or local radiation. G100, our lead product under this approach, is injected directly into the tumor, and neighboring activated DCs then capture the released antigens and generate a varied immune response. Because local radiation is an effective way to cause tumor cell lysis in accessible tumors, we initially evaluated tumors that are accessible to both local radiation and intratumoral administration in our MCC and FL trials.

In collaboration with Dr. Ronald Levy’s lab at Stanford University, we examined the administration of intratumorally-injected G100 in the A20 murine model that is used to represent lymphoma. In an oral presentation at the 2015 American Society of Hematology, or ASH, annual meeting, Dr. Levy’s lab presented data showing tumor growth inhibition in both injected tumors as well as uninjected tumors, known as an abscopal effect. In addition, G100 had an impact on the tumor microenvironment, changing it from a non-inflammatory state, or “cold” tumor, to an inflamed state, or “hot” tumor. Specifically, as shown in the image below, responding animals remained tumor-free at least three months post G100 treatment and, without administration of additional G100, were resistant to secondary challenge with the same tumor type.

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In addition to G100, we are also investigating the potential use of our ZVex platform for intratumoral injection. For example, we presented preclinical data at the American Association for Cancer Research Annual Meeting in 2016 and SITC 2017 describing the intratumoral administration of a ZVex vector designed to generate localized expression of IL-12, a potent modulator of innate and adaptive immune responses. The results demonstrated strong local and systemic anti-tumor efficacy in multiple murine models, and this use of the ZVex platform offers a potential expansion opportunity of our intratumoral approach beyond G100.

Application of Our Approaches in the Immuno-Oncology Landscape

Mechanisms and Limitations of Immuno-Oncology Modalities

There are multiple in vivo and ex vivo approaches designed to “create and expand” the anti-tumor immune response and “remove the brakes” placed on the immune response by a tumor’s defenses.

Removing the Brakes: Checkpoint Inhibitors

Checkpoint inhibitors are designed to attack the defenses a tumor has against the immune system. We believe the efficacy of this approach depends on the existence of a CTL response against the tumor once those defenses are removed. Some patients’ immune systems do not recognize the tumor and therefore do not generate CTLs necessary to kill the tumor. If cancer immunotherapy is to become a therapy of choice, we believe each patient will need a strong engine to generate tumor-specific CTLs and the ability to neutralize or overcome any suppressive mechanism that a tumor may create to fend off the CTLs.

Creating and Expanding an Immune Response: Ex Vivo Modalities

Engineered CD8 T Cells - In these approaches, naïve resting CD8 T lymphocytes are isolated from the blood of cancer patients, manipulated in the laboratory and infused back into the patient. These approaches have produced potent anti-tumor responses, but are hampered by the risk of severe toxicity, limited scope of antigen recognition and cumbersome ex vivo procedures.

Dendritic Cell Vaccines - This ex vivo group of approaches involves isolating DCs from the blood of cancer patients, activating them in the laboratory and administering them to the patient with the hope that the DCs will trigger an immune response against tumor cells. Although this approach has resulted in one FDA approved product, its manufacturing and handling are cumbersome.

Creating and Expanding an Immune Response: In Vivo Modalities

Protein Vaccines - Many historical protein vaccine approaches rely on injecting either full-length or fragments of a tumor antigen protein into a cancer patient. These methods have often elicited an insufficient immune response. Full-length proteins are preferable to fragments, but full-length proteins may also require a second agent, called an immune adjuvant, to elicit a sufficient immune response. Adjuvants are designed to generate a better immune response but are historically non-specific and only marginally immunogenic. Importantly, this approach triggers an immune response characterized by antigen-specific antibodies and CD4 T cells, but not CTLs that are essential for killing cancer cells.

Oncolytic Viruses - Oncolytic viruses are rapidly and aggressively replicating viruses that, when injected intratumorally in accessible tumors such as melanoma skin lesions, preferentially lyse tumor cells instead of normal host cells. This lysis releases endogenous tumor antigens from the dying tumor cells, which may activate surrounding DCs that absorb the released antigens and trigger a broad immune response against a large number of tumor antigens. This approach holds promise but based on clinical trials conducted by third parties, may require combination with another modality to reach appropriate efficacy.

Delivery of Genomic Tumor Antigens - We believe delivering tumor antigens in their genomic form via viral vectors is the best way to generate CTLs if the DC can capture the vector and process the genomic information efficiently. The evolving neoantigen field could benefit from this form of delivery if the epitopes of interest are transported by a vector appropriately designed to trigger a maximum CTL response. However, vectors used to date have had significant limitations:

- some of these vectors are replicative, meaning that they act like a live virus that infects a large variety of non-DC cells, causing disease;
- patients with previous exposure to the virus from which the vector was derived may have neutralizing antibodies; and
- none of these vectors were designed to selectively target and work effectively inside of DCs.

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ZVex is designed to overcome these limitations of other viral vectors, while taking advantage of the superior CTL-generating property of this approach.

Modifying the Tumor Microenvironment. Histologically, tumors can be distinguished in those which have no, or only low, pre-existing infiltration of immune cells, so-called “cold” tumors, from those with high infiltration, or “hot” tumors. We believe that preclinical and clinical studies using various immuno-oncology approaches such as immune checkpoint inhibitors and/or passively transferred T cells have shown that hot tumors respond generally better to therapy. We believe the reason is that an ongoing local immune response in the tumor leads to antigen presentation, induction of immune responses and attraction of CD8 T cells into the tumor bed due to the production of certain soluble mediators known as chemokines. A principle aim of immuno-oncology should therefore be to modulate the tumor microenvironment, or TME, induce inflammation and render cold tumors hot. This can be achieved by direct intratumoral injection of agents that stimulate the innate immune response, such as agonists of toll-like receptors that are present on immune cells, such as TLR4. G100 is a potent stimulator of TLR4, and we have presented data showing G100-induced beneficial changes in the TME.

The Immune Design Difference

We believe there has been a shift in the immuno-oncology paradigm due to a better understanding of why previous immunotherapy approaches have failed to trigger an effective anti-tumor immune response. We have focused on designing and developing cutting-edge discovery platforms and product strategies for effective cancer immunotherapies that take into consideration the limitations of other approaches.

Our novel in vivo cancer immunotherapies are designed for superior generation and expansion of CTLs to kill tumors. We believe a robust set of CTLs may, by itself or in combination with other therapies, lead to a meaningful clinical benefit for cancer patients. In the development of our discovery platforms and product candidates, we have considered not only historical weaknesses in different modalities, but also areas for improvement in light of more recent therapeutic approaches.

The Difference in Discovery

ZVex is a vector system partially derived from a lentivirus that is used to transfer the genetic information of foreign antigens to DCs in vivo in order to induce a tumor antigen-specific CTL response. ZVex has a variety of features to increase its safety and efficacy. We believe ZVex is superior to other lentiviral approaches and previous efforts attempting to deliver foreign genetic information to generate an immune response for the following reasons:

- Selectivity for dendritic cells, by design. DCs are the best immune cells to generate the maximum CTL response when loaded with a foreign antigen. Lentiviruses, the backbone of ZVex, are known to be highly functional in DCs. We have engineered selectivity into our vector by coating the lentiviral particle with an envelope of another virus called Sindbis. Sindbis is naturally selective for a receptor only found on DCs, called DC-SIGN. As a result, our vectors will only bind to DCs, significantly reducing the risk of interacting with non-DCs. We believe that vectors being used by others in clinical trials lack this selectivity.
- Capacity for substantial genetic payload. Our ZVex vector contains sufficient space for multiple antigens or selected epitopes of neoantigens. As our preclinical data have shown, ZVex-based therapies should provide for the concomitant expression of multiple full-length antigens, neoantigen epitopes, or of tumor antigens and an immune stimulatory molecule such as a single-chain checkpoint inhibitor antibody.
- No prior immunity to ZVex. Because of the rarity of the Sindbis virus, humans in developed countries should have a low prevalence of immunity against it. This lack of pre-existing immunity allows for multiple administrations of ZVex products, increasing the likelihood of a greater therapeutic benefit. This addresses one of the problems observed with other vectors, where a high level of antibodies against such vectors exist broadly in the population.
- Integration deficiency. Lentiviruses are known for their natural capability to integrate within the genome of their host cell, notably DCs. However, we have engineered the vector to make it integration-deficient and thereby safer for patients. By making changes in the molecular sequence of the lentiviral vector, including the deletion of more HIV-specific sequences from its genome than comparable lentiviral vectors and making functional changes in the enzyme that carries out integration, the capacity of the vector to integrate its genetic material into that of the host cell is reduced approximately 1,000-fold from that of lentiviruses that are currently being used in the clinic. To our knowledge, the ZVex platform is the only integration-deficient lentiviral vector platform being developed for

oncology indications.

- Platform to generate product candidates for multiple indications. Each ZVex vector combined with the genetic payload of choice results in a distinct product candidate that can target different diseases. Although we are leveraging

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NY-ESO-1 as our initial tumor antigen, subsequent product candidates may contain the RNA for multiple antigens, as in the case of CA21, or neoantigen epitopes and checkpoint inhibitors. We believe these future product candidates would target a completely different set of tumors.

- Potential for multiple vector platforms. ZVex is designed to deliver its payload to a specific type of DC. However, we can alter the cells targeted by our vectors to enable interaction with cells other than just DCs by using alternative envelopes, creating the potential for platforms beyond ZVex.

We have generated a significant amount of in vitro and in vivo preclinical data to support ZVex, and clinical data released from both the LV305 and CMB305 monotherapy and CMB305 combination trials show a consistently favorable safety profile and immune response rate, as well as an improved clinical benefit profile in the form of an emerging OS signal.

GLAAS is based on a fully synthetic molecule similar to lipid A, called GLA, which is short for glucopyranosyl lipid A. Lipid A is a natural substance that occurs in the cell wall of certain bacteria and has strong immune-stimulating properties because of its interaction with TLR4. DCs are the most potent antigen-presenting cells and have TLR4 receptors on their surface, the activation of which has several important aspects:

- a strong immune response whereby DCs are activated and can express antigens, as well as secrete a number of inflammatory cytokines that lead to the activation of immune cells, in particular naive CD4 and CD8 T cells;
- overcoming the immunosuppressive tumor microenvironment by activating DCs, T cells and natural killer cells;
- when accompanied by an antigen in protein form, generation of a strong, antigen-specific adaptive immune response characterized by Th 1-type CD4 T cells; and
- reversal of an allergic immune response to a state of attenuated immune reactivity towards the allergen.

We own or control rights to multiple formulations of GLA. In addition, in December 2015, we obtained certain rights, including in all oncology indications, to another synthetic TLR4 agonist referred to as SLA. The combination of a selected antigen with a formulation of choice makes GLAAS a potentially broad platform for a wide range of therapeutic applications.

In addition, we are working to develop a third platform based on self-replicating RNA. Given the plans for CA21 and potential additional therapies that will be multi-antigen targeting, we believe having an RNA (or other) flexible technology will provide preferable manufacturing process and associated cost of goods.

The Difference of Our Immuno-Oncology Product Candidates

We have designed our product candidates to be different from current and traditional immuno-oncology products in the following ways:

Focus on CTLs - Earlier therapeutic efforts to generate an immune response against a tumor antigen either did not directly focus on CTL generation or used sub-optimal mechanisms. We are focused on directly generating a robust initial CTL population as well as memory CTLs, which are important for long-term immune surveillance. If CTL generation and expansion can be complemented by other mechanisms, such as the induction of CD4 T cells as part of the same immune response against the tumor, we expect the specific CTL response to be more robust.

Select and Administer Tumor Antigens Effectively - An increasing number of tumor antigens have been identified in recent years, and some have been validated as targets for active immunotherapy by balancing their expression in tumor cells versus healthy tissues. In addition, the emerging neoantigen field is expected to investigate the potential of patient-specific epitopes to generate an immune response either alone in or combination with conserved antigens. If the goal of the therapy is to generate the maximum CTL response, the antigen(s) or epitopes should be delivered in the form of DNA or RNA exclusively to DCs so the DC can express the full-length protein and present the peptide fragments to CD8 T lymphocytes. However, if CD4 T cell and antibody production is the goal, delivering an already expressed protein should be effective. Moreover, complementing the administered protein antigen with a molecular adjuvant such as the TLR4 agonist in GLAAS should enhance its immunogenicity.

Administer the Therapy In Vivo - We believe a product that can be used safely when delivered in vivo via simple injection will be preferable to the cumbersome processes involved with ex vivo manipulation of immune cells. Moreover, all ex vivo approaches are highly customized to each patient, whereas in vivo approaches with conserved antigens (either alone or with immune-stimulatory molecules) can be applicable to a large number of patients.

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Implement a Prime-Boost Strategy - While a CTL-generating product can be sufficient alone, combining it with other immune drivers using a heterologous prime-boost can enhance CTL generation and trigger other mechanisms to augment the immune response. Heterologous prime-boost regimens have to date been mainly explored in the field of HIV vaccines, where they were shown to increase and broaden both T cell and antibody responses. We have evidence from several preclinical experiments that the administration of an antigen-specific ZVex vector when followed by, or in some cases preceded by, administration of the same recombinant protein with GLAAS, results in dramatically enhanced CD8 T cell responses. In addition, in February 2016, we disclosed that data from a completed first-in-human dose-escalation study and from a subset of patients in the expansion study of CMB305 showed that patients who did respond immunologically had a greater degree of antigen-specific T cell response than that previously reported in the Phase 1 study of LV305 alone, which is consistent with the rationale of the prime-boost approach.

Leverage Combination Therapies - It is our view that the future of immuno-oncology treatment is combination therapy, and we have designed our approaches to potentially combine with each other and multiple other external immuno-oncology mechanisms. Based on clinical trials in limited tumor types conducted to date, we believe that many, if not most, patients are immunologically tolerant to the tumor and lack an immune response. Therefore, these patients will receive little or no clinical benefit from checkpoint inhibitors unless a strong immune response is triggered. We therefore believe the combination of a CTL-generating approach with a checkpoint inhibitor is likely to provide significant therapeutic benefit, and have an ongoing randomized Phase 2 study combining CMB305 with the checkpoint inhibitor Tecentriq (atezolizumab).

Cause Antigen Spreading - Tumor destruction mediated by a strong CTL response against one tumor antigen can release other antigens present in the tumor cell. DCs then consume these new antigens, leading to additional immune responses. We believe a GLAAS product candidate will boost this second wave of CTLs generated against multiple distinct tumor antigens not present in the initial therapy, thereby enhancing the breadth of the immune response. This process is termed “antigen spreading” and is associated with increased efficacy of the immunotherapy. We anticipate potential antigen spreading to occur in both our heterologous prime-boost and Intratumoral Immune Activation approaches in patients.

Therapeutic Applications Outside Oncology

Although immuno-oncology development is robust with therapies for an estimated 10 liquid and 18 solid tumors in development and with a market for immuno-oncology therapies projected to approach $35 billion by 2023, the broader market for immunotherapy applications also includes infectious and allergic diseases. The worldwide infectious diseases vaccine market garnered approximately $30 billion in sales in 2014 and the market for allergy therapies and diagnostics is projected to reach $41 billion by 2022. Beyond oncology, we believe our technologies offer several promising applications in the fields of infectious and allergic diseases. We have been executing on our strategy to partner the use of our GLAAS platform in individual indications outside of oncology in infectious and allergic diseases, which provide potential downstream revenue while preserving growth opportunity in the future.

Infectious Diseases

Historically, antigens have been used with sub-optimal immune adjuvants and have mainly focused on generating antibodies, which have been limited by low affinity and a narrow spectrum of activity. We believe using GLA, a novel molecular adjuvant, combined with infectious disease antigens will boost pre-existing T cells and trigger a broad antibody response, allowing for diverse antigen recognition. The results of these trials that we have reviewed to date support the finding of increased magnitude and breadth of the antibody response.

We have a preclinical vaccine product candidate called G103 to treat herpes simplex virus type 2, or HSV2. G103 consists of several recombinantly expressed proteins adjuvanted with a specific formulation of GLA. In October 2014, we announced a collaboration with Sanofi Pasteur, the vaccines division of Sanofi, to develop G103 along with additional assets contributed by us and Sanofi Pasteur. In addition to the G103 program, we have granted licenses under the GLAAS platform to partners developing a range of infectious disease vaccines, including licenses to MedImmune LLC in the field of respiratory syncytial virus and in a second, undisclosed indication.

Allergic Diseases

We believe allergic diseases represent an exciting area for the application of GLAAS. Allergies to pollen or food often occur because of aberrant immune reactions, which are characterized by helper T cells producing signals that induce

other immune cells to cause the allergy symptoms. We have a large set of preclinical data demonstrating that certain formulations of GLAAS, when given prophylactically or therapeutically with or without the allergen, can shift the responses in a way that results in significant protection from allergy symptoms. In essence, the immune system can be taught to redirect the T cells to respond in better ways. In August 2014, we announced a licensing agreement with Sanofi pursuant to which we granted

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Sanofi the right to use the GLAAS platform to develop therapeutic agents to treat peanut allergies. Sanofi has commenced Phase 1 clinical trials under this agreement applying our GLAAS platform with its novel therapeutic candidate.

Manufacturing

Overview

We are continuing to establish manufacturing processes and supply agreements for all of the components used in our product candidates to support ongoing and planned clinical trials. These include the components for LV305, bulk and formulated GLA for CMB305 and G100 and the NY-ESO-1 protein antigen in CMB305. We rely on third-party contract manufacturing organizations, or CMOs, to produce our product candidates for clinical use and currently do not own or operate manufacturing facilities. We require that our CMOs produce bulk drug substances and finished drug products used in our clinical trials in accordance with current Good Manufacturing Practices, or cGMPs, and all other applicable laws and regulations. We may continue to rely on CMOs to develop and manufacture our products for commercial sale. We maintain agreements with our CMOs that include confidentiality and intellectual property provisions to protect our proprietary rights related to our product candidates and manufacturing processes.

ZVex Product Candidates

We have contracts with third-party manufacturers to produce the vector, final drug product and fill-finish for LV305. Release and stability testing is done through a combination of in-house testing and contractual agreements with our CMOs.

GLAAS Product Candidates

Manufacturing for the GLAAS platform generally encompasses the synthesis of bulk GLA, its formulations and the fill-finish of formulated GLA. We have established a supply chain for bulk GLA and two types of formulated GLA: stable emulsion, also called GLA-SE, and aqueous formulation, also called GLA-AF.

Our synthetic process for the manufacture of bulk GLA is a trade secret, and we retain control and ownership of this process. Our CMOs also perform release and stability testing on the bulk GLA. The scale of the GLA synthetic manufacturing process is adequate to support commercial production for our product candidates.

We have also contracted with a CMO to formulate and fill-finish our GLA-SE drug product. We have manufactured multiple lots in support of Phase 1 and 2 clinical trials. The formulation process utilizes technology that is readily scalable to support commercial manufacturing of our product candidates and to supply our licensees. Release and stability testing on the GLA-SE drug product is contracted to several CMOs.

Intellectual Property

Overview

Our intellectual property strategy is to protect our technologies by filing multiple patent applications and obtaining patent rights both in the United States and in foreign countries that we consider important to our current and future business. In addition, we have acquired and will seek to acquire, as needed or desired, intellectual property rights of others through assignment or license to complement and enhance our portfolio of patent rights. We also rely upon trade secrets, know-how and continuing technological innovations to develop and maintain our competitive position.

Patents

ZVex

We are the owner or exclusive licensee to proprietary patent positions related to our ZVex platform. Our patent portfolio includes a patent family licensed from the California Institute of Technology, or Caltech, and is directed to our dendritic cell targeting lentiviral vector platform technology. This patent family includes patents granted domestically and in Europe, Australia, China, Japan, India and South Africa and has granted claims that include composition of matter claims to our lentiviral vector and packaging cells as well as methods of using our lentiviral vector to elicit an immune response against a target antigen of interest and methods of preparing our lentiviral vector.

Our patent portfolio also includes three patent families solely owned by us, directed to improvements to the lentiviral vector, methods of making the lentiviral vector and our next generation lentiviral vector, with patents granted domestically and in various countries including in Europe, China, Japan, South Korea, Australia and New Zealand. The granted patents include

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composition of matter claims to our lentiviral vector, a lentiviral vector packaging system, methods of using our lentiviral vectors to induce an immune response to an antigen and methods of making lentiviral vector particles.
We exclusively license one patent family from the University of North Carolina at Chapel Hill, or UNC Chapel Hill, directed to a specific component of our lentiviral vectors, with patents granted domestically, in Europe and in Japan and patent applications pending in the United States, Europe and Japan.
Together, we own or license eleven issued U.S. patents, thirty granted foreign patents and numerous pending U.S. and foreign patent applications related to our ZVex platform. We also own a granted patent in the U.S., six granted foreign patents and pending domestic and foreign patent applications directed to methods of using our lentiviral vectors in combination with our GLAAS platform.
Granted patents directed to our lentiviral vectors have expiration dates ranging from 2027 to 2032, not giving effect to any potential extensions and assuming payment of all appropriate maintenance, renewal, annuity or other governmental fees. The 20-year projected expiration dates for our pending patent applications range from 2027 to 2037, not giving effect to any potential extensions and assuming payment of all associated fees.
GLAAS
We license exclusive rights to four granted U.S. patents and several granted foreign patents from the Infectious Disease Research Institute, or IDRI, directed to antigen-containing vaccine formulations containing GLA, medical uses of the formulations to generate antigen-specific immune response for cancer, infectious disease and autoimmune disease antigens and medical uses for generating an immune response by administering pharmaceutical compositions containing GLA. The license rights from IDRI include patents in the United States, Europe, Australia, China, Japan, India and Hong Kong. We own two granted U.S. patents and own or license numerous additional pending domestic and foreign patent applications directed to our GLAAS platform. Key patents and pending applications in our portfolio are directed to vaccine compositions and uses of compositions containing GLA in a variety of disease indications including cancer, infectious diseases and allergy. We also own a granted U.S. patent, five foreign patents and pending domestic and foreign patent applications directed to G103.
Our granted patents directed to the GLAAS platform will expire in 2027, with one U.S. patent that will expire in early 2028 due to patent term adjustment, not giving effect to any potential extensions and assuming payment of all appropriate maintenance, renewal, annuity or other governmental fees. The 20-year projected expiration dates for our pending patent applications range from 2027 to 2035, not giving effect to any potential extensions and assuming payment of all associated fees.
We require employees, consultants, advisors and collaborators to enter into agreements with appropriate confidentiality and intellectual property provisions standard for the industry.
Licensing Agreements
We have in-licensed both exclusive and non-exclusive intellectual property rights related to our discovery platform technologies, including the following:
Exclusive License Agreement with Caltech
In January 2009, we entered into an exclusive license agreement with Caltech, pursuant to which we obtained a worldwide, exclusive license under certain patent rights directed to the production of dendritic cell-targeted therapeutic and prophylactic immunization strategies, with the right to sublicense. In September 2009, we exercised an option to expand the field of use to include human cancer applications. Additionally, we have a non-exclusive, sub-licensable worldwide license to unpatented know-how related to the licensed patents. Under the license agreement, we are obligated to use diligent commercial efforts to develop and commercialize licensed products and to make them available to the developing world.
In partial consideration for the patent rights licensed to us under the license agreement, we issued shares of our common stock to Caltech. We are obligated to pay Caltech a low single-digit percentage royalty on net sales of licensed products, subject to a non-material annual minimum, as well as a mid single-digit to low double-digit percentage share of any payments that we receive from sub-licensees, which percentage depends on the stage of development when the sublicense was granted. We are also obligated to pay Caltech up to an aggregate of $1.5 million in additional payments based on the achievement of certain development and regulatory milestones. Our royalty obligations continue for the life of the relevant licensed patent rights. Currently, we expect that the

last-to-expire licensed patent in the United States will expire in 2027.

Our license agreement with Caltech will remain in effect until the later of the expiration of the last-to-expire licensed patent rights or the end of our payment obligations under the license agreement. Either party may terminate the license agreement in the event of the other party's uncured material breach or certain insolvency events.

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Exclusive License Agreement with UNC Chapel Hill

In January 2013, we entered into a license agreement with UNC Chapel Hill, pursuant to which we obtained a worldwide, sub-licensable, non-exclusive license to certain modified retroviral vectors, including a license under all patent rights owned or controlled by UNC Chapel Hill covering such vectors. In January 2015, we exercised an option to obtain an exclusive license under these patent rights. Under the license agreement, we are obligated to use commercially reasonable efforts to diligently pursue the development and commercialization of licensed products, and we are required to meet certain performance milestones relating to the development of licensed products.

We will owe UNC Chapel Hill one or more non-material milestone payments upon the occurrence of certain events relating to the development or regulatory approval of licensed products. We are also obligated to pay UNC Chapel Hill non-material annual renewal fees, a low double-digit percentage share of any payments that we receive from sub-licensees, and a low single-digit royalty on net sales of licensed products by us or our sub-licensees. Our royalty obligations continue for the life of the licensed patent rights, on a product-by-product and country-by-country basis, and in any event will cease upon termination or expiration of the license agreement. Currently, we expect that the last-to-expire licensed patent in the United States will expire in 2028.

Our license agreement with UNC Chapel Hill will expire upon the expiration of the last-to-expire licensed patent rights, or, if no patents issue from the licensed patent rights, in January 2028. We may terminate the license agreement at any time upon advance written notice to UNC Chapel Hill. UNC Chapel Hill may terminate the license agreement in the event of our uncured material breach or if we become insolvent, and either party may terminate the license agreement for uncured fraud, willful misconduct, or illegal conduct of the other party.

License Agreement with TheraVectys SA

In October 2016, we entered into a license agreement with TheraVectys SA, or TVS, pursuant to which we received a field limited, non-exclusive, sublicensable license for oncology uses to certain current and future intellectual property rights owned, controlled and licensed by TVS relating to lentiviral vector technologies. The license agreement was entered into simultaneously with a settlement agreement resolving litigation brought by TVS against us related to our use of a third party contract manufacturing organization, Henogen, for the manufacture of our LV305 product candidate. We resolved the TVS allegations pursuant to the settlement agreement, and we additionally received certain present and future intellectual property rights under the license agreement, including, among other things, a sublicense to certain patent rights licensed by TVS from the Institut Pasteur.

We will owe TVS milestone payments based on the achievement of certain development and regulatory milestones for each licensed product, in the aggregate amount of up to $5.8 million, except that the first two milestones payments are waived for CMB305/LV305. In addition, we will be obligated to pay a single commercial milestone payment for each product that achieves a specified net sales amount. We will owe royalties to TVS on product sales that are made directly by us or our affiliates, subject to certain royalty-offset provisions. For the first four products, including LV305/CMB305, royalties will be based on a low-single digit percentage of net sales, and for subsequent products, tiered royalties will be based on low-to-mid-single digit percentages of net sales. TVS will also receive a mid-single digit percentage of revenues that we receive for sublicensing the licensed intellectual property.

The term of the license agreement expires upon the last to expire valid patent claim that is licensed to us. The license agreement may also be terminated by either party for customary reasons, such as an uncured material breach by the other party, or the other party’s insolvency. We may terminate the license agreement upon thirty days’ prior written notice to TVS.

Second Amended and Restated License Agreement with the Infectious Disease Research Institute

In December 2015, we entered into a second amended and restated license agreement with IDRI, pursuant to which we license certain patent rights, know-how and technologies relating to our GLAAS discovery platform, including products and formulations containing GLA and another synthetic TLR4 agonist referred to as SLA. The original license agreement with IDRI was entered into in July 2008, and the first restated agreement was entered into with IDRI in November 2010. We also entered into a separate agreement with IDRI in November 2015 to license a related patent in the field of cancer. The patent rights licensed from IDRI are directed to GLA and SLA, compositions and formulations that include these molecules, and methods of using these compositions to elicit or enhance an immune response. The licensed patent rights cover all of our GLAAS platform products in clinical development. Under the

license agreement, we generally obtained an exclusive license in the fields of oncology, allergy, addiction and select infectious disease indications, which vary depending on the licensed GLA or SLA product. In addition, we have an option to obtain additional exclusive licenses in select infectious disease indications for GLA and SLA products. IDRI has retained exclusive rights with respect to infectious diseases and other indications not licensed to us. Under the license agreement, we are obligated to use commercially reasonable efforts to develop and commercialize

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licensed products to which we have exclusive rights. We and IDRI are not permitted to sell or transfer GLA or SLA outside our respective exclusive fields.

For the year ended December 31, 2017, we recognized no IDRI license-related milestone fees. For the years ended December 31, 2016 and 2015, we paid IDRI $925,000 and $2.9 million, respectively, in upfront and annual fees, milestone fees, sublicensing fees and financial support of continuing research on GLA, and issued shares of our common stock to IDRI. We are obligated to pay IDRI in aggregate up to $2.3 million and $1.3 million, respectively, in additional payments for the first and each subsequent exclusive licensed product we develop, and $1.3 million and $625,000, respectively, for the first and each subsequent non-exclusive licensed product we develop based on the achievement of certain developmental and regulatory milestones. We are obligated to pay IDRI a low single-digit royalty on net sales of licensed products that varies according to the product and indication, as well as a percentage share of any payments that we receive from sub-licensees, ranging from the low double-digits to the middle single-digits. Our royalty obligations continue for the life of the relevant licensed patents or 12 years after the first commercial sale of a licensed product, whichever is longer. Currently, we expect that the last-to-expire licensed patent in the United States will expire in 2028 with respect to GLA products and 2032 with respect to SLA products.

Our license agreement with IDRI will remain in effect until the expiration of our payment obligations under the license agreement. We may terminate the license agreement at any time with advance written notice. IDRI may terminate the license agreement if we challenge any of the licensed patents. Either party may terminate the license agreement for the other party’s uncured material breach or upon certain insolvency events.

License and Collaboration Agreements

Exclusive License Agreement with Sanofi

In August 2014, we granted Sanofi an exclusive license to use the GLAAS platform to discover, develop and commercialize products to treat peanut allergy. We recognized no milestone revenue under this agreement for the year ended December 31, 2017, and $7.0 million and $1.0 million in milestone revenue under this agreement for the years ended December 31, 2016 and 2015, respectively. The agreement provides for additional payments of up to $160.0 million based upon the attainment of certain development and commercialization milestones and tiered royalties on sales of approved products.

Collaboration Agreement with Sanofi Pasteur

In October 2014, we entered into a collaboration for the development of a herpes simplex virus, or HSV, immune therapy with Sanofi Pasteur, the vaccines division of Sanofi. We and Sanofi Pasteur are each contributing product candidates to the collaboration: Sanofi Pasteur is contributing HSV-529, a clinical-stage, replication-defective HSV vaccine product candidate, and we contribute G103, our preclinical trivalent vaccine product candidate. The collaboration will explore the potential of various combinations of agents, including leveraging our GLAAS platform, with the goal to select the best potential immune therapy for patients. We will develop the products jointly through Phase 2 clinical trials, at which point Sanofi Pasteur intends to continue development of the most promising candidate and be responsible for commercialization. Sanofi Pasteur will bear the costs of all preclinical and clinical development, and we will provide a specific formulation of GLA from the GLAAS platform at our cost through Phase 2 studies. We are eligible to receive future milestone and royalty payments on any licensed product developed from the collaboration.

Exclusive License Agreements with MedImmune

We are parties to two separate license agreements with MedImmune LLC, or MedImmune, each dated October 2010, pursuant to which we granted MedImmune a worldwide, sub-licensable, exclusive license use GLA to develop and sell vaccines in two different infectious disease indications. Under the license agreements, MedImmune is obligated to use commercially reasonable efforts to develop and obtain regulatory approval for a licensed product in certain markets and to market and sell licensed products in any country where it obtains regulatory approval.

Under each license agreement, depending on the infectious disease indication, if certain development regulatory and commercial milestones are achieved, MedImmune is obligated to make additional aggregate payments of $62.9 million to $72.5 million. We recognized no revenue for the achievement of development milestones under one of these license agreements for the years ended December 31, 2017 and 2016, and $2.5 million in milestone revenue for the year ended December 31, 2015. MedImmune is also obligated to pay us a low double-digit percentage share of

non-royalty payments that it receives from sub-licensees and a mid single-digit royalty on net sales of licensed products, which royalty is subject to reduction under certain circumstances. Under our license agreement with IDRI, we are obligated to share with IDRI a percentage of payments received from third-party licensees, including MedImmune. MedImmune's royalty obligations will continue, on a country-by-country basis, for at least 10 years after the first commercial sale of the first licensed product in the applicable country and will continue

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on a country-by-country and product-by-product basis, for the life of the licensed patents that cover the sale of the applicable product in the applicable country.

In 2017, Medimmune published the results of its Phase 2b clinical trial assessing the efficacy of a vaccine for prevention of RSV-associated acute respiratory illness in older adults. The vaccine consisted of the RSV postfusion F protein with glucopyranosyl lipid A (GLA) in a stable emulsion. The trial did not meet its primary endpoint, and we do not expect MedImmune to continue development of this vaccine. According to the publication, even though the vaccine induced a significant immune response, which was enhanced by GLA as shown previously in a Phase 1 trial, the authors of the publication concluded that the postfusion F-based vaccine may not generate appropriate neutralizing antibodies to prevent RSV disease in older adults. Each of our license agreements with MedImmune will remain in effect until the later of October 2060 or the expiration of MedImmune's payment obligations. MedImmune may terminate any of the license agreements at any time with advance written notice. We or MedImmune may terminate any of the license agreements in case of the other party's uncured material breach or upon certain insolvency events.

Competition

The biotechnology and pharmaceutical industries are characterized by continuing technological advancement and significant competition. While we believe that our product candidates, technology, knowledge and experience provide us with competitive advantages, we face competition from established and emerging pharmaceutical and biotechnology companies, academic institutions, governmental agencies and public and private research institutions, among others. Any product candidates that we successfully develop and commercialize will compete with existing therapies and new therapies that may become available in the future. Key product features that would affect our ability to effectively compete with other therapeutics include the efficacy, safety and convenience of our product candidates. The availability of reimbursement from government and other third-party payors will also significantly affect the pricing and competitiveness of our product candidates. Our competitors may also obtain FDA or other regulatory approval for their product candidates more rapidly than we may obtain approval for ours, which could result in our competitors establishing a strong market position before we are able to enter the market.

Many of the companies against which we may compete have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products than we do. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. Mergers and acquisitions in the biotechnology and pharmaceutical industries may result in even more resources being concentrated among a smaller number of our competitors. These competitors also compete with us in recruiting and retaining qualified scientific and management personnel and establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or necessary for, our programs.

Government Regulation and Product Approval

In the United States, the FDA regulates our current product candidates as biological drug products, or biologics, under the Federal Food, Drug, and Cosmetic Act, or FDCA, the Public Health Service Act and related regulations. Biologics are also subject to other federal, state and local statutes and regulations. Failure to comply with the applicable United States regulatory requirements at any time during the product development process, approval process or after approval may subject an applicant to administrative or judicial actions. These actions could include the suspension or termination of clinical trials by the FDA or an Institutional Review Board, or IRB, the FDA's refusal to approve pending applications or supplements, revocation of a biologics license, warning letters, product recalls, product seizures, total or partial suspension of production or distribution, import detention, injunctions, civil penalties or criminal prosecution. Any administrative or judicial action could have a material adverse effect on us.

The FDA and comparable regulatory agencies in state and local jurisdictions and in foreign countries impose substantial requirements upon the clinical development, manufacture and marketing of biologics. These agencies and other federal, state and local entities regulate research and development activities and the testing, manufacture, quality control, safety, effectiveness, purity, potency, labeling, storage, distribution, record keeping and reporting, approval, import and export, advertising and promotion and post-market surveillance of our products.

The FDA's policies may change and additional government regulations may be enacted that could prevent or delay regulatory approval of any future product candidates or approval of product or manufacturing changes, new disease

indications, or label changes. We cannot predict the likelihood, nature or extent of adverse governmental regulation that might arise from future legislative or administrative action, either in the United States or abroad.

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Biologics Marketing Approval

The process required by the FDA before biologics may be marketed in the United States generally involves nonclinical laboratory and animal tests; submission of an IND application, which must become effective before clinical trials may begin; adequate and well-controlled human clinical trials to establish the safety, purity and potency of the proposed biologic for its intended use or uses; pre-approval inspection of manufacturing facilities and clinical trial sites; and FDA approval of a Biologics License Application, or BLA, which must occur before a biologic can be marketed or sold.

Before testing any compound in human subjects, a company must develop extensive preclinical data. Preclinical testing generally includes laboratory evaluation of product chemistry and formulation, as well as toxicological and pharmacological studies in several animal species to assess the quality and safety of the product. Animal studies must be performed in compliance with the FDA's Good Laboratory Practice, or GLP, regulations and the United States Department of Agriculture's Animal Welfare Act and related regulations.

Prior to commencing the first clinical trial in humans, an initial IND application must be submitted to the FDA. A company must submit preclinical testing results to the FDA as part of the IND, and the FDA must evaluate whether there is an adequate basis for testing the drug in humans. The IND automatically becomes effective 30 days after receipt by the FDA unless the FDA within the 30-day time period raises concerns or questions about the conduct of the clinical trial and places the trial on clinical hold. In such case, the IND application sponsor must resolve any outstanding concerns with the FDA before the clinical trial may begin. A separate submission to the existing IND must be made for each successive clinical trial to be conducted during product development. Further, an independent IRB for each site proposing to conduct the clinical trial must review and approve the protocol and informed consent for any clinical trial before it commences at that site. Informed consent must also be obtained from each study subject. Regulatory authorities, an IRB, a data safety monitoring board or the trial sponsor may suspend or terminate a clinical trial at any time on various grounds, including a finding that the participants are being exposed to an unacceptable health risk.

A study sponsor is also required to submit to NIH for public posting on NIH's clinical trial website, details about certain active clinical trials and clinical trial results. For purposes of developing product candidates for BLA approval, human clinical trials are typically conducted in phases that may overlap:

- Phase 1—the investigational biologic is initially given to healthy human subjects or patients and tested for safety, dosage tolerance, reactivity, absorption, metabolism, distribution and excretion. These studies may also gain early evidence on effectiveness. During Phase 1 clinical trials, sufficient information about the investigational products may be obtained to permit the design of well-controlled and scientifically valid Phase 2 clinical trials.
- Phase 2—studies are conducted in a limited number of patients in the target population to identify possible adverse effects and safety risks, to assess the efficacy of the investigational product for specific targeted diseases and to determine dosage tolerance and optimal dosage. Multiple Phase 2 clinical trials may be conducted by the sponsor to obtain information prior to beginning larger and more expensive Phase 3 clinical trials.
- Phase 3—when Phase 2 evaluations demonstrate that a dosage range of the investigational product may be effective and may have an acceptable safety profile, and provide sufficient information for the design of Phase 3 clinical trials, Phase 3 clinical trials are undertaken to provide statistically significant evidence of clinical efficacy and to further test for safety in an expanded patient population at multiple clinical trial sites. They are performed after preliminary evidence suggesting effectiveness of the drug has been obtained, and are intended to further evaluate dosage, effectiveness and safety, to establish the overall benefit-risk relationship of the investigational drug, and to provide an adequate basis for product approval by the FDA.

All of these trials must be conducted in accordance with Good Clinical Practice, or GCP, requirements in order for the data to be considered reliable for regulatory purposes.

The Biologic License Application Approval Process

In order to obtain approval to market a biologic in the United States, a BLA must be submitted to the FDA that provides data establishing to the FDA's satisfaction the safety and effectiveness of the investigational product for the proposed indication. Each BLA submission requires a substantial user fee payment unless a waiver or exemption applies. The application includes all relevant data available from pertinent nonclinical studies and clinical trials,

including negative or ambiguous results as well as positive findings, together with detailed information relating to the product's chemistry, manufacturing, controls and proposed labeling, among other things. Data can come from company-sponsored clinical trials intended to test the safety and effectiveness of a use of a product, or from a number of alternative sources, including studies initiated by investigators.

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The FDA will initially review the BLA for completeness before it accepts it for filing. Under the FDA's procedures, the agency has 60 days from its receipt of a BLA to determine whether the application will be accepted for filing based on the agency's threshold determination that the application is sufficiently complete to permit substantive review. After the BLA submission is accepted for filing, the FDA reviews the BLA to determine, among other things, whether the proposed product is safe, pure and potent, which includes determining whether it is effective for its intended use, and whether the product is being manufactured in accordance with cGMP, to assure and preserve the product's identity, strength, quality, potency and purity. The FDA may refer applications for novel products or products that present difficult questions of safety or efficacy to an advisory committee, typically a panel that includes clinicians and other experts, for review, evaluation and a recommendation as to whether the application should be approved and, if so, under what conditions. The FDA is not bound by the recommendations of an advisory committee, but it considers such recommendations carefully when making decisions.

During the approval process, the FDA also will determine whether a Risk Evaluation and Mitigation Strategy, or REMS, is necessary to assure that the benefits of the biologic outweighs the risks. A REMS may include various elements depending on what the FDA considers necessary for the safe use of the drug. These elements may range from a medication guide or patient package insert to training and certification requirements for prescribers and/or pharmacies to safe use conditions that must be in place before the drug is dispersed. If the FDA concludes that a REMS is needed, the BLA sponsor must submit a proposed REMS and the FDA will not approve the BLA without a REMS that the agency has determined is acceptable.

Certain applications for approval must include an assessment, generally based on clinical study data, of the safety and effectiveness of the subject drug or biological product in relevant pediatric populations. The FDA may waive or defer the requirement for a pediatric assessment, either at the Company's request or by the agency's initiative.

The Orphan Drug Act provides incentives for the development of drugs and biological products intended to treat rare diseases or conditions, which generally are diseases or conditions affecting less than 200,000 individuals in the United States. If a sponsor demonstrates that a drug or biologic is intended to treat a rare disease or condition, the FDA grants orphan drug designation to the product for that use. The benefits of orphan drug designation include research and development tax credits and exemption from user fees. A drug or biologic that is approved for the orphan designated indication is granted seven years of orphan drug exclusivity. During that period, the FDA generally may not approve any other application for the same product for the same indication, although there are exceptions, most notably when the later product is shown to be clinically superior to the product with exclusivity.

For investigational products that are intended to treat serious diseases, certain mechanisms may expedite the FDA approval process. For example, FDA may grant Priority Review designation for a product that could provide significant improvement in the treatment, diagnosis, or prevention of a serious condition. Priority Review sets the target date for FDA action on the application at six months from the FDA's filing of the BLA, rather than the standard 10 months. Priority review designation does not, however, change the scientific or medical standard for approval or the quality of evidence necessary to support approval. Another potential approach is Fast Track designation, which a sponsor can request at any time during the development process to facilitate development and expedite review of a product intended to treat a serious condition and fill an unmet medical need. Fast Track designation involves early and frequent communication between the FDA and the sponsor, which often leads to earlier approval. Breakthrough Therapy designation is another approach that is intended to expedite development and review of a product that is intended to treat a serious condition and where preliminary clinical evidence indicates that the product may demonstrate substantial improvement over available therapy on a clinically significant endpoint. Like Fast Track designation, Breakthrough Therapy designation provides a sponsor with the opportunity to obtain early and intensive guidance from FDA for an efficient drug development program.

After the FDA completes its initial review of a BLA, it will either communicate to the sponsor that it will approve the product, or issue a complete response letter to communicate that it will not approve the BLA in its current form and to inform the sponsor of changes that the sponsor must make or additional clinical, nonclinical or manufacturing data that must be received before the FDA can approve the application, with no implication regarding the ultimate approvability of the application. If a complete response letter is issued, the sponsor may either resubmit the BLA, addressing all of the deficiencies identified in the letter, or withdraw the application.

Before approving a BLA, the FDA will inspect the facilities at which the product is manufactured. The FDA will not approve the product unless it determines that the manufacturing processes and facilities are in compliance with cGMP requirements and are adequate to assure consistent production of the product within required specifications. Additionally, before approving a BLA, the FDA may inspect one or more clinical sites to assure compliance with GCP. If the FDA determines the application, manufacturing process or manufacturing facilities are not acceptable, it typically will outline the deficiencies and often will request additional testing or information. This may significantly delay further review of the application. If the FDA finds that a clinical site did not conduct the clinical trial in accordance with GCP, the FDA may determine that the data generated by the clinical site should be excluded from analyses provided in the BLA. Additionally, notwithstanding the submission of any

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requested additional information, the FDA ultimately may decide that the application does not satisfy the regulatory criteria for approval.

The testing and approval process for a biologic requires substantial time, effort and financial resources and this process may take several years to complete. Data obtained from clinical activities are not always conclusive and may be susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. The FDA may not grant approval on a timely basis, or at all. We may encounter difficulties or unanticipated costs in our efforts to secure necessary governmental approvals, which could delay or preclude us from marketing our products.

The FDA may require, or companies may pursue, additional clinical trials after a product is approved. These so-called Phase 4 clinical trials may be made a condition to be satisfied for continuing product approval. The results of Phase 4 clinical trials can confirm the effectiveness of a product candidate and can provide important safety information. Conversely, the results of Phase 4 clinical trials can raise new safety or efficacy issues that were not apparent during the original review of the product, which may result in product restrictions or even withdrawal of the product approval. In addition, the FDA has express statutory authority to require sponsors to conduct post-market studies or clinical trials to specifically address safety issues identified by the agency.

Even if a product candidate receives regulatory approval, the approval will be limited to specific disease states, patient populations and/or dosages, or might contain significant limitations on use in the form of warnings, precautions or contraindications, or in the form of a REMs, restrictions on distribution, or post-marketing study or trial requirements. Further, even after regulatory approval is obtained, later discovery of previously unknown problems with a product may result in restrictions on the product requirements to conduct additional studies or trials, or even complete withdrawal of the product from the market. In addition, we cannot predict what adverse governmental regulations may arise from future United States or foreign governmental action.

FDA Post-Approval Requirements

Any products manufactured or distributed by us or on our behalf pursuant to FDA approvals are subject to continuing regulation by the FDA, including requirements for record-keeping, reporting of adverse experiences with the biologic, submitting annual reports, and reporting biological product deviations. Manufacturers are required to register their facilities with the FDA and certain state agencies, and are subject to periodic inspections by the FDA and certain state agencies for compliance with cGMP standards, which impose certain quality processes, manufacturing controls and documentation requirements upon us and our third-party manufacturers in order to ensure that the product is safe, has the identity and strength, and meets the quality, purity and potency characteristics that it purports to have. We cannot be certain that we or our present or future suppliers will be able to comply with the cGMP and other FDA regulatory requirements. If our present or future suppliers are not able to comply with these requirements, the FDA may halt our clinical trials, refuse to approve any BLA or other application, force us to recall a drug from distribution, shut down manufacturing operations or withdraw approval of the BLA for that biologic. Noncompliance with cGMP or other requirements can result in issuance of warning letters, civil and criminal penalties, seizures, and injunctive action.

The FDA and other federal and state agencies closely regulate the labeling, marketing and promotion of biologics. While doctors may prescribe any product approved by the FDA for any use as long as consistent with any REMS restrictions, if applicable, a company can only make claims about a product that are consistent with its FDA approval, and the Company is allowed to market a drug only for the particular use approved by the FDA. In addition, any claims we make for our products in advertising or promotion must be appropriately balanced with important safety information and otherwise be adequately substantiated. Failure to comply with these requirements can result in adverse publicity, untitled or warning letters, corrective advertising requirements, injunctions, potential civil and criminal penalties, criminal prosecution, and agreements with governmental agencies that materially restrict the manner in which a company promotes or distributes drug products. Government regulators, including the Department of Justice and the Office of the Inspector General of the Department of Health and Human Services, or OIG, as well as state authorities, recently have increased their scrutiny of the promotion and marketing of drugs.

Finally, post-approval modifications to a licensed biological product, such as changes in indications, labeling, or manufacturing processes or facilities, may require a sponsor to develop additional data or conduct additional preclinical or clinical trials, to be submitted in a new or supplemental BLA, which would require FDA review and approval.

Biologics Price Competition and Innovation Act of 2009

The Biologics Price Competition and Innovation Act, or BPCIA, created a licensure framework for biosimilar products, or biosimiliars, which could ultimately subject our biological product candidates to competition from biosimiliars. Under the BPCIA, a manufacturer may submit an abbreviated application for licensure of a biologic that is “biosimilar to” an already

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licensed biologic, or reference product. This abbreviated approval pathway is intended to permit a biosimilar to come to market more quickly and less expensively, by relying to some extent on the FDA's previous review and approval of the reference biologic to which the proposed product is biosimilar.

Under the BPCIA, a biosimilar sponsor's ability to seek or obtain approval through the abbreviated pathway is limited by periods of exclusivity granted to the sponsor of the reference product. No biosimilar application may be accepted by the FDA for review until four years after the date of approval of the reference product, and no such application, once accepted, may receive final approval until 12 years after that same date. Once approved, biosimilar products likely would compete with, and in some circumstances may be deemed under the law to be "interchangeable with", the previously approved reference product.

FDA Regulation of Companion Diagnostics

As part of our clinical development plans, we are exploring the use of a companion diagnostic to identify patients most likely to respond to CMB305. Companion diagnostics are classified as medical devices under the FDCA in the United States. In the United States, the FDA regulates the medical device design and development, preclinical and clinical testing, premarket clearance or approval, registration and listing, manufacturing, labeling, storage, reporting, recordkeeping, advertising and promotion, export and import, sales and distribution, and post-market surveillance of medical devices. Unless an exemption applies, companion diagnostics require marketing clearance or approval from the FDA prior to commercial distribution. The two primary types of FDA marketing authorization applicable to a medical device are premarket notification, also called 510(k) clearance, and premarket approval, or PMA.

The FDA previously has required in vitro companion diagnostics intended to select the patients who will respond to the cancer treatment to obtain a PMA simultaneously with approval of the drug. Based on the draft guidance, and the FDA's past treatment of companion diagnostics, we believe that the FDA will require a PMA for one or more companion diagnostics to identify patient populations suitable for CMB305. The review of these companion diagnostics in conjunction with the review of our product candidates involves coordination of review by the FDA's Center for Drug Evaluation and Research and by the FDA's Center for Devices and Radiological Health.

Coverage and Reimbursement

In both domestic and foreign markets, sales of any product candidates for which we may receive regulatory approval will depend in part upon the availability of coverage and reimbursement from third-party payors. Such third-party payors include governmental healthcare programs, such as Medicare and Medicaid, private health insurers and managed care organizations and other entities. Coverage decisions may depend upon clinical and economic standards that disfavor new drug products when more established or lower cost therapeutic alternatives are already available or subsequently become available. Assuming coverage is granted, the reimbursement rates paid for covered products might not be adequate. Even if favorable coverage status and adequate reimbursement rates are attained, less favorable coverage policies and reimbursement rates may be implemented in the future. The marketability of any products for which we may receive regulatory approval for commercial sale may suffer if governmental healthcare programs and other third-party payors fail to provide coverage and adequate reimbursement to allow us to sell such products on a competitive and profitable basis. For example, under these circumstances, physicians may limit how much or under what circumstances they will prescribe or administer our product, and patients may decline to purchase such products. This, in turn, could affect our ability to successfully commercialize our products and impact our profitability, results of operations, financial condition, and future success.

The market for any product candidates for which we may receive regulatory approval will depend significantly on the degree to which these products are listed on third-party payors' drug formularies, or lists of medications for which third-party payors provide coverage and reimbursement. The industry competition to be included on such formularies often leads to downward pricing pressures on pharmaceutical companies. Also, third-party payors may refuse to include a particular branded drug on their formularies or otherwise restrict patient access to a branded drug when a less costly generic equivalent or other alternative is available. In addition, because each third-party payor individually establishes coverage and reimbursement policies, obtaining coverage and adequate reimbursement can be a time-consuming and costly process. We may be required to provide scientific and clinical support for the use of any product to each third-party payor separately with no assurance that approval will be obtained, and we may need to conduct expensive pharmacoeconomic studies in order to demonstrate the cost-effectiveness of our products. We

cannot be certain that our product candidates will be considered cost-effective by third-party payors. This process could delay the market acceptance of any product candidates for which we may receive approval and could have a negative effect on our future revenues and operating results.

Other Healthcare Laws

In the United States, the research, manufacturing, distribution, marketing, sale and promotion of drug products and medical devices are subject to numerous regulations by various federal, state and local authorities in addition to the FDA, including but

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not limited to, the U.S. Department of Health and Human Services, or HHS, and its various divisions, including but not limited to, the Centers for Medicare and Medicaid Services, or CMS. These regulations are enforced by various federal, state and local authorities, including but not limited to, the U.S. Department of Justice, state Attorneys General, state Medicaid Fraud Control Units, HHS' various enforcement divisions, including but not limited to, the Office of Inspector General, the Office for Human Research Protections, or OHRP, and the Office of Research Integrity and other state and local government agencies. Pricing and rebate programs must comply with the Medicaid Drug Rebate Program requirements of the Omnibus Budget Reconciliation Act of 1990 and the Veterans Health Care Act of 1992. If products are made available to authorized users of the Federal Supply Schedule of the General Services Administration, additional laws and requirements apply. All of these activities are also potentially subject to federal and state consumer protection and unfair competition laws.

We are subject to complex laws pertaining to healthcare "fraud and abuse," including, but not limited to, the federal Anti-Kickback Statute, the federal False Claims Act, the federal Physician Payments Sunshine Act and other state and federal laws.

The federal Anti-Kickback Statute prohibits, among other things, persons from knowingly and willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual for, or the purchase, lease, order or recommendation of, any good or service for which payment may be made under federal health care programs such as the Medicare and Medicaid programs. This statute has been interpreted to apply to arrangements between pharmaceutical manufacturers on the one hand and prescribers, purchasers and formulary managers on the other. Violations of the federal Anti-Kickback Statute are punishable by imprisonment, criminal fines, civil monetary penalties and exclusion from participation in federal healthcare programs. The federal Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 and subsequent legislation, or collectively, the Affordable Care Act, among other things, amends the intent requirement of the federal Anti-Kickback Statute. A person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it. In addition, the Affordable Care Act provides that the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the false claims statutes. There are a number of statutory exceptions and regulatory safe harbors protecting certain common activities from prosecution or other regulatory sanctions; however, the exceptions and safe harbors are drawn narrowly, and practices that do not fit squarely within an exception or safe harbor may be subject to scrutiny.

The federal civil and criminal false claims laws, including the federal False Claims Act, prohibit, among other things, any person from knowingly presenting, or causing to be presented, a false or fraudulent claim for payment, or knowingly making, or causing to be made, a false record or statement material to a false or fraudulent claim. Private "qui tam" actions may be brought by individual whistleblowers in the name of the government. Many pharmaceutical and other healthcare companies have faced investigations and private lawsuits and, in many cases, have agreed to significant and burdensome settlements under these laws for a variety of allegedly improper promotional and marketing activities, including inflating drug prices they report to pricing services, which in turn were used by the government to set Medicare and Medicaid reimbursement rates, and for allegedly providing free product to customers with the expectation that the customers would bill federal programs for the product. Federal False Claims Act violations may result in significant civil monetary penalties, including three times the damages incurred by the government from the violation. The majority of U.S. states also have statutes or regulations similar to the federal Anti-Kickback Statute and False Claims Act, which apply to items and services reimbursed under Medicaid and other state programs, and in some states, apply regardless of the payor. The federal False Statements Statute prohibits knowingly and willfully falsifying, concealing, or covering up a material fact or making any materially false, fictitious or fraudulent statement or representation, or making or using any false writing or document knowing the same to contain any materially false, fictitious or fraudulent statement or entry, in connection with the delivery of or payment for healthcare benefits, items, or services. The federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, imposes criminal liability for knowingly and willfully executing a scheme to defraud any healthcare benefit program, knowingly and willfully embezzling or stealing from a health care benefit program, willfully obstructing a criminal investigation of a health care offense, or knowingly and willfully making false statements relating to

healthcare matters. The civil monetary penalties statute imposes penalties against any person or entity that, among other things, is determined to have presented or caused to be presented a claim to a federal health program that the person knows or should know is for an item or service that was not provided as claimed or is false or fraudulent.

HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, and their implementing regulations, impose obligations on certain covered entity health care providers, health plans, and health care clearinghouses as well as their business associates that perform certain services involving the use or disclosure of individually identifiable health information, including mandatory contractual terms, with respect to safeguarding the privacy, security and transmission of individually identifiable health information.

The federal Physician Payments Sunshine Act, being implemented as the Open Payments Program, requires certain manufacturers of products for which payment is available under Medicare, Medicaid, or the Children's Health Insurance Program to track payments and other transfers of value to physicians and teaching hospitals, as well as physician ownership and

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investment interests, and to publicly report such data. Manufacturers subject to the Open Payments Program must submit a report on or before the 90th day of each calendar year disclosing reportable payments made in the previous calendar year. Failure to comply with the reporting obligations may result in civil monetary penalties.

Several states now require pharmaceutical companies to report expenses relating to the marketing and promotion of pharmaceutical products in those states and to report gifts and payments to individual health care providers in those states. Some of these states also prohibit certain marketing related activities including the provision of gifts, meals, or other items to certain health care providers. In addition, some states require pharmaceutical companies to implement compliance programs or marketing codes and have privacy laws that may be more stringent that HIPAA.

Because of the breadth of these laws and the narrowness of available statutory and regulatory exemptions, it is possible that some of our business activities could be subject to challenge under one or more of such laws. If our operations are found to be in violation of any of the federal or state laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including significant criminal and civil monetary penalties, damages, fines, individual imprisonment, exclusion from participation in government programs, injunctions, recall or seizure of products, total or partial suspension of production, denial or withdrawal of pre-marketing product approvals, additional reporting requirements and oversight if we become subject to a corporate integrity agreement or similar agreement to resolve allegations of non-compliance with these laws, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our results of operations.

To the extent that any of our products are sold in a foreign country, we may be subject to similar foreign laws and regulations, which may include, for instance, applicable post-marketing requirements, including safety surveillance, anti-fraud and abuse laws, and implementation of corporate compliance programs and reporting of payments or transfers of value to healthcare professionals.

The Affordable Care Act

The United States and some foreign jurisdictions are considering or have enacted a number of legislative and regulatory proposals to change the healthcare system in ways that could affect our ability to sell our product candidates profitably, even if they are approved for sale. Among policy makers and payors in the United States and elsewhere, there is significant interest in promoting changes in healthcare systems with the stated goals of containing healthcare costs, improving quality and/or expanding access. In the United States, the pharmaceutical and medical device industries have been a particular focus of these efforts and have been significantly affected by major legislative initiatives.

In March 2010, the Affordable Care Act was enacted, which includes measures that have or will significantly change health care delivery and financing by both governmental and private insurers. Among the provisions of the Affordable Care Act of importance to the pharmaceutical and medical device industries are the following:

- The Affordable Care Act increased the statutory minimum rebates a manufacturer must pay under the Medicaid Drug Rebate Program from 15.1% to 23.1% and from 11% to 13% of the average manufacturer price, or AMP, for most branded and generic drugs and biologic agents, respectively. The Affordable Care Act also added a rebate calculation for “line extensions” (i.e., new formulations, such as extended release formulations) of solid oral dosage forms of branded products and potentially impacted manufacturers’ Medicaid Drug Rebate liability by modifying the statutory definition of AMP. The Affordable Care Act also expanded manufacturers’ rebate liability under the Medicaid program from fee-for-service Medicaid utilization to include the utilization of Medicaid managed care organizations as well and by expanding the population potentially eligible for Medicaid drug benefits.
- On February 1, 2016, the Centers for Medicare and Medicaid Services, the federal agency that administers the Medicaid Drug Rebate Program, issued final regulations to implement the changes to the Medicaid Drug Rebate program under the Affordable Care Act. These regulations became effective on April 1, 2016.
- Federal law requires that any company that participates in the Medicaid rebate program also participate in the Public Health Service’s 340B drug pricing program in order for federal funds to be available for the manufacturer’s drugs under Medicaid and Medicare Part B. The 340B drug pricing program requires participating manufacturers to agree to charge statutorily-defined covered entities no more than the 340B “ceiling price” for the manufacturer’s covered outpatient drugs.
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The Affordable Care Act imposes a requirement on manufacturers of branded drugs and biologic agents to provide a 50% (and 70% commencing January 1, 2019) discount off the negotiated price of branded drugs dispensed to Medicare Part D patients in the coverage gap (i.e., “donut hole”) as a condition for the manufacturers’ outpatient drugs to be covered under Medicare Part D.

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- The Affordable Care Act imposes an annual, nondeductible fee on any entity that manufactures or imports certain branded prescription drugs and biologic agents, apportioned among these entities according to their market share in certain government healthcare programs, although this fee would not apply to sales of certain products approved exclusively for orphan indications. The Affordable Care Act expanded healthcare fraud and abuse laws, including the federal False Claims Act and the federal Anti-Kickback Statute, and added new government investigative powers, and enhanced penalties for noncompliance.
- The Affordable Care Act established the Physician Payments Sunshine Act (as referenced above), which requires pharmaceutical and medical device manufacturers to track and report annually certain financial arrangements with physicians and teaching hospitals, as defined in the Affordable Care Act and its implementing regulations, including reporting any "payments or other transfers of value" made or distributed to such entities, and it requires applicable manufacturers and applicable group purchasing organizations to report annually any ownership and investment interests held by physicians and certain other healthcare providers and their immediate family members by the 90th day of each calendar year.
- The Affordable Care Act added a new requirement to annually report drug samples that manufacturers and distributors provide to physicians.
- The Affordable Care Act created a licensure framework for follow on biologic products.
- New Patient-Centered Outcomes Research Institute was established pursuant to the Affordable Care Act to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research.
- The research conducted by the Patient-Centered Outcomes Research Institute may affect the market for certain pharmaceutical products.
- The Affordable Care Act established the Center for Medicare and Medicaid Innovation within CMS to test innovative payment and service delivery models to lower Medicare and Medicaid spending, potentially including prescription drug spending.

Since its enactment, there have been judicial and Congressional challenges to numerous aspects of the Affordable Care Act. For example, since January 2017, President Trump has signed two Executive Orders and other directives designed to delay the implementation of certain provisions of the Affordable Care Act and otherwise circumvent some of the requirements for health insurance mandated by the Affordable Care Act. Concurrently, Congress has considered legislation that would repeal or repeal and replace all or part of the Affordable Care Act. While Congress has not passed comprehensive repeal legislation, two bills affecting the implementation of certain taxes under the Affordable Care Act have been signed into law. The Tax Cuts and Jobs Act of 2017 includes a provision repealing, effective January 1, 2019, the tax-based shared responsibility payment imposed by the Affordable Care Act on certain individuals who fail to maintain qualifying health coverage for all or part of a year that is commonly referred to as the "individual mandate". Additionally, on January 22, 2018, President Trump signed a continuing resolution on appropriations for fiscal year 2018 that delayed the implementation of certain Affordable Care Act-mandated fees, including the so-called "Cadillac" tax on certain high cost employer-sponsored insurance plans, the annual fee imposed on certain health insurance providers based on market share, and the medical device excise tax on non-exempt medical devices. Further, the Bipartisan Budget Act of 2018, or the BBA, among other things, amends the Affordable Care Act, effective January 1, 2019, to close the coverage gap in most Medicare drug plans, commonly referred to as the "donut hole". Congress also could consider additional legislation to repeal or replace elements of the Affordable Care Act.

The U.S. Congress and state legislatures from time to time propose and adopt initiatives aimed at cost containment which could impact our ability to sell our products profitably. The Affordable Care Act contains a number of provisions that are expected to impact our business and operations, in some cases in ways we cannot currently predict. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability, or commercialize our products and impact our financial condition and results of operations.

Other Legislative Changes and Regulations

Other legislative changes have been proposed and adopted in the United States since the Affordable Care Act was enacted. For example, in August 2011, the Budget Control Act of 2011, among other things, created measures for

spending reductions by Congress. A Joint Select Committee on Deficit Reduction, tasked with recommending a targeted deficit reduction of at least $1.2 trillion for the years 2012 through 2021, was unable to reach required goals, thereby triggering the legislation's automatic reduction to several government programs. This includes aggregate reductions of Medicare payments to providers of up to 2% per fiscal year, which went into effect in April 2013, and due to subsequent legislative amendments to the statute, including the BBA, will remain in effect through 2027 unless additional Congressional action is taken. In January 2013, the American Taxpayer Relief Act of 2012, among other things, further reduced Medicare payments to several providers, including hospitals,

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imaging centers, and cancer treatment centers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. More recently, there has been increasing legislative and enforcement interest in the United States with respect to specialty drug pricing practices. Specifically, there have been several recent U.S. Congressional inquiries and proposed and enacted federal and state legislation designed to, among other things, bring more transparency to drug pricing, reduce the cost of prescription drugs under Medicare, review the relationship between pricing and manufacturer patient programs, and reform government program reimbursement methodologies for drugs.

We are also subject to numerous federal, state and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire hazard control, and disposal of hazardous or potentially hazardous substances. We may incur significant costs to comply with such laws and regulations now or in the future.

Corporate Information and Employees

We were incorporated in February 2008 in the State of Delaware. Our operations are headquartered in Seattle, Washington, and we have an additional facility in South San Francisco, California. Our principal executive offices are located at 1616 Eastlake Ave. E., Suite 310, Seattle, WA 98102, and our telephone number is (206) 682-0645. As of December 31, 2017, we had 55 full-time employees and 1 part-time employee. None of our employees are represented by labor unions or covered by collective bargaining agreements.

Available Information

Our website address is www.immunedesign.com. We make available on our website, free of charge, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or the SEC. Further, a copy of this Annual Report on Form 10-K is located at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D. C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements and other information regarding our filings at www.sec.gov. The information found on our website is not incorporated by reference into this Annual Report on Form 10-K or any other report we file with or furnish to the SEC.

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Item 1A. Risk Factors

This Annual Report on Form 10-K contains forward-looking information based on our current expectations. Because our business is subject to many risks and our actual results may differ materially from any forward-looking statements made by or on behalf of us, this section includes a discussion of important factors that could affect our business, operating results, financial condition and the trading price of our common stock. You should carefully consider these risk factors, together with all of the other information included in this Annual Report on Form 10-K as well as our other publicly available filings with the SEC.

Risks Related to Our Financial Position and Capital Needs

We have incurred net losses since our inception and anticipate that we will continue to incur net losses for the foreseeable future.

We are a clinical-stage biotechnology company with a limited operating history. Investment in biotechnology product development is highly speculative because it entails substantial upfront capital expenditures and significant risk that any potential product candidate will fail to demonstrate adequate efficacy or an acceptable safety profile, obtain regulatory approval or become commercially viable. We have no products approved for commercial sale and have generated only limited revenue to date. We continue to incur significant research and development and other expenses related to our ongoing operations. As a result, we are not and have never been profitable and have incurred losses in each period since our inception in 2008. For the years ended December 31, 2017, 2016 and 2015, we reported net losses of $51.9 million, $53.5 million and $39.4 million, respectively. As of December 31, 2017, we had an accumulated deficit of $235.8 million.

We expect to continue to incur significant losses for the foreseeable future, and we expect these losses to increase as we continue our research and development of, and seek regulatory approvals for, our product candidates. We may also encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may adversely affect our business. The size of our future net losses will depend, in part, on the rate of future growth of our expenses and our ability to generate revenues, if any. Our prior losses and expected future losses have had and will continue to have an adverse effect on our stockholders' equity and working capital.

We currently have limited revenues and may never achieve or maintain profitability.

To date, we have only generated limited revenues from collaboration and licensing agreements and the sale of products associated with material transfer, collaboration and GLA supply agreements and such revenues have not been sufficient to cover our operating expenses. Product sales to collaboration partners and collaboration service revenue will fluctuate from period to period based upon the timing and amount of product shipments and contract services performed during such periods. Our ability to generate significant product revenue and become profitable depends upon our ability to successfully commercialize our current product candidates or any other future product candidates. We do not anticipate generating revenue from the sale of our current or future product candidates for the foreseeable future. Our ability to generate significant product revenue from our current or future product candidates also depends on a number of additional factors, including but not limited to our ability to:

- successfully complete the research and clinical development of and receive regulatory approval for current and future product candidates, including those of our licensees for the use of GLA in specific indications;
- launch, commercialize and achieve market acceptance of our product candidates for which we obtain marketing approval, if any, and if launched independently, successfully establish a sales, marketing and distribution infrastructure;
- establish and maintain supplier and manufacturing relationships with third parties and ensure adequate and legally compliant manufacturing of bulk drug substances and drug products to maintain that supply;
- obtain coverage and adequate product reimbursement from third-party payors, including government payors;
- establish, maintain and protect our intellectual property rights; and
- attract, hire and retain qualified personnel.

In addition, because of the numerous risks and uncertainties associated with biotechnology product development, including that our product candidates may not achieve the clinical endpoints of applicable trials, we are unable to predict the timing or amount of increased expenses and if or when we will achieve or maintain profitability. In

addition, our expenses could increase beyond expectations if we decide to or are required by the FDA or foreign regulatory authorities to perform additional studies or trials in addition to those that we currently anticipate. Even if we complete the development and regulatory processes described above, we anticipate incurring significant costs associated with launching and commercializing these products.

Even if we generate revenues from the sale of any of our product candidates that may be approved, we may not become profitable and may need to obtain additional funding to continue operations. If we fail to become profitable or do not sustain

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profitability on a continuing basis, we may be unable to continue our operations at planned levels and be forced to reduce our operations or even shut down.

We will require additional capital to finance our operations, which may not be available to us on acceptable terms, if at all. As a result, we may not complete the development and commercialization of our product candidates or develop new product candidates.

Development of our product candidates will require substantial additional funds to conduct research, development and clinical trials necessary to bring such product candidates to market and to establish manufacturing, marketing and distribution capabilities. Our future capital requirements will depend on many factors, including, among others:

- the scope, rate of progress, results and costs of our clinical trials, preclinical studies and other research and development activities;
- the scope, rate of progress and costs of our manufacturing development and commercial manufacturing activities;
- the cost, timing and outcomes of regulatory proceedings, including FDA review of any BLA we file;
- payments required under our existing or future in-licensing agreements;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims;
- the costs associated with commercializing our product candidates, if they receive regulatory approval;
- the cost and timing of developing our ability to establish sales and marketing capabilities;
- the costs of current or future litigation judgments or settlements;
- competing technological efforts and market developments;
- changes in our existing research relationships;
- our ability to establish collaborative arrangements to the extent necessary;
- revenues received from any existing or future products; and
- payments received under any current or future strategic partnerships.

We anticipate that we will continue to generate significant losses for the next several years as we incur expenses to complete our clinical trial programs for our product candidates, build commercial capabilities, develop our product pipeline and expand our corporate infrastructure. We believe that our existing cash and cash equivalents will allow us to fund our operating plan for at least the next 12 months. However, our operating plan may change as a result of factors currently unknown to us.

There can be no assurance that our revenue and expense forecasts will prove to be accurate, and any change in the foregoing assumptions could require us to obtain additional financing earlier than anticipated. Actual research and development costs could substantially exceed budgeted amounts.

We may never be able to generate a sufficient amount of product revenue to cover our expenses. To finance our operations, we expect to seek additional funding through public or private equity or debt financings, collaborations or licenses, capital lease transactions or other available financing transactions. However, we cannot be certain that additional financing will be available on acceptable terms, if at all. Moreover, in the event that additional funds are obtained through arrangements with collaborative partners, such arrangements may require us to relinquish rights to certain of our technologies, product candidates or products that we would otherwise seek to develop or commercialize ourselves. Our failure to obtain adequate financing when needed and on acceptable terms could force us to delay, reduce the scope of or eliminate one or more of our research or development programs.

Raising additional capital may cause dilution to our existing stockholders, restrict our operations or require us to relinquish rights to our technologies.

Until we can generate a sufficient amount of revenue from our product candidates, if ever, we expect to finance future cash needs through public or private equity or debt offerings or from other sources. We have a shelf registration statement on Form S-3 (Registration No. 333-206324), which was declared effective by the SEC in December 2015 and allows us to sell up to an aggregate of $250 million of our common stock, including up to $50.0 million designated in the prospectus supplement we filed with the SEC in July 2017 for an ATM offering program. To date, we have issued an aggregate of approximately $125 million of our common stock pursuant to our shelf registration statement. Additional capital may not be available on reasonable terms, if at all. If we raise additional funds through the issuance of additional equity or debt securities, it could result in dilution to our existing stockholders and increased fixed payment obligations. Furthermore, these securities may have rights senior to those of our common stock and

could contain covenants that would restrict our operations and potentially impair our competitiveness, such as limitations on our ability to incur additional debt, limitations on our ability to acquire, sell or license

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intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business. Any of these restrictions could significantly harm our business, financial condition and prospects.

We plan to use potential future operating losses and our federal and state net operating loss, or NOL, carryforwards to offset taxable income from revenue generated from operations or corporate collaborations. However, our ability to use NOL carryforwards could be limited as a result of issuance of equity securities.

We plan to use our current year operating losses to offset taxable income from any revenue generated from operations or corporate collaborations. To the extent that our taxable income exceeds any current year operating losses, we plan to use our NOL carryforwards to offset income that would otherwise be taxable. However, under the Tax Reform Act of 1986, the amount of benefits from our NOL carryforwards may be impaired or limited if we incur a cumulative ownership change of more than 50%, as interpreted by the U.S. Internal Revenue Service, over a three-year period. As a result, our use of federal NOL carryforwards could be limited by the provisions of Section 382 of the U.S. Internal Revenue Code of 1986, as amended, depending upon the timing and amount of additional equity securities that we issue. In addition, we have not performed an analysis of limitations, and we may have experienced an ownership change under Section 382 as a result of past financings. State NOL carryforwards may be similarly limited. Any such disallowances may result in greater tax liabilities than we would incur in the absence of such a limitation and any increased liabilities could adversely affect our business, results of operations, financial condition and cash flow.

Comprehensive tax reform legislation could adversely affect our business and financial condition.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017, or the Tax Act, was signed into law. The Tax Act, among other things, contains significant changes to corporate taxation, including (i) reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, (ii) limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), (iii) limitation of the deduction for net operating losses to 80% of current year taxable income in respect of net operating losses generated during or after 2018 and elimination of net operating loss carrybacks, (iv) one-time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, (v) immediate deductions for certain new investments instead of deductions for depreciation expense over time, and (vi) modifying or repealing many business deductions and credits, including reducing the Orphan Drug Credit from 50% to 25% of clinical costs incurred in the United States. Any federal net operating loss incurred in 2018 and in future years may now be carried forward indefinitely pursuant to the Tax Act. It is uncertain if and to what extent various states will conform to the newly enacted federal tax law. We will continue to examine the impact the Tax Act may have on our business.

Risks Related to Our Business and Industry

We cannot predict if or when we will receive regulatory approval to commercialize our product candidates.

Our product candidates are in various stages of clinical development. We cannot predict with any certainty if or when we might submit a BLA for regulatory approval for any of our product candidates or whether any such BLA will be accepted for review or approved by the FDA. Even if our clinical trials are completed as planned, we cannot be certain that their results will support our proposed indications. Success in preclinical testing and early clinical trials does not ensure that later clinical trials will be successful. If our clinical results are not successful, we may terminate the clinical trials for a product candidate and abandon any further research or testing of the product candidate. Any delay in, or termination of, our clinical trials will delay and possibly preclude the filing of any BLAs with the FDA and, ultimately, our ability to commercialize our product candidates and generate product revenues.

If our product candidates fail to meet safety and efficacy endpoints in clinical trials, they will not receive regulatory approval, and we will be unable to market and sell them.

Our product candidates may not prove to be safe and effective in clinical trials and may not meet all of the applicable regulatory requirements needed to receive regulatory approval. As part of the regulatory process, we must conduct clinical trials for each product candidate to demonstrate safety and efficacy to the satisfaction of the FDA and other regulatory authorities abroad. The number and design of clinical trials that will be required may vary depending on factors such as, the product candidate, the medical indication being evaluated, the role of other products being evaluated in combination, results of previous trials and the regulations or guidance applicable to any particular product candidate. The design of our clinical trials is based on many assumptions about the expected effect of our product candidates, and if those assumptions prove incorrect, the clinical trials may not demonstrate the safety or efficacy of

our product candidates. Preliminary results may not be confirmed upon full analysis of the detailed results of a trial, and prior clinical trial program designs and results may not be predictive of future clinical trial designs or results. Product candidates in later stage clinical trials may fail to show the desired safety and efficacy despite having progressed through initial clinical trials with acceptable endpoints. If our product candidates fail to meet the necessary safety or efficacy endpoints, we may not be able to receive regulatory approval.

If we experience delays in clinical testing, we will be delayed in commercializing our product candidates, our costs may increase and our business may be harmed.

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We have not completed the clinical trials necessary to support an application with the FDA for approval to market any of our product candidates. Our current and future clinical trials may be delayed or terminated as a result of many factors, including:

- delays in initiating clinical trial sites to conduct our clinical trials and reaching agreement on acceptable terms and budgets with prospective clinical trial sites;
- delays in, or failure to obtain, approval from institutional review boards, or IRBs, or ethics committees, or ECs, or institutional biosafety committees, to begin clinical trials at study sites;
- imposition of a clinical hold by the FDA or other regulatory authorities, or a decision by the FDA, other regulatory authorities, IRBs, ECs, or recommendation by a data safety monitoring board, to suspend or terminate clinical trials at any time for safety issues or for any other reason;
- deviations from the trial protocol by clinical trial sites and investigators, or failure to conduct the trial in accordance with regulatory requirements;
- failure of third parties, such as CROs, to satisfy their contractual duties or meet expected deadlines;
- delays in the testing, validation, manufacturing and delivery of the product candidates to the clinical sites;
- for clinical trials in selected patient populations, delays in identification and auditing of central or other laboratories and the transfer and validation of assays or tests to be used to identify selected patients;
- delays in having patients enroll in a trial, complete participation in a trial or return for post-treatment follow-up;
- delays caused by patients dropping out of a trial due to side effects, disease progression or other reasons;
- withdrawal of clinical trial sites from our clinical trials as a result of changing standards of care or the ineligibility of a site to participate in our clinical trials; or
- changes in government regulations or administrative actions or lack of adequate funding to continue the clinical trials.

Any inability of us or our partners to timely complete clinical development could result in additional costs to us or impair our ability to generate product revenues or development, regulatory, commercialization and sales milestone payments and royalties on product sales.

If we encounter difficulties enrolling patients in our clinical trials, our clinical trials could be delayed or otherwise adversely affected.

We may not be able to enroll a sufficient number of patients, or those with required or desired characteristics to complete our clinical trials in a timely manner. Patient enrollment is affected by factors including:

- the nature and size of the patient population;
- the number and location of clinical sites we enroll;
- competition with other companies for clinical sites and patients;
- design of the trial protocol;
- eligibility criteria for the study in question;
- ability to obtain and maintain patient consents; and
- clinicians' and patients' perceptions as to the potential advantages of the drug being studied in relation to other available therapies, including any new drugs that may be approved for the indications we are investigating.

If we have difficulty enrolling a sufficient number of patients to conduct our clinical trials as planned, we may need to delay or terminate ongoing or planned clinical trials, either of which would have an adverse effect on our business.

Our product candidates may cause undesirable side effects or have other properties that could halt clinical trials or prevent their regulatory approval, limit the commercial scope of their approved uses, or result in significant negative consequences.

Undesirable side effects caused by our product candidates, alone or in combination with other therapies being studied in our clinical trials, could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restrictive label or the delay or denial of regulatory approval by the FDA or other comparable foreign regulatory authorities. Results of our trials could reveal a high and unacceptable severity and prevalence of side effects or unexpected characteristics. In such an event, we could suspend or terminate our clinical trials or the FDA or comparable foreign regulatory authorities could order us to cease clinical trials or deny approval of our product candidates for any or all targeted indications. Drug-related side effects could affect patient recruitment or the ability of enrolled subjects to complete the trial or result in potential product liability claims. Any of these occurrences may

harm our business, financial condition and prospects significantly.

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Additionally, if one or more of our product candidates receives marketing approval, and we or others later identify undesirable side effects caused by any such products, a number of potentially significant negative consequences could result, including:

- we may suspend marketing of, or withdraw or recall, such product;
- regulatory authorities may withdraw approvals of such product;
- regulatory authorities may require additional warnings on the label;
- the FDA or other regulatory authorities may issue safety alerts, “Dear Healthcare Provider” letters, press releases or other communications containing warnings about such product;
- the FDA may require the establishment or modification of a Risk Evaluation and Mitigation Strategy, or REMS, or a comparable foreign regulatory authority may require the establishment or modification of a similar strategy that may, for instance, restrict distribution of our products and impose other implementation requirements on us;
- regulatory authorities may require that we conduct post-marketing studies;
- we could be sued and held liable for harm caused to subjects or patients; and
- our reputation may suffer.

Any of these events could prevent us from achieving or maintaining market acceptance of the particular product candidate or class of product candidates or otherwise materially harm the commercial prospects for the product candidate, if approved, and could significantly harm our business, results of operations and prospects.

We may be required to suspend, repeat, redesign or terminate our clinical trials if they are not conducted in accordance with regulatory requirements, the results are negative or inconclusive or the trials are not well designed.

Clinical trials must be conducted in accordance with the FDA’s current Good Clinical Practices, or cGCP, or other applicable foreign government guidelines. Clinical trials are subject to oversight by the FDA, other foreign governmental agencies, and IRBs and ECs at the study sites where the clinical trials are conducted. In addition, clinical trials must be conducted with product candidates produced in accordance with applicable current Good Manufacturing Practices, or cGMP. Clinical trials may be suspended by the FDA, other foreign governmental agencies, or us for various reasons, including:

- deficiencies in the conduct of the clinical trials, including failure to conduct the clinical trial in accordance with regulatory requirements or clinical protocols;
- deficiencies in the clinical trial operations or trial sites;
- the product candidate may have unforeseen adverse side effects;
- deficiencies in the trial design necessary to adequately demonstrate efficacy;
- fatalities or other adverse events arising during a clinical trial due to medical problems that may not be related to clinical trial treatments;
- the product candidate may not appear to be more effective than current therapies; or
- the quality or stability of the product candidate may fall below acceptable standards.

Our ZVex platform is novel, which may raise new regulatory issues that could delay or make regulatory approval of our product ZVex candidates more difficult.

The process of obtaining required FDA and other regulatory approvals, including foreign approvals, is expensive, often takes many years and can vary substantially based upon the type, complexity and novelty of the products involved. Because our ZVex platform is novel, regulatory agencies lack experience with product candidates such as LV305 and CMB305, which may lengthen the regulatory review process, increase our development costs and delay or prevent commercialization of our ZVex product candidates.

The regulatory approval processes of the FDA and comparable foreign regulatory authorities are lengthy, time consuming and inherently unpredictable. Our inability to obtain regulatory approval for our product candidates would substantially harm our business.

The time required to obtain approval by the FDA and comparable foreign regulatory authorities is unpredictable but typically takes many years following the commencement of preclinical studies and clinical trials and depends upon numerous factors. In addition, approval policies, regulations, or the type and amount of clinical data necessary to gain approval vary among jurisdictions. We have not obtained regulatory approval for any product candidate, and it is possible that none of our existing product candidates or any future product candidates will ever obtain regulatory

approval.

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Our product candidates could fail to receive regulatory approval from the FDA or a comparable foreign regulatory authority for many reasons, including:

- disagreement with the design or implementation of our clinical trials;
- failure to demonstrate that a product candidate is safe and effective for its proposed indication;
- failure of clinical trials' endpoints to meet the level of statistical significance required for approval;
- failure to demonstrate that a product candidate's clinical and other benefits outweigh its safety risks;
- disagreement with our interpretation of data from preclinical studies or clinical trials;
- the insufficiency of data collected from clinical trials of our product candidates to support the submission and filing of a BLA or other submission or to obtain regulatory approval;
- failure to obtain approval of the manufacturing processes or facilities of third-party manufacturers with whom we contract for clinical and commercial supplies; or
- changes in the approval policies or regulations that render our preclinical and clinical data insufficient for approval.

The FDA or a comparable foreign regulatory authority may require more information, including additional preclinical or clinical data to support approval, which may delay or prevent approval and our commercialization plans, or we may decide to abandon the development program. If we were to obtain approval, regulatory authorities may approve any of our product candidates for fewer or more limited indications than we request, may grant approval contingent on the performance of costly post-marketing clinical trials, or may approve a product candidate with a label that does not include the labeling claims necessary or desirable for the successful commercialization of that product candidate. Regulatory authorities' assessment of the data and results required to demonstrate safety and efficacy can change over time and can be affected by many factors, such as the emergence of new information, including on other products, changing policies and agency funding, staffing and leadership.

Our failure to obtain regulatory approval in international jurisdictions would prevent us from marketing our product candidates outside the United States.

In order to market and sell our products in jurisdictions outside the United States, we must obtain separate marketing approvals for those jurisdictions and comply with their numerous and varying regulatory requirements. The approval procedure varies among countries and can involve additional testing. The time required to obtain approval may differ substantially from that required to obtain FDA approval. The regulatory approval process outside the United States generally includes all of the risks associated with obtaining FDA approval. In addition, in many countries outside the United States, we must secure product reimbursement approvals before regulatory authorities will approve the product for sale in that country. Obtaining foreign regulatory approvals and compliance with foreign regulatory requirements could result in significant delays, difficulties and costs for us and could delay or prevent the introduction of our products in certain countries. Further, clinical trials conducted in one country may not be accepted by regulatory authorities in other countries, and regulatory approval in one country does not ensure approval in any other country, while a failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory approval process in others. Also, if regulatory approval for any of our product candidates is granted, it may be later withdrawn. If we fail to comply with the regulatory requirements in international markets and receive applicable marketing approvals, our target market will be reduced and our ability to realize the full market potential of our product candidates will be harmed and our business will be adversely affected. We may not obtain foreign regulatory approvals on a timely basis, if at all. Our failure to obtain approval of any of our product candidates by regulatory authorities in countries outside of the United States may significantly diminish the commercial prospects of that product candidate and our business prospects could decline.

Even if our product candidates receive regulatory approval, they may still face future development and regulatory difficulties.

Even if we obtain regulatory approval for a product candidate, it will be subject to ongoing regulation by the FDA and comparable foreign regulatory authorities, including requirements governing the manufacture, quality control, further development, labeling, packaging, tracking, storage, distribution, safety surveillance, import, export, advertising, promotion, record-keeping and reporting of safety and other post-market information. The FDA and comparable foreign regulatory authorities continue to closely monitor the safety profile of any product even after approval. If the FDA or comparable foreign regulatory authorities become aware of new safety information after approval of any of

our product candidates, they may, among other measures, require labeling changes or establishment of a REMS or similar strategy, impose significant restrictions on a product's indicated uses or marketing, or impose ongoing requirements for potentially costly post-approval studies or post-market surveillance.

In addition, manufacturers of drug products and their facilities are subject to continual review and periodic inspections by the FDA and other regulatory authorities for compliance with cGMP regulations and standards. If we or a regulatory agency

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discover previously unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, a regulatory agency may impose restrictions on that product, the manufacturing facility or us, including requiring recall or withdrawal of the product from the market or suspension of manufacturing. If we or the manufacturing facilities for our product candidates, if approved, fail to comply with applicable regulatory requirements, a regulatory agency may:

- issue warning letters or untitled letters;
- mandate modifications to promotional materials or require us to provide corrective information to healthcare practitioners;
- impose a consent decree, which can include various fines, reimbursements for inspection costs, required due dates for specific actions and penalties for noncompliance;
- seek an injunction or other court actions to impose civil or criminal penalties or monetary fines;
- suspend or withdraw regulatory approval;
- suspend any ongoing clinical trials;
- refuse to approve pending applications or supplements to applications filed by us;
- suspend or impose restrictions on operations, including costly new manufacturing requirements; or
- seize or detain products, refuse to permit the import or export of products, or require us to initiate a product recall.

The occurrence of any event or penalty described above may inhibit our ability to commercialize our products and generate revenue.

Advertising and promotion of any product candidate that obtains approval in the United States will be heavily scrutinized by the FDA, the Department of Justice, the Department of Health and Human Services' Office of Inspector General, or OIG, state attorneys general, members of Congress and the public. Violations, including promotion of our products for unapproved, or off-label, uses, may be subject to enforcement letters, inquiries and investigations, as well as civil and criminal sanctions. Additionally, comparable foreign regulatory authorities will heavily scrutinize advertising and promotion of any product candidate that obtains approval in their respective jurisdictions.

In the United States, engaging in the impermissible promotion of our products for off-label uses can also subject us to false claims litigation under federal and state statutes, which can lead to administrative, civil and criminal penalties, damages, monetary fines, disgorgement, individual imprisonment, exclusion from participation in Medicare, Medicaid and other federal healthcare programs, curtailment or restructuring of our operations and agreements that materially restrict the manner in which a company promotes or distributes drug products. These false claims statutes include, but are not limited to, the federal False Claims Act, which allows any individual to bring a lawsuit against an individual or entity, including a pharmaceutical or biopharmaceutical company on behalf of the federal government alleging the knowing submission of false or fraudulent claims, or causing to present such false or fraudulent claims, for payment or approval by a federal program such as Medicare or Medicaid. If the government decides to intervene and prevails in the lawsuit, the individual initiating the lawsuit will share in any fines or settlement funds. These False Claims Act lawsuits against pharmaceutical and biopharmaceutical companies have increased significantly in number and breadth, leading to several substantial civil and criminal settlements regarding certain sales practices, including promoting off-label drug uses involving fines in excess of $1.0 billion. This growth in litigation has increased the risk that a pharmaceutical or biopharmaceutical company will have to defend a false claim action, pay settlement fines or restitution, agree to comply with burdensome reporting and compliance obligations, and be excluded from Medicare, Medicaid and other federal and state healthcare programs. If we do not lawfully promote our approved products, if any, we may become subject to such litigation, which would have a material adverse effect on our business, financial condition and results of operations. Promotion prior to marketing approval or for off-label uses may also give rise to criminal prosecution in the European Union.

The FDA's and other applicable government agencies' policies may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval, and thus the sale and promotion, of our product candidates. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained, which would adversely affect our business, prospects and ability to achieve or sustain profitability.

Our product candidates may not achieve adequate market acceptance among physicians, patients, healthcare payors and others in the medical community necessary for commercial success.

Even if our product candidates receive regulatory approval, they may not gain adequate market acceptance among physicians, patients, healthcare payors and others in the medical community. Our commercial success also depends on coverage and

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adequate reimbursement and pricing of our product candidates by third-party payors, including government payors, which may be difficult or time-consuming to obtain, may be limited in scope and may not be obtained in all jurisdictions in which we may seek to market our products. The degree of market acceptance of any of our approved product candidates will depend on a number of factors, including:

- the efficacy and safety profile as demonstrated in clinical trials;
- the timing of market introduction of the product candidate as well as competitive products;
- the clinical indications for which the product candidate is approved;
- acceptance of the product candidate as a safe and effective treatment by physicians, clinics and patients;
- the potential and perceived advantages of product candidates over alternative treatments;
- the cost of treatment in relation to alternative treatments;
- the availability of coverage and adequate reimbursement and pricing by third-party payors, including government payors and the willingness of patients to pay out-of-pocket in the absence of coverage by third-party payors;
- the willingness of the target patient population to try new therapies based on new technologies and of physicians to prescribe these therapies;
- the strength of marketing and distribution support;
- relative convenience, frequency and ease of administration;
- the frequency and severity of adverse events;
- the effectiveness of sales and marketing efforts; and
- unfavorable publicity relating to the product candidate.

Our competitors may develop and market products that are less expensive, more effective, safer or reach the market sooner than our product candidates, which may diminish or eliminate the commercial success of any products we may commercialize.

The biotechnology industry is intensely competitive and subject to rapid and significant technological change. We face competition with respect to our current product candidates and will face competition with respect to any future product candidates from major pharmaceutical companies, specialty pharmaceutical companies and biotechnology companies worldwide. Many of our competitors have significantly greater financial, technical and human resources. Smaller and early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies.

Our competitors may obtain regulatory approval of their product candidates more rapidly than we may or may obtain patent protection or other intellectual property rights that limit our ability to develop or commercialize our product candidates. Our competitors may also develop drugs that are more effective, more convenient, more widely used and less costly or have a better safety profile than our products and these competitors may also be more successful than us in manufacturing and marketing their products.

Our competitors will also compete with us in recruiting and retaining qualified scientific, management and commercial personnel, establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or necessary for, our programs.

Although there are only a few approved in vivo immuno-oncology therapies, there are numerous currently approved therapies to treat cancer. Many of these approved drugs are well-established therapies or products and are widely accepted by physicians, patients and third-party payors. Some of these drugs are branded and subject to patent protection, and others are available on a generic basis. Insurers and other third-party payors may also encourage the use of generic products or specific branded products. We expect that if our product candidates are approved, they will be priced at a significant premium over competitive generic, including branded generic, products. It may be difficult for us to differentiate our products from currently approved therapies, which may adversely impact our business strategy. In addition, many companies are developing new therapeutics, and we cannot predict what the standard of care will be as our product candidates progress through clinical development.

We believe that our ability to successfully compete will depend on, among other things:

- the efficacy and safety profile of our product candidates, including relative to marketed products and product candidates in development by third parties;

- the time it takes for our product candidates to complete clinical development and receive marketing approval;

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- the ability to commercialize any of our product candidates that receive regulatory approval;
- the price of our products, including in comparison to branded or generic competitors;
- whether coverage and adequate levels of reimbursement are available under private and governmental health insurance plans, including Medicare;
- the ability to establish, maintain and protect intellectual property rights related to our product candidates;
- the ability to manufacture commercial quantities of any of our product candidates that receive regulatory approval; and
- acceptance of any of our product candidates that receive regulatory approval by physicians and other healthcare providers.

If any product candidate is approved but does not achieve an adequate level of acceptance by physicians, hospitals, healthcare payors and patients, we may not generate or derive sufficient revenue from that product candidate and may not become or remain profitable.

We may encounter unforeseen challenges because the viral vector used in LV305 and CMB305 was constructed from genetic sequences, some of which were derived from HIV.

The viral vector in our LV305 and CMB305 product candidates was constructed from many genetic sequences, some of which were derived from HIV. While the vector will not cause an HIV infection, patients may test positive for HIV under certain screening tests and perceive the use of our product candidates as putting themselves at risk of contracting HIV. We disclose the origination of the vector in the consent forms used in our trial enrollments, which may cause patients to be deterred from enrolling in our trials resulting in delays in the enrollment for our clinical trials. Furthermore, we may encounter other difficulties, such as lack of market adoption of any commercialized product candidate, due to the public's negative perception of the risk of contracting HIV.

We will need to develop or acquire additional capabilities in order to commercialize any product candidates that obtain regulatory approval, and we may encounter unexpected costs or difficulties in doing so.

We will need to acquire additional capabilities and effectively manage our operations and facilities to successfully pursue and complete future research, development and commercialization efforts. Currently, we have no experience in preparing applications for marketing approval, commercial-scale manufacturing, managing of large-scale information technology systems or managing a large-scale distribution system. We will need to add personnel and expand our capabilities, which may strain our existing managerial, operational, regulatory compliance, financial and other resources. To do this effectively, we must:

- train, manage and motivate a growing employee base;
- accurately forecast demand for our products; and
- expand existing operational, financial and management information systems.

We plan to conduct process development activities to support late stage development and commercialization activities and seek approval of our product candidates. Should we not receive timely approval of our production process, our ability to produce the immunotherapy products following regulatory approval for sale could be delayed, which would further delay the period of time when we would be able to generate revenues from the sale of such products, if we are even able to generate revenues at all.

We have no internal sales or marketing capability and may rely on alliances with others possessing such capabilities to commercialize our products successfully.

We intend to market our product candidates, if and when such product candidates are approved by the FDA or comparable foreign regulatory authorities, either directly or through other strategic alliances and distribution arrangements with third parties. There can be no assurance that we will be able to enter into third-party marketing or distribution arrangements on advantageous terms or at all. To the extent that we do enter into such arrangements, we will be dependent on our marketing and distribution partners. In entering into third-party marketing or distribution arrangements, we expect to incur significant additional expense. If we are unable to enter into such arrangements on acceptable terms, or at all, we may not be able to successfully commercialize any of our product candidates that receive regulatory approval. Depending on the nature of the third party relationship, we may have little control over such third parties, and any of these third parties may fail to devote the necessary resources and attention to sell, market

and distribute our products effectively. If we are not successful in commercializing our product candidates, either on our own or through collaborations with one or more third parties, our future product revenue will suffer and we may incur significant additional losses.

We depend on key personnel for our continued operations and future success, and a loss of certain key personnel could significantly hinder our ability to move forward with our business plan.

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To succeed, we must recruit, retain, manage and motivate qualified clinical, scientific, technical and management personnel, and we face significant competition for experienced personnel. If we do not succeed in attracting and retaining qualified personnel, particularly at the management level, it could adversely affect our ability to execute our business plan and harm our operating results. In particular, the loss of one or more of our executive officers could be detrimental to us if we cannot recruit suitable replacements in a timely manner. The competition for qualified personnel in the immuno-oncology field is intense and as a result, we may be unable to continue to attract and retain qualified personnel necessary for the development of our business or to recruit suitable replacement personnel.

Many of the other biopharmaceutical companies that we compete against for qualified personnel have greater financial and other resources, different risk profiles and a longer history in the industry than we do. They also may provide more diverse opportunities and better chances for career advancement. If we are unable to continue to attract and retain high-quality personnel, the rate and success at which we can discover and develop product candidates and our business will be limited.

Even if we commercialize a product candidate, it or any other product candidates that we develop may become subject to unfavorable pricing regulations, third-party coverage or reimbursement practices or healthcare reform initiatives, which could harm our business.

Our ability to commercialize any product candidates successfully will depend in part on the extent to which coverage and adequate reimbursement for our product candidates will be available from government health administration authorities, private health insurers and other organizations. The laws that govern marketing approvals, pricing and reimbursement for new drug products vary widely from country to country. In the United States, third-party payors individually establish coverage and reimbursement policies, which makes obtaining such coverage and adequate reimbursement a time-consuming and costly process. We cannot be sure that coverage and reimbursement will be available for any product that we commercialize and, if reimbursement is available, what the level of reimbursement will be. Coverage and reimbursement may impact the demand for, or the price of, any product candidate for which we obtain marketing approval. If coverage and reimbursement are not available or reimbursement is available only to limited levels, we may not successfully commercialize any product candidate for which we obtain marketing approval.

Current and future legislation may increase the difficulty and cost for us to commercialize our drug candidates and affect the prices we may obtain.

In the United States and many foreign jurisdictions, the legislative landscape continues to evolve. There have been a number of enacted or proposed legislative and regulatory changes affecting the healthcare system and pharmaceutical and biopharmaceutical industries that could, among other things, restrict or regulate post-approval activities and affect our ability to profitably sell any product candidate for which we obtain marketing approval.

In March 2010, then President Obama signed into law the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, or, collectively, the Affordable Care Act. Among other things, the Affordable Care Act expanded manufacturers' rebate liability under the Medicaid Drug Rebate Program by increasing the minimum rebate for both branded and generic drugs, effective the first quarter of 2010 and revising the definition of "average manufacturer price," or AMP, for calculating and reporting purposes. This could increase the amount of Medicaid drug rebates manufacturers are required to pay to states. The Affordable Care Act further created a separate AMP for certain categories of drugs generally provided in non-retail outpatient settings. The legislation also expanded manufacturers' rebate liability under the Medicaid program from fee-for-service Medicaid utilization to include the utilization of Medicaid managed care organization as well and created an alternative rebate formula for certain new formulations of certain existing products that is intended to increase the amount of rebates due on those drugs. Federal law requires that any company that participates in the Medicaid rebate program also participate in the Public Health Service's 340B drug pricing program in order for federal funds to be available for the manufacturer's drugs under Medicaid and Medicare Part B. The 340B drug pricing program requires participating manufacturers to agree to charge statutorily-defined covered entities no more than the 340B "ceiling price" for the manufacturer's covered outpatient drugs. The Affordable Care Act expanded the types of entities eligible to receive discounted 340B pricing. In addition, because 340B pricing is determined based on AMP and Medicaid drug rebate data, the revisions to the Medicaid rebate formula and AMP definition described above could cause the required 340B discounts to increase.

The Affordable Care Act also imposes a significant annual fee on companies that manufacture or import branded prescription drug products. Furthermore, this law changed the Medicare Part D coverage gap discount program by requiring manufacturers to provide a 50% (and 70% commencing January 1, 2019) point-of-sale-discount off the negotiated price of applicable brand drugs to certain eligible beneficiaries during their coverage gap period as a condition for the manufacturers' outpatient drugs to be covered under Medicare Part D. On February 1, 2016, the Centers for Medicare and Medicaid Services, the federal agency that administers the Medicaid Drug Rebate Program, issued final regulations to implement the changes to the Medicaid Drug Rebate program under the Affordable Care Act. These regulations became effective on April 1, 2016.

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Additionally, the Affordable Care Act created a new licensure framework for follow-on biologic products. The Affordable Care Act also created a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with providing funding for such research.
Some of the provisions of the Affordable Care Act have yet to be implemented, and there have been judicial and Congressional challenges to certain aspects of the Affordable Care Act. Since January 2017, President Trump has signed two Executive Orders and other directives designed to delay the implementation of certain provisions of the Affordable Care Act and otherwise circumvent some of the requirements for health insurance under the Affordable Care Act. Concurrently, Congress has considered legislation that would repeal or repeal and replace all or part of the Affordable Care Act. While Congress has not passed comprehensive repeal legislation, two bills affecting the implementation of certain taxes under the Affordable Care Act have been signed into law. The Tax Cuts and Jobs Act of 2017 includes a provision repealing, effective January 1, 2019, the tax-based shared responsibility payment imposed by the Affordable Care Act on certain individuals who fail to maintain qualifying health coverage for all or part of a year that is commonly referred to as the "individual mandate". Additionally, on January 22, 2018, President Trump signed a continuing resolution on appropriations for fiscal year 2018 that delayed the implementation of certain Affordable Care Act-mandated fees, including the so-called "Cadillac" tax on certain high cost employer-sponsored insurance plans, the annual fee imposed on certain health insurance providers based on market share, and the medical device excise tax on non-exempt medical devices. Further, the Bipartisan Budget Act of 2018, or the BBA, among other things, amends the Affordable Care Act, effective January 1, 2019, to close the coverage gap in most Medicare drug plans, commonly referred to as the "donut hole". We cannot predict how the Affordable Care Act, its possible repeal, or any legislation that may be proposed to replace the Affordable Care Act will impact our business.

In addition, other legislative changes have been proposed and adopted since the Affordable Care Act was enacted. For example, in August 2011, the President signed into law the Budget Control Act of 2011, which, among other things, created the Joint Select Committee on Deficit Reduction to recommend to Congress proposals in spending reductions. The Joint Select Committee on Deficit Reduction did not achieve a targeted deficit reduction. The legislation's automatic reduction to several government programs was triggered. This includes aggregate reductions to Medicare payments to providers, on average, of up to 2%, and due to subsequent amendments to the legislation, including the BBA, will remain in effect through 2027 unless additional Congressional action is taken. The Bipartisan Budget Act of 2013, enacted on December 26, 2013, and Public Law 113-82, enacted on February 15, 2014, and as amended by subsequent legislation, expanded sequestration through fiscal year 2027. These cuts will remain in effect unless Congress further repeals or amends the reductions in future legislation. Continuation of sequestration or enactment of other reductions in Medicare reimbursement for drugs could affect our ability to achieve a profit on any candidate products that are approved for marketing.

More recently, there has been increasing legislative and enforcement interest in the United States with respect to specialty drug pricing practices. Specifically, there have been several recent U.S. Congressional inquiries and proposed and enacted federal legislation designed to, among other things, bring more transparency to drug pricing, reduce the cost of prescription drugs under Medicare, review the relationship between pricing and manufacturer patient programs, and reform government program reimbursement methodologies for drugs. The Trump administration's budget proposal for fiscal year 2019 contains further drug price control measures that could be enacted during the 2019 budget process or in other future legislation, including, for example, measures to permit Medicare Part D plans to negotiate the price of certain drugs under Medicare Part B, to allow some states to negotiate drug prices under Medicaid, and to eliminate cost sharing for generic drugs for low-income patients. While any proposed measures will require authorization through additional legislation to become effective, Congress and the Trump administration have each indicated that it will continue to seek new legislative and/or administrative measures to control drug costs.
Moreover, the Drug Supply Chain Security Act imposes obligations on manufacturers of pharmaceutical products, related to product tracking and tracing. Among the requirements of this new legislation, manufacturers will be

required to provide certain information regarding drug products to individuals and entities to which product ownership is transferred, label drug product with a product identifier, and keep certain records regarding the drug product. The transfer of information to subsequent product owners by manufacturers will eventually be required to be done electronically. Manufacturers will also be required to verify that purchasers of the manufacturers' products are appropriately licensed. Further, manufacturers will have drug product investigation, quarantine, disposition, and notification responsibilities related to counterfeit, diverted, stolen, and intentionally adulterated products, as well as products that are the subject of fraudulent transactions or that are otherwise unfit for distribution such that they would be reasonably likely to result in serious health consequences or death. In the European Union, the Falsified Medicines Directive imposes similar requirements which are expected to add materially to product costs.

In addition to federal reforms, individual states have become increasingly passed legislation and implemented regulations designed to control pharmaceutical and biological product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access, and marketing cost disclosure and transparency measures, and designed to encourage importation from other countries and bulk purchasing. Legally-mandated price controls on payment amounts by

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third-party payors or other restrictions could harm our business, results of operations, financial condition and prospects. In addition, regional healthcare authorities and individual hospitals are increasingly using bidding procedures to determine what pharmaceutical products and which suppliers will be included in their prescription drug and other healthcare programs. This could reduce ultimate demand for our products or put pressure on our product pricing, which could negatively affect our business, results of operations, financial condition and prospects.

In addition, given recent federal and state government initiatives directed at lowering the total cost of healthcare, Congress and state legislatures will likely continue to focus on healthcare reform, the cost of prescription drugs and biologics and the reform of the Medicare and Medicaid programs. While we cannot predict the full outcome of any such legislation, it may result in decreased reimbursement for drugs and biologics, which may further exacerbate industry-wide pressure to reduce prescription drug prices. This could harm our ability to generate revenues. In addition, legislation has been introduced that, if enacted, would permit more widespread importation or re-importation of pharmaceutical products from foreign countries into the United States, including from countries where the products are sold at lower prices than in the United States. Such legislation, or similar regulatory changes, could put competitive pressure on our ability to profitably price our products, which, in turn, could adversely affect our business, results of operations, financial condition and prospects. Alternatively, in response to legislation such as this, we might elect not to seek approval for or market our products in foreign jurisdictions in order to minimize the risk of re-importation, which could also reduce the revenue we generate from our product sales.

We expect healthcare reform measures that have and may be adopted in the future, may result in more rigorous coverage criteria and exert downward pressure on the price that we receive for any approved product, and could seriously harm our future revenues. Any reduction in reimbursement from Medicare or other government programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate sufficient revenue, attain profitability or successfully commercialize our products. The full impact of these new laws, as well as laws and other reform measures that may be proposed and adopted in the future, remains uncertain, but may continue the downward pressure on pharmaceutical pricing, especially under the Medicare program, and may also increase our regulatory burdens and operating costs, which could have a material adverse effect on our business operations.

Product liability lawsuits against us could cause us to incur substantial liabilities and to limit commercialization of our product candidates.

We face an inherent risk of product liability exposure related to the testing of our product candidates in human trials and may face greater risk if we commercialize any products that we develop. Product liability claims may be brought against us by subjects enrolled in our trials, patients, healthcare providers or others using, administering or selling our products. If we cannot successfully defend ourselves against such claims, we could incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- decreased demand for our products;
- termination of clinical trial sites or entire trial programs;
- injury to our reputation and significant negative media attention;
- withdrawal of trial participants;
- significant costs to defend the related litigation;
- substantial monetary awards to trial subjects or patients;
- diversion of management and scientific resources from our business operations; and
- the inability to commercialize any products that we may develop.

While we currently hold $10.0 million in products liability insurance coverage related to our clinical trials, this may not adequately cover all liabilities that we may incur. We also may not be able to maintain insurance coverage at a reasonable cost or in an amount adequate to satisfy any liability that may arise in the future. We intend to expand our insurance coverage for products to include the sale of commercial products if we obtain marketing approval for our product candidates, but we may be unable to obtain commercially reasonable product liability insurance. A successful product liability claim or series of claims brought against us, particularly if judgments exceed our insurance coverage, could decrease our cash and adversely affect our business and financial condition.

Our relationships with healthcare providers, physicians, customers and third-party payors will be subject to applicable transparency, anti-kickback, fraud and abuse and other healthcare laws and regulations, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm, administrative burdens and diminished profits and future earnings.

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Healthcare providers, physicians and third-party payors play a primary role in the recommendation and prescription of any product candidates for which we obtain marketing approval. Our current and future arrangements with third-party payors, providers and customers may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which we conduct clinical research and market, sell and distribute our products for which we obtain marketing approval. Restrictions under applicable federal and state healthcare laws and regulations, include, but are not limited to, the following:

- the Physician Payments Sunshine Act (federal Open Payments program), created under Section 6002 of the Affordable Care Act and its implementing regulations, requires manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children's Health Insurance Program (with certain exceptions) to report annually to the U.S. Department of Health and Human Services, or HHS, information related to "payments or other transfers of value" made to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, and applicable manufacturers and applicable group purchasing organizations to report annually to the HHS ownership and investment interests held by physicians (as defined above) and their immediate family members;
- the federal Anti-Kickback Statute prohibits persons from, among other things, knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce or reward, or in return for, the referral of an individual for the furnishing or arranging for the furnishing, or the purchase, lease or order, or arranging for or recommending purchase, lease or order, any good or service for which payment may be made under a federal healthcare program such as Medicare and Medicaid;
- the federal false claims laws, including the federal False Claims Act, impose civil penalties, including through civil whistleblower or qui tam actions, against individuals or entities for knowingly presenting, or causing to be presented, to the federal government, claims for payment that are false or fraudulent or making a false statement to avoid, decrease or conceal an obligation to pay money to the federal government;
- the Federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, imposes criminal liability for knowingly and willfully executing a scheme to defraud any healthcare benefit program, knowingly and willfully embezzling or stealing any money or other assets of a health care benefit program, willfully obstructing a criminal investigation of a health care fraud offense, or knowingly and willfully making false statements relating to healthcare matters;
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009 and its implementing regulations, also imposes obligations on certain covered entity health care providers, health plans, and health care clearinghouses as well as their business associates that perform certain services involving the use or disclosure of individually identifiable health information, including mandatory contractual terms, with respect to safeguarding the privacy, security and transmission of individually identifiable health information;
- analogous state and foreign laws and regulations, such as state anti-kickback and false claims laws, which may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third-party payors, including private insurers;
- state and foreign laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government or otherwise restrict payments that may be made to healthcare providers;
- state and foreign laws that require drug manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures; and
- state and foreign laws that govern the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations will involve substantial costs. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations or case law interpreting applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of these laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal and

administrative penalties, damages, fines, individual imprisonment, exclusion from government funded healthcare programs, such as Medicare and Medicaid, additional reporting requirements and oversight if we become subject to a corporate integrity agreement or similar agreement to resolve allegations of non-compliance with these laws, and the curtailment or restructuring of our operations. If any of the physicians or other healthcare providers or entities with whom we expect to do business is found not to be in compliance with applicable laws, that

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person or entity may be subject to criminal, civil or administrative sanctions, including exclusions from government funded healthcare programs.

Risks Related to our Dependence on Third Parties

We rely on the assistance of third parties to conduct our clinical trials. If these third parties do not successfully carry out their contractual duties, comply with budgets and other financial obligations or meet expected deadlines, we may not be able to obtain regulatory approval for or commercialize our product candidates in a timely or cost-effective manner.

We rely, and expect to continue to rely, on the assistance of third-party CROs to conduct our clinical trials. Because we do not conduct our own clinical trials, we must rely on the efforts of others and cannot always control or accurately predict the timing of such trials, the costs associated with such trials or the procedures that are followed for such trials. We do not anticipate significantly increasing our personnel in the foreseeable future and therefore, expect to continue to rely on the assistance of third parties to conduct our future clinical trials. If these third parties do not successfully carry out their contractual duties or obligations or meet expected deadlines, if they do not carry out the trials in accordance with budgeted amounts, if the quality or accuracy of the clinical data they obtain is compromised due to their failure to adhere to our clinical protocols or for other reasons, or if they fail to maintain compliance with applicable government regulations and standards, our clinical trials may be extended, delayed or terminated or may become prohibitively expensive, and we may not be able to obtain regulatory approval for or successfully commercialize our product candidates.

We currently depend on third parties for the development and commercialization of our non-cancer treatment product candidates.

We have entered into an exclusive license agreement with Sanofi for use of our GLAAS discovery platform to develop therapeutic agents to treat peanut allergy and a collaboration agreement with Sanofi Pasteur for the development of a herpes simplex virus immune therapy. We have also entered into exclusive licenses and development agreements with MedImmune pursuant to which we have granted MedImmune exclusive licenses to use our GLAAS discovery platform to develop and commercialize product candidates relating to certain infectious diseases. We cannot control whether or not these partners will devote sufficient time and resources to the ongoing clinical and preclinical programs or whether these partners will fulfill their obligations under the agreements. The product candidates developed pursuant to these agreements may not be scientifically, medically or commercially successful.

In addition, we could be adversely affected by:

- our partners' technologies, products and selection of disease targets;
- our partners' failure to timely perform their obligations under our agreements;
- our partners' failure to timely or fully develop or effectively commercialize the product candidates; and
- a material contractual dispute between us and our partners.

Any of the foregoing could adversely impact the likelihood and timing of any milestone or royalty payments we are eligible to receive from Sanofi, Sanofi Pasteur or MedImmune, and could result in a material adverse effect on our business, results of operations and prospects and would likely cause our stock price to decline. For example, in 2017, Medimmune published the results of its Phase 2b clinical trial assessing the efficacy of a vaccine for prevention of RSV-associated acute respiratory illness in older adults. The vaccine consisted of the RSV postfusion F protein with GLA in a stable emulsion. The trial did not meet its primary endpoint, and we do not expect MedImmune to continue development of this vaccine. According to the publication, even though the vaccine induced a significant immune response, which was enhanced by GLA as shown previously in a Phase 1 trial, the authors of the publication concluded that the postfusion F-based vaccine may not generate appropriate neutralizing antibodies to prevent RSV disease in older adults.

We may not succeed in establishing and maintaining additional development collaborations, which could adversely affect our ability to develop and commercialize product candidates.

In addition to our current agreements with Sanofi, Sanofi Pasteur and MedImmune, a part of our strategy is to enter into additional product development collaborations in the future, including collaborations with major biotechnology or pharmaceutical companies. We face significant competition in seeking appropriate development partners and the

negotiation process is time-consuming and complex. Moreover, we may not succeed in our efforts to establish a development collaboration or other alternative arrangements for any of our other existing or future product candidates and programs because our research and development pipeline may be insufficient, our product candidates and programs may be deemed to be at too early a stage of development for collaborative effort and third parties may not view our product candidates and programs as having the requisite potential to demonstrate safety and efficacy. Even if we are successful in our efforts to establish new development collaborations, the terms that we agree upon may not be favorable to us and we may not be able to maintain such development

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collaborations if, for example, development or approval of a product candidate is delayed or sales of an approved product candidate are disappointing.

Moreover, if we fail to establish and maintain additional development collaborations related to our product candidates:

- the development of certain of our current or future product candidates may be impaired or delayed;
- our cash expenditures related to development of certain of our current or future product candidates would increase significantly, and we may need to seek additional financing;
- we may be required to hire additional employees or otherwise devote resources and develop expertise, such as sales and marketing expertise, for which we have not budgeted; and
- we will bear all of the risk related to the development of any such product candidates.

If we enter into one or more collaborations, we may be required to relinquish important rights to and control over the development of our product candidates or otherwise be subject to unfavorable terms.

Any future collaborations we enter into could subject us to a number of risks, including:

- we may not be able to control the amount and timing of resources that our collaborators devote to the development or commercialization of our product candidates;
- collaborators may delay clinical trials, provide insufficient funding, terminate a clinical trial or abandon a product candidate, repeat or conduct new clinical trials or require a new version of a product candidate for clinical testing;
- collaborators may not pursue further development and commercialization of products resulting from the strategic partnering arrangement or may elect to discontinue research and development programs;
- collaborators may not commit adequate resources to the marketing and distribution of our product candidates, limiting our potential revenues from these products;
- disputes may arise between us and our collaborators that result in the delay or termination of the research, development or commercialization of our product candidates or that result in costly litigation or arbitration that diverts management's attention and consumes resources;
- collaborators may experience financial difficulties;
- collaborators may not properly maintain or defend our intellectual property rights or may use our proprietary information in a manner that could jeopardize or invalidate our proprietary information or expose us to potential litigation;
- business combinations or significant changes in a collaborator's business strategy may also adversely affect a collaborator's willingness or ability to complete its obligations under any arrangement;
- collaborators could decide to move forward with a competing product candidate developed either independently or in collaboration with others, including our competitors; and
- collaborators could terminate the arrangement or allow it to expire, which would delay the development and may increase the cost of developing our product candidates.

We have no internal manufacturing capacity and anticipate continued reliance on third-party manufacturers for the development and commercialization of our products.

We do not currently operate manufacturing facilities for clinical or commercial production of our product candidates. We have limited experience in manufacturing our product candidates, and we lack the resources and the capabilities to do so on a clinical or commercial scale. We do not intend to develop facilities for the manufacture of products for clinical trials or commercial purposes in the foreseeable future. We rely on third-party CMOs to produce bulk drug substance and formulated drug products as well as fill/finish required for our clinical trials. We plan to continue to rely upon CMOs and, potentially, collaboration partners, to manufacture commercial quantities of our product candidates. We do not have a long-term commercial supply arrangement in place with any of our contract manufacturers. If we need to identify additional manufacturers, we may experience delays and additional cost. We have not secured commercial supply agreements with any contract manufacturers and can give no assurance that we will enter commercial supply agreements with any contract manufacturers on favorable terms or at all.

Our contract manufacturers' failure to achieve and maintain high manufacturing standards, in accordance with applicable regulatory requirements, or the incidence of manufacturing errors, could result in patient injury or death, product shortages, product recalls or withdrawals, delays or failures in product testing or delivery, cost overruns or other problems that could seriously harm our business. Contract manufacturers often encounter difficulties involving

production yields, quality control

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and quality assurance, as well as shortages of qualified personnel. Our existing manufacturers and any future contract manufacturers may not perform as agreed or may not remain in the contract manufacturing business. In the event of a natural disaster, business failure, strike or other difficulty, we may be unable to replace CMOs in a timely manner and the production of our product candidates would be interrupted, resulting in delays and additional costs.

Manufacturers have limited or no experience producing our product candidates and may not produce our vectors and product candidates at the quality, quantities and timing needed to support clinical trials or commercialization.

The components of our product candidates are difficult to make and require technical expertise. No manufacturer currently has the experience or ability to produce our vectors and product candidates at commercial levels. Our CMOs may encounter technical or scientific issues related to manufacturing or process development that we may be unable to resolve in a timely manner or with available funds, which could delay our clinical trials.

We currently obtain several components of our product candidates, such as the full length NY-ESO-1 protein in CMB305, from a single source. The loss of our current CMO could result in manufacturing delays for the component substitution, and we may need to accept changes in terms or price from our existing supplier in order to avoid such delays. If we utilize an alternative source, we may be required to demonstrate comparability of the drug product before releasing the product for clinical use.

Risks Related to Intellectual Property

If we are unable to obtain or protect intellectual property rights, we may not be able to compete effectively in our market.

Our success depends in significant part on our and our licensors' and licensees' ability to establish, maintain and protect patents and other intellectual property rights and operate without infringing the intellectual property rights of others. We have filed patent applications both in the United States and in foreign jurisdictions to obtain patent rights to inventions we have discovered. We have also licensed from third parties rights to patent portfolios. Some of these licenses give us the right to prepare, file and prosecute patent applications and maintain and enforce patents we have licensed, and other licenses may not give us such rights.

The patent prosecution process is expensive and time-consuming, and we and our current or future licensors and licensees may not be able to prepare, file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. It is also possible that we or our licensors or licensees will fail to identify patentable aspects of inventions made in the course of development and commercialization activities before it is too late to obtain patent protection on them. Moreover, in some circumstances, we may not have the right to control the preparation, filing and prosecution of patent applications, or to maintain the patents, covering technology that we license from or license to third parties and are reliant on our licensors or licensees. Therefore, these patents and applications may not be prosecuted and enforced in a manner consistent with the best interests of our business. If our current or future licensors or licensees fail to establish, maintain or protect such patents and other intellectual property rights, such rights may be reduced or eliminated. If our licensors or licensees are not fully cooperative or disagree with us as to the prosecution, maintenance or enforcement of any patent rights, such patent rights could be compromised.

The patent position of biotechnology and pharmaceutical companies generally is highly uncertain, involves complex legal and factual questions and has in recent years been the subject of much litigation. As a result, the issuance, scope, validity, enforceability and commercial value of our and our current or future licensors' or licensees' patent rights are highly uncertain. Our and our licensors' or licensees' pending and future patent applications may not result in patents being issued which protect our technology or products, in whole or in part, or which effectively prevent others from commercializing competitive technologies and products. The patent examination process may require us or our licensors or licensees to narrow the scope of the claims of our or our licensors' or licensees' pending and future patent applications, which may limit the scope of patent protection that may be obtained. We may be required to disclaim part or all of the term of certain patents or part or all of the term of certain patent applications.

There are no assurances that our patent counsel, lawyers or advisors have given us correct advice or counsel. Opinions from such patent counsel or lawyers may not be correct or based on incomplete facts. There may be prior art of which we are not aware that may affect the validity or enforceability of a patent claim. There also may be prior art of which we are aware, but which we do not believe affects the validity or enforceability of a claim, which may, nonetheless, ultimately be found to affect the validity or enforceability of a claim. Even if patents do successfully issue and even if

such patents cover our product candidates, third parties may challenge their validity, enforceability or scope. No assurance can be given that if challenged, our patents would be declared by a court to be valid or enforceable or that even if found valid and enforceable, a competitor's technology or product would be found by a court to infringe our patents. The possibility exists that others will develop products which have the same effect as our products on an independent basis which do not infringe our or our licensor's patents or other intellectual property rights, or will design around the claims of patents that we have had issued that cover our products. We may analyze patents or patent applications of our competitors that we believe are relevant to our activities, and consider that we are free to operate in relation to our product candidates, but our competitors may achieve issued claims, including in patents we

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consider to be unrelated, which block our efforts or may potentially result in our product candidates or our activities infringing such claims. Our and our licensors' or licensees' patent applications cannot be enforced against third parties practicing the technology claimed in such applications unless and until a patent issues from such applications, and then only to the extent the issued claims cover the technology. Any of these outcomes could impair our ability to prevent competition from third parties, which may have an adverse impact on our business.

In addition, patents have a limited lifespan. In the United States, the natural expiration of a patent is generally 20 years after it is filed. Given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. Even if patents covering our product candidates are obtained, once the patent life has expired for a product, we may be open to competition from biosimilar or generic products. As a result, our owned and licensed patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours. We expect to seek extensions of patent terms where these are available in any countries where we are prosecuting patents. However, the applicable authorities, including the U.S. Patent and Trademark Office, or USPTO, and FDA in the United States, and any equivalent regulatory authority in other countries, may not agree with our assessment of whether such extensions are available, and may refuse to grant extensions to our patents, or may grant more limited extensions than we request. If this occurs, our competitors may take advantage of our investment in development and trials by referencing our clinical and preclinical data and launch their product earlier than might otherwise be the case.

We may not be able to protect our intellectual property rights throughout the world.

Filing, prosecuting, enforcing and defending patents on product candidates in all countries throughout the world is prohibitively expensive, and our or our current or future licensors' intellectual property rights in some countries outside the United States can be less extensive than those in the United States. Moreover, the standards applied by the USPTO and foreign patent offices in granting patents are not always applied uniformly or predictably. For example, there is no uniform worldwide policy regarding patentable subject matter or the scope of claims allowable in biotechnology patents. In addition, even where patent protection is obtained, third-party competitors may challenge our patent claims in the various patent offices.

In February 2013, a third party filed an opposition at the EPO requesting revocation of European Patent No. 2068918 directed to GLA vaccine formulations and uses. This patent is licensed to us by IDRI and is an important part of our proprietary GLAAS platform in Europe. We are vigorously defending the grant of this patent. The oral proceedings for this opposition were held in September 2016. At the oral proceedings, the EPO maintained the patent in an amended form, which continues to cover the GLAAS products being developed by us and our licensees. We and the opponent have appealed this outcome, and we cannot be certain that this patent will be maintained by the EPO at an appeal hearing, or if any reduction to the scope would adequately cover our products. Revocation of this patent, or maintenance of an amended patent with inadequate coverage, could impair our ability to prevent competition from third parties in Europe, which could have an adverse impact on our business. The outcome of an appeal to this proceeding may not be known for several years.

The laws of some foreign countries do not protect intellectual property rights to the same extent as federal and state laws in the United States. For example, some of our patents relate to treatment methods or dosing regimens that are not considered patentable subject matter in some foreign countries. Consequently, we and our licensors may not be able to prevent third parties from practicing our and our licensors' inventions in countries outside the United States, or from selling or importing products made using our and our licensors' inventions in and into the United States or other jurisdictions. Competitors may use our and our licensors' technologies in jurisdictions where we have not obtained patent protection to develop their own products and may export otherwise infringing products to territories where we and our licensors have patent protection, but enforcement is not as strong as that in the United States. These products may compete with our product candidates and our and our licensors' patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents and other intellectual property protection, particularly those relating to biopharmaceuticals,

which could make it difficult for us and our licensors to stop the infringement of our and our licensors' patents or marketing of competing products in violation of our and our licensors' proprietary rights generally. Proceedings to enforce our and our licensors' patent rights in foreign jurisdictions could result in substantial costs and divert our attention from other aspects of our business, could put our and our licensors' patents at risk of being invalidated or interpreted narrowly and our and our licensors' patent applications at risk of not issuing and could provoke third parties to assert claims against us or our licensors. We or our licensors may not prevail in any lawsuits that we or our licensors initiate and the damages or other remedies awarded, if any, may not be commercially meaningful.

The requirements for patentability may differ in certain countries, particularly developing countries. Furthermore, generic drug manufacturers or other competitors may challenge the scope, validity or enforceability of our or our licensors' patents, requiring us or our licensors to engage in complex, lengthy and costly litigation or other proceedings. Generic drug

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manufacturers may develop, seek approval for, and launch generic versions of our products. Certain countries in Europe and developing countries, including China, have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties. In those countries, we and our licensors may have limited remedies if patents are infringed or if we or our licensors are compelled to grant a license to a third party, which could materially diminish the value of those patents. This could limit our potential revenue opportunities. Accordingly, our and our licensors' efforts to enforce intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that we own or license.

Changes in patent law could diminish the value of patents in general, thereby impairing our ability to protect our product candidates.

As is the case with other biotechnology and pharmaceutical companies, our success is heavily dependent on intellectual property, particularly patents. Obtaining and enforcing patents in the biopharmaceutical industry involve technological and legal complexity, and obtaining and enforcing biopharmaceutical patents is costly, time-consuming, and inherently uncertain. The Supreme Court has ruled on several patent cases in recent years, either narrowing the scope of patent protection available in certain circumstances or weakening the rights of patent owners in certain situations. In addition to increasing uncertainty with regard to our and our licensors' ability to obtain patents in the future, this combination of events has created uncertainty with respect to the value of patents, once obtained. Depending on decisions by Congress, the federal courts and the USPTO, the laws and regulations governing patents could change in unpredictable ways that may weaken our and our licensors' ability to obtain new patents or to enforce existing patents and patents we and our licensors or collaborators may obtain in the future.

Patent reform legislation could increase the uncertainties and costs surrounding the prosecution of our and our licensors' patent applications and the enforcement or defense of our or our licensors' issued patents. On September 16, 2011, the Leahy-Smith America Invents Act, or the Leahy-Smith Act, was signed into law. The Leahy-Smith Act includes a number of significant changes to U.S. patent law. These include provisions that affect the way patent applications are prosecuted and may also affect patent litigation. The USPTO recently developed new regulations and procedures to govern administration of the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act, and in particular, the first to file provisions, only became effective on March 16, 2013. Accordingly, it is not clear what, if any, impact the Leahy-Smith Act will have on the operation of our business. However, the Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our or our licensors' patent applications and the enforcement or defense of our or our licensors' issued patents, all of which could have a material adverse effect on our business and financial condition.

Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

Periodic maintenance and annuity fees on any issued patent are due to be paid to the USPTO and foreign patent agencies in several stages over the lifetime of the patent. The USPTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of a patent or patent application include failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. If we or our licensors or collaborators fail to maintain the patents and patent applications covering our product candidates, our competitors might be able to enter the market, which would have a material adverse effect on our business.

We may become involved in lawsuits to protect or enforce our intellectual property, which could be expensive, time-consuming and unsuccessful and have a material adverse effect on the success of our business.

Third parties may infringe our or our licensors' or collaborators' patents or misappropriate or otherwise violate our or our licensors' or collaborators' intellectual property rights. In the future, we or our licensors or collaborators may initiate legal proceedings to enforce or defend our or our licensors' or collaborators' intellectual property rights, to

protect our or our licensors' or collaborators' trade secrets or to determine the validity or scope of intellectual property rights we own or control. Also, third parties may initiate legal proceedings against us or our licensors or collaborators to challenge the validity or scope of intellectual property rights we own or control. The proceedings can be expensive and time-consuming and many of our or our licensors' or collaborators' adversaries in these proceedings may have the ability to dedicate substantially greater resources to prosecuting these legal actions than we or our licensors or collaborators can. Accordingly, despite our or our licensors' or collaborators' efforts, we or our licensors or collaborators may not prevent third parties from infringing upon or misappropriating intellectual property rights we own or control, particularly in countries where the laws may not protect those rights as fully as in the United States. Litigation could result in substantial costs and diversion of management resources, which could harm our business and financial results. In addition, in an infringement proceeding, a court may decide that a patent

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owned by or licensed to us is invalid or unenforceable, or may refuse to stop the other party from using the technology at issue for various reasons, including on the grounds that our or our licensors' or collaborators' patents do not cover the technology in question. An adverse result in any litigation proceeding could result in one or more of our or our licensors' or collaborators' patents being invalidated, held unenforceable or interpreted narrowly.

Third-party preissuance submission of prior art to the USPTO, or opposition, derivation, reexamination, inter partes review or interference proceedings, or other preissuance or post-grant proceedings in the United States or other jurisdictions provoked by third parties or brought by us or our licensors or collaborators may be instituted with respect to our or our licensors' or collaborators' patents or patent applications. An unfavorable outcome of a third-party challenge to our owned or licensed patents or patent applications could include a determination of unpatentability, invalidity or a narrowing amendment to our patents. An unfavorable outcome in an interference proceeding that awards our patent claims to a third party could require us or our licensors or collaborators to cease using related technology. Our business could be harmed if the prevailing party does not offer us or our licensors or collaborators a license on commercially reasonable terms or at all. Even if we or our licensors or collaborators obtain a license, it may be non-exclusive, thereby giving our competitors access to the same technologies licensed to us or our licensors or collaborators. In addition, if the breadth or strength of protection provided by our or our licensors' or collaborators' patents and patent applications is threatened, it could dissuade companies from collaborating with us to license, develop or commercialize current or future product candidates. Even if we successfully defend such litigation or proceeding, we may incur substantial costs and it may distract our management and other employees. We could be found liable for monetary damages, including treble damages and attorneys' fees if we are found to have willfully infringed a patent.

For example, in February 2013, a third party filed an opposition at the EPO requesting revocation of European Patent No. 2068918 directed to GLA vaccine formulations and uses. This patent is licensed to us by IDRI and is an important part of our proprietary GLAAS platform in Europe. We are vigorously defending the grant of this patent. The oral proceedings for this opposition were held in September 2016. At the oral proceedings, the EPO maintained the patent in an amended form, which continues to cover the GLAAS products being developed by us and our licensees. We and the opponent have appealed this outcome, and we cannot be certain that this patent will be maintained by the EPO at an appeal hearing, or if any reduction to the scope would adequately cover our products. Revocation of this patent, or maintenance of an amended patent with inadequate coverage, could impair our ability to prevent competition from third parties in Europe, which could have an adverse impact on our business. The outcome of an appeal to this proceeding may not be known for several years.

An unfavorable outcome could require us or our licensors, collaborators or suppliers to cease using the related technology or developing or commercializing our product candidates, or to attempt to license rights to it from the prevailing party. Our business could be harmed if the prevailing party does not offer us or our licensors, collaborators or suppliers a license on commercially reasonable terms or at all. Even if we or our licensors, collaborators or suppliers obtain a license, it may be non-exclusive, thereby giving our competitors access to the same technologies licensed to us or our licensors, collaborators or suppliers. In addition, we could be found liable for monetary damages, including treble damages and attorneys' fees, if we are found to have willfully infringed a patent. A finding of infringement could prevent us from commercializing our drug candidates or force us to cease some of our business operations, which could materially harm our business.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. There could also be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a material adverse effect on the price of shares of our common stock.

If we breach the agreements under which third parties have licensed intellectual property rights to us, we could lose the ability to use certain of our technologies or continue the development and commercialization of our product candidates.

Our commercial success depends upon our ability to identify, test, develop, manufacture, market and sell product candidates and use our and our licensors' or collaborators' proprietary technologies without infringing the proprietary

rights of third parties. Pursuant to the license agreement with IDRI, we obtained licensing rights to certain GLA technologies, which we utilize in the development of our GLA product candidates. Similarly, under our licenses with Caltech and UNC Chapel Hill, we obtained rights to certain patents which we utilize in the development of our ZVex based product candidates. If we fail to comply with the obligations under the license agreements, including a material breach by us, certain insolvency events or failure to diligently pursue the development of products, the other party may have the right to terminate the license agreements. In addition, IDRI may terminate our licenses in the event we challenge the validity, enforceability or scope of any patent licensed to us by IDRI. In the event one of these licenses is terminated, we will not be able to develop, manufacture, market or sell any product candidate that is covered by the license agreement. Such an occurrence would adversely affect our ability to continue to develop our current product candidates as well as potential future product candidates. Termination of any of these licenses or reduction or elimination of our rights under any license agreement may result in our having to negotiate a new or reinstated agreement, which may not be available to us on equally favorable terms, or at all, or cause us to lose our rights under the license agreement, including our rights to intellectual property or technology important to our development programs.

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We may be subject to claims by third parties asserting that we or our employees have misappropriated their intellectual property, or claiming ownership of what we regard as our own intellectual property.

Many of our employees, including our senior management, were previously employed at universities or at other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Some of these employees executed proprietary rights, non-disclosure and non-competition agreements in connection with such previous employment. Although we try to ensure that our employees do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that we or these employees have used or disclosed confidential information or intellectual property, including trade secrets or other proprietary information, of any such employee's former employer. Litigation may be necessary to defend against these claims.

Parties making claims against us may obtain injunctive or other equitable relief, which could effectively block our ability to further develop and commercialize one or more of our product candidates. Defending against claims of misappropriation of trade secrets could be costly and time consuming, regardless of the outcome. If we fail in prosecuting or defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel or sustain damages. Such intellectual property rights could be awarded to a third party, and we could be required to obtain a license from such third party to commercialize our technology or products. Such a license may not be available on commercially reasonable terms or at all. Even if we successfully prosecute or defend against such claims, litigation could result in substantial costs and distract management.

Our inability to protect our confidential information and trade secrets would harm our business and competitive position.

In addition to seeking patents for some of our technology and products, we also rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position. We seek to protect these trade secrets, in part, by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our employees, corporate collaborators, outside scientific collaborators, contract manufacturers, consultants, advisors and other third parties. We also enter into confidentiality and invention or patent assignment agreements with our employees and consultants. Despite these efforts, any of these parties may breach the agreements and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts both within and outside the United States may be less willing or unwilling to protect trade secrets. If a competitor lawfully obtained or independently developed any of our trade secrets, we would have no right to prevent such competitor from using that technology or information to compete with us, which could harm our competitive position.

Risks Related to Ownership of Our Common Stock

The market price of our stock may be volatile, and you could lose all or part of your investment.

The trading price of our common stock has been and is likely to continue to be highly volatile. Since our initial public offering in July 2014 at a price of $12.00 per share, and through December 31, 2017, the sale price of our common stock as reported on The Nasdaq Global Market, or Nasdaq, has ranged from $40.13 to $3.50. Our announcement on October 17, 2017 of our plans to proceed with a Phase 3 clinical trial for our CMB305 product candidate in patients with synovial sarcoma resulted in a significant decline in the market price of our common stock. In addition, as with any public company, some investors hold a short position in our common stock. Activities by these investors may increase the volatility of the market price of our common stock and may affect our ability to raise additional funds and to complete our clinical trials and operations. Our stock could also be subject to wide fluctuations in response to various factors, some of which we cannot control. In addition to the factors discussed in this "Risk Factors" section and elsewhere in this report, these factors include:

- the timing of the commencement and progress of, and the receipt of data from, any of our preclinical and clinical trials;
- unfavorable reports or downgrades by financial analysts;
- results of clinical trials of our competitor's product candidates;
- the success of competitive products or technologies;
- regulatory actions with respect to our products or our competitors' products;

- actual or anticipated changes in our growth rate relative to our competitors;
- announcements by us or our competitors of significant acquisitions, strategic collaborations, joint ventures, collaborations or capital commitments;
- regulatory or legal developments in the United States and other countries;

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- developments or disputes concerning patent applications, issued patents or other proprietary rights;
- the departure of key personnel;
- the level of expenses related to any of our product candidates or clinical development programs;
- the results of our efforts to in-license or acquire additional product candidates or products;
- actual or anticipated changes in estimates as to financial results, development timelines or recommendations by securities analysts;
- variations in our financial results or those of companies that are perceived to be similar to us;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- announcement or expectation of additional financing efforts;
- sales of our common stock by us, our officers, directors, or their affiliated funds or our other stockholders;
- changes in the structure of healthcare payment systems;
- market conditions in the pharmaceutical and biotechnology sectors;
- rumors or new announcements by third parties, including competitors; and
- general economic, industry and market conditions.

In addition, the stock market in general, Nasdaq, and biotechnology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. Broad market and industry factors may negatively affect the market price of our common stock, regardless of our actual operating performance. The realization of any of the above risks or any of a broad range of other risks, including those described in this “Risk Factors” section, could have a dramatic and material adverse impact on the market price of our common stock.

Our principal stockholders own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.

As of December 31, 2017, the holders of 5% or more of our capital stock and their respective affiliates beneficially owned approximately 60% of our voting stock. These stockholders may have the ability to control us through this ownership position and be able to determine all matters requiring stockholder approval. For example, these stockholders may be able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our stockholders. The interests of this group of stockholders may not always coincide with your interests or the interests of other stockholders and they may act in a manner that advances their best interests and not necessarily those of other stockholders, including seeking a premium value for their common stock, and might affect the prevailing market price for our common stock.

We are an “emerging growth company” as defined in the JOBS Act and will be able to avail ourselves of reduced disclosure requirements applicable to emerging growth companies, which could make our common stock less attractive to investors and adversely affect the market price of our common stock.

For so long as we remain an “emerging growth company” as defined in the JOBS Act, we may take advantage of certain exemptions from various requirements applicable to public companies that are not “emerging growth companies” including:

- the provisions of Section 404(b) of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requiring that our independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting;
- the “say on pay” provisions (requiring a non-binding shareholder vote to approve compensation of certain executive officers) and the “say on golden parachute” provisions (requiring a non-binding shareholder vote to approve golden parachute arrangements for certain executive officers in connection with mergers and certain other business combinations) of the Dodd-Frank Wall Street Reform and Protection Act, or Dodd-Frank Act, and some of the disclosure requirements of the Dodd-Frank Act relating to compensation of our chief executive officer;
- the requirement to provide detailed compensation discussion and analysis in proxy statements and reports filed under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and instead provide a reduced level of

disclosure concerning executive compensation; and

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- any rules that the Public Company Accounting Oversight Board may adopt requiring mandatory audit firm rotation or a supplement to the auditor's report on the financial statements.

We may take advantage of these exemptions until we are no longer an "emerging growth company." We would cease to be an "emerging growth company" upon the earliest of: (i) the first fiscal year following the fifth anniversary of our initial public offering in July 2014; (ii) the first fiscal year after our annual gross revenues are $1.07 billion or more; (iii) the date on which we have, during the previous three-year period, issued more than $1.0 billion in non-convertible debt securities; or (iv) as of the end of any fiscal year in which the market value of our common stock held by non-affiliates exceeded $700.0 million as of the end of the second quarter of that fiscal year.

We currently take advantage of some, but not all, of the reduced regulatory and reporting requirements that will be available to us so long as we qualify as an "emerging growth company." For example, we have irrevocably elected not to take advantage of the extension of time to comply with new or revised financial accounting standards available under Section 102(b) of the JOBS Act. Our independent registered public accounting firm will not be required to provide an attestation report on the effectiveness of our internal control over financial reporting so long as we qualify as an "emerging growth company," which may increase the risk that material weaknesses or significant deficiencies in our internal control over financial reporting go undetected. Likewise, so long as we qualify as an "emerging growth company," we may elect not to provide you with certain information, including certain financial information and certain information regarding compensation of our executive officers, that we would otherwise have been required to provide in filings we make with the SEC which may make it more difficult for investors and securities analysts to evaluate our company. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock, and our stock price may be more volatile and may decline.

We incur significant increased costs as a result of operating as a public company, and our management devotes substantial time to meet compliance obligations.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act as well as rules subsequently implemented by the SEC and Nasdaq that impose significant requirements on public companies, including requiring establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition. In addition, on July 21, 2010, the Dodd-Frank Act, was enacted. There are significant corporate governance and executive compensation-related provisions in the Dodd-Frank Act that require the SEC to adopt additional rules and regulations in these areas such as "say on pay" and proxy access. The requirements of these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and may also place undue strain on our personnel, systems and resources. Our management and other personnel will need to devote a substantial amount of time to these new compliance initiatives.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

We are subject to the periodic reporting requirements of the Exchange Act. We designed our disclosure controls and procedures to reasonably assure that information we must disclose in reports we file or submit under the Exchange Act is accumulated and communicated to management, and recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

Sales of a substantial number of shares of our common stock 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. In July 2017, we entered into a Sales Agreement with Cowen and Company, LLC under which we may offer and sell, from time to time at our sole discretion, shares of our common stock having an aggregate offering price of up to $50.0 million. We are unable to predict the effect that sales may have on the prevailing market price of our common stock.

Our common stock is thinly traded and in the future, may continue to be thinly traded, and our stockholders may be unable to sell at or near asking prices or at all if they need to sell their shares to raise money or otherwise desire to liquidate such shares.

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Although we have had periods of high volume daily trading in our common stock, generally our stock is thinly traded. For example, the average daily trading volume in our common stock on Nasdaq for the year ended December 31, 2017 was approximately 329,000 shares per day. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our stockholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline significantly in the event that a large number of shares of our common stock are sold on the market without commensurate demand, as compared to a seasoned issuer that could better absorb those sales without adverse impact on its share price.

Some provisions of our charter documents and Delaware law may have anti-takeover effects that could discourage an acquisition of us by others, even if an acquisition would benefit our stockholders and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us or increase the cost of acquiring us, even if doing so would benefit our stockholders, or remove our current management. These provisions include:

- authorizing the issuance of “blank check” preferred stock, the terms of which we may establish and shares of which we may issue without stockholder approval;
- prohibiting cumulative voting in the election of directors, which would otherwise allow for less than a majority of stockholders to elect director candidates;
- prohibiting stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of our stockholders;
- eliminating the ability of stockholders to call a special meeting of stockholders; and
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, who are responsible for appointing the members of our management. Because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, or the DGCL, which may discourage, delay or prevent someone from acquiring us or merging with us whether or not it is desired by or beneficial to our stockholders. Under the DGCL, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction. Any provision of our amended and restated certificate of incorporation or amended and restated bylaws or Delaware law that has the effect of delaying or deterring a change of control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We currently lease approximately 20,133 square feet of office and laboratory space in Seattle, Washington. This lease commenced on January 1, 2017, and the lease term is for five years, with an option to extend for an additional three years. In May 2017, we entered into a sublease agreement, under which we are subleasing 5,048 square feet to a third party for a period of three years.

We also lease 9,640 square feet of office space in South San Francisco, California. This lease expires in January 2020, with an option to extend the lease term for an additional five years.

We believe that our existing facilities are sufficient for our current needs.

Item 3. Legal Proceedings

TheraVectys SA v. Immune Design Corp.

On October 17, 2016, we entered into a Settlement Agreement and a License Agreement with TheraVectys SA (TVS) obtaining certain present and future intellectual property rights and resolving the litigation that TVS initiated against us in the Chancery Court of the State of Delaware in July 2014, as well as related claims and counterclaims. In the

proceeding, TVS had alleged that it had entered into a contractual relationship with Henogen SA (Henogen) in 2010 with respect to the production of

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lentiviral vector vaccines for TVS. Henogen is a contract manufacturing organization with which we contracted for the manufacture of our LV305 product candidate. TVS alleged that its contractual relationship with Henogen contained an exclusivity provision limiting Henogen's ability to participate in the manufacturing process of a vaccine based on lentiviral DNA vectors for third parties, as well as a provision preventing Henogen from sharing or using certain TVS confidential technology for manufacturing processes developed by TVS with or for the benefit of others. TVS alleged that we entered into a contractual relationship with Henogen in 2012 to manufacture lentiviral vectors for vaccines, which TVS contends interfered with its contract with Henogen and resulted in the use of certain TVS confidential information and trade secrets. In addition, the complaint alleged that we obtained shipments of lentiviral vectors for vaccines from Henogen and conducted clinical trials with these lentiviral vectors. The complaint asserted four counts for relief: tortious interference with contractual relationship, unfair competition, misappropriation of trade secrets, and unjust enrichment. Claimed damages were not specified.

Under the Settlement Agreement, TVS agreed to dismiss all pending litigation brought by TVS against us and to withdraw patent opposition proceedings (EPO Proceeding) brought by TVS against our European Patent No EP 2 456 786 (EU Patent). Also under the Settlement Agreement, both parties agreed to a broad release of claims against one another based on acts or omissions arising out of the litigation, or the facts and circumstances giving rise to the litigation. Neither party made any admission of liability or wrongdoing under the Settlement Agreement.

As a non-contingent fee for a license to certain present and future intellectual property of TVS, and in consideration for the settlement of all claims and disputes between the parties, we paid $6.0 million into an escrow account (Escrowed Payment), and we also agreed to pay $1.25 million to TVS if and when we raised $25.0 million, in the aggregate, through equity sales, debt or licensing revenue. The Escrowed Payment was to be disbursed to TVS as follows: (a) fifty percent (50%) when (i) Institut Pasteur consented to the granting by TVS to us of a sublicense to certain patents licensed by TVS (or to be licensed by TVS) from Institut Pasteur and (ii) the litigation in the United States and Belgium had been dismissed; and (b) fifty percent (50%) upon the final resolution of the EPO Proceeding if the scope of the EU Patent remained unchanged (Escrow Conditions); provided, that any delays in satisfying the Escrow Conditions would potentially result in a reduction of the amount of the Escrowed Payment that was disbursed to TVS.

In November 2017, we paid $1.25 million to TVS upon completion of an underwritten public offering in which we raised estimated net proceeds of approximately $86.6 million, after deducting underwriting discounts, commissions and offering expenses. In February 2018, the parties came to an agreement on the timing and satisfaction of the Escrow Conditions, and the escrow agent disbursed $5.25 million of the Escrow Payment to TVS and $750,000 of the Escrow Payment to Immune Design. No additional payments are expected to be made under the terms of the Settlement Agreement.

In addition, the License Agreement provides us with a field limited, non-exclusive, sublicensable license for oncology uses to certain current and future intellectual property rights owned, controlled and licensed by TVS. For licensed products developed under the License Agreement, we would be obligated to pay certain development and commercial milestones and royalties. See the section titled "Business–Licensing Agreements– License Agreement with TheraVectys SA" for additional information pertaining to the License Agreement.

European Patent Opposition

In February 2013, a third party filed an opposition at the European Patent Office (EPO) requesting revocation of European Patent No. 2068918 directed to GLA formulations and uses. This patent is owned by Infectious Disease Research Institute (IDRI), and we hold an exclusive license to this patent in certain fields. The oral proceedings for this opposition were held in September 2016. At the oral proceedings, the EPO maintained the patent in an amended form, which continues to cover the GLAAS products being developed by us and our licensees. We and the opponent have appealed this decision. However, the outcome of an appeal to this proceeding will not be known for several years.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock has been listed on The Nasdaq Global Market under the symbol "IMDZ" since July 24, 2014. Prior to July 24, 2014, there was no public trading market for our common stock. The following table sets forth for the periods indicated the high and low sales prices per share of our common stock as reported on The Nasdaq Global Market:

Year Ended December 31, 2017:	High	Low
Fourth Quarter	$11.10	$3.50
Third Quarter	$13.05	$7.70
Second Quarter	$11.10	$5.45
First Quarter	$7.60	$5.00
Year Ended December 31, 2016:	High	Low
Fourth Quarter	$8.75	$4.50
Third Quarter	$8.44	$6.02
Second Quarter	$16.94	$7.52
First Quarter	$19.91	$7.90

As of March 12, 2018, we had 48,125,008 shares of common stock outstanding held by approximately 18 stockholders of record. The actual number of stockholders is greater than this number of record holders and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Stock Performance Graph

The following graph illustrates a comparison of the total cumulative stockholder return on our common stock since July 24, 2014, which is the date our common stock first began trading on The Nasdaq Global Market, to two indices: the Nasdaq Composite Index and the Nasdaq Biotechnology Index. The stockholder return shown in the graph below is not necessarily indicative of future performance, and we do not make or endorse any predictions as to future stockholder returns. This graph shall not be deemed "soliciting material" or be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

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$100 investment in stock or index	July 24, 2014	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
Immune Design (IMDZ)	$100.00	$ 255.44	$ 166.64	$ 45.64	$ 32.37
Nasdaq Composite Index (IXIC)	$100.00	$ 105.90	$ 111.97	$ 120.37	$ 154.37
Nasdaq Biotechnology Index (NBI)	$100.00	$ 118.82	$ 132.45	$ 103.73	$ 125.58

Dividend Policy

We have never declared or paid any cash dividends on our capital stock and do not anticipate paying any cash dividends in the foreseeable future. Payment of cash dividends, if any, in the future will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant.

Recent Sales of Unregistered Securities

None

Initial Public Offering

Use of Proceeds

In July 2014, we completed an initial public offering (the IPO) of 5,000,000 shares of common stock at a price of $12.00 per share. In August 2014, we sold an additional 410,564 shares of common stock directly to our underwriters when they exercised portions of their over-allotment option on two separate occasions at $12.00 per share. We received net proceeds of $57.8 million (inclusive of the exercise of the over-allotment option) after deducting underwriting discounts and commissions and offering expenses totaling $7.1 million.

None of the expenses associated with the IPO were paid to directors, officers, or persons owning 10% or more of any class of equity securities, or to their associates, or to our affiliates, other than payments in the ordinary course of business to officers for salaries. Jefferies LLC and Leerink Partners LLC acted as joint book-running managers, and Wells Fargo Securities, LLC acted as co-manager for the offering. Shares of our common stock began trading on The Nasdaq Global Market on July 24, 2014. The shares were registered under the Securities Act on Registration Statement on Form S-1 (Registration No. 333-196979), which was declared effective by the SEC on July 23, 2014.

As of December 31, 2017, we have used all of the net offering proceeds primarily to fund clinical development of our product candidates, litigation, legal and administration expenses to fund the growth of our operations.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

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Item 6. Selected Financial Data.

The following selected financial data should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the accompanying notes included elsewhere in this report. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period.

	YEARS ENDED DECEMBER 31,				
	2017	2016	2015	2014	2013
	(in thousands, except share and per share amounts)				
Statements of Operations Data:					
Total revenues	$7,195	$13,260	$9,510	$6,433	$1,599
Operating expenses:					
Cost of product sales	84	481	774	638	669
Research and development	43,670	45,134	33,087	22,746	11,554
General and administrative	16,253	21,859	15,134	12,927	4,433
Total operating expenses	60,007	67,474	48,995	36,311	16,656
Loss from operations	(52,812)	(54,214)	(39,485)	(29,878)	(15,057)
Interest and other income	950	684	40	4	37
Change in fair value of convertible preferred stock warrant liability	—	—	—	(4,277)	(955)
Net loss attributable to common stockholders	$(51,862)	$(53,530)	$(39,445)	$(34,151)	$(15,975)
Basic and diluted net loss per share attributable to common stockholders (1) (2)	$(1.75)	$(2.47)	$(2.06)	$(4.56)	$(43.48)
Weighted-average shares used to compute basic and diluted net loss per share attributable to common stockholders (1) (2)	29,626,941	21,638,468	19,155,918	7,494,790	367,437

(1) See Note 3 of our consolidated financial statements included elsewhere herein for an explanation of the method used to compute basic and diluted net loss per share of common stock and the weighted-average number of shares used in computation of the per share amounts.

(2) See Note 11 of our consolidated financial statements included elsewhere herein for disclosure related to common stock issuances and net proceeds from our initial public offering in July 2014 and our follow-on public offering in May 2015.

	AS OF DECEMBER 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$72,454	$45,214	$112,921	$75,354	$30,387
Working capital	138,623	94,818	108,449	66,035	28,695
Total assets	153,834	114,495	116,145	78,383	30,965
Convertible preferred stock warrant liability	—	—	—	—	3,336
Convertible preferred stock	—	—	—	—	81,394
Total stockholders' equity (deficit)	139,212	95,176	108,993	66,346	(55,834)

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and the related notes appearing elsewhere in this Annual Report on Form 10-K. In addition to historical information, some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to our plans and strategy for our business, future financial performance, expense levels and liquidity sources, includes forward-looking statements that involve risks and uncertainties. You should read the "Risk Factors" section of this report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are a clinical-stage immunotherapy company with next-generation in vivo approaches designed to enable the body's immune system to fight disease. Although we believe our approaches have broad potential across multiple therapeutic areas, we are focused in oncology and have designed our technologies to activate the immune system's natural ability to create tumor-specific cytotoxic T cells to fight cancer via distinct mechanisms. Our two lead product candidates, CMB305 and G100, utilize different immuno-oncology approaches that, we believe, address the shortcomings of existing therapies and have the potential to treat a broad patient population either as individual therapies or in combination with other mechanisms of action. We have also been executing a strategy to partner individual indications outside of oncology in infectious and allergic diseases, which provide potential downstream economics while preserving growth opportunity in the future..

We have devoted substantially all of our resources since inception to our drug development efforts, including undertaking clinical trials of our product candidates, development of our ZVex and GLAAS discovery platforms, conducting preclinical studies, protecting our intellectual property and providing general and administrative support to our product development activities. To date, we have funded our operations primarily through proceeds from the issuance of our stock, payments received under license and collaboration agreements and GLA product sales.

Our net loss was $51.9 million, $53.5 million and $39.4 million for the years ended December 31, 2017, 2016 and 2015, respectively. As of December 31, 2017, we had an accumulated deficit of $235.8 million. We have incurred net losses to date and we expect to continue to incur significant expenses and increasing operating losses for at least the next several years. Our net losses may fluctuate significantly from quarter to quarter and year to year. We anticipate that our expenses will significantly increase as we:

- complete our current and planned Phase 1 and Phase 2 clinical trials;
- continue research and development efforts to build our pipeline beyond the current product candidates;
- perform additional process development for our product candidates, including initial commercial scale up efforts;
- seek regulatory approvals for our product candidates, if any, that successfully complete clinical trials;
- establish a sales, marketing and distribution infrastructure to commercialize and market products for which we obtain regulatory approval;
- maintain, expand and protect our intellectual property portfolio;
- hire additional clinical, quality control, scientific and management personnel; and
- add operational and financial personnel to support our product development efforts and operational support applicable to operating as a public company.

We do not expect to generate significant revenue unless and until we successfully complete development of, obtain marketing approval for and commercialize our product candidates, either alone or in collaboration with third parties. We expect these activities will take a number of years and our success in these efforts is subject to significant uncertainty. Accordingly, we will need to raise additional capital prior to the regulatory approval and commercialization of any of our product candidates. Until such time, if ever, as we can generate substantial product revenues, we expect to finance our operating activities through public or private equity or debt financings, collaborations or licenses, capital lease transactions or other available financing transactions. However, additional capital may not be available on reasonable terms, if at all, and if we raise additional funds through the issuance of additional equity or debt securities, it could result in dilution to our existing stockholders and increased fixed payment obligations.

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Financial Overview

Revenue

Collaboration and Licensing Revenue

We derive our revenue from collaboration and licensing agreements and the sale of products associated with material transfer, collaboration and GLA supply agreements. Revenues derived from funding of development costs are recognized when the related costs are incurred and when collectability is reasonable assured. Revenues from upfront fees and development services are classified as license and collaboration revenue, respectively, in our consolidated statements of operations. We may generate revenue in the future from payments from future license or collaboration agreements, product sales or government contracts and grants. We expect that any revenue we generate will fluctuate from quarter to quarter.

In August 2014, we entered into an agreement with Sanofi under which we granted Sanofi an exclusive license for use of our GLAAS platform to discover, develop and commercialize products to treat peanut allergy. Upon execution of the agreement, we received a $3.5 million upfront payment, recognized as revenue during the year ended December 31, 2014. The agreement provides for additional payments based upon the achievement of certain development and commercialization milestones, and tiered royalties on sales of approved products. We recognized no milestone revenue under this agreement for the year ended December 31, 2017, and $7.0 million and $1.0 million in milestone revenue under this agreement for the years ended December 31, 2016 and 2015, respectively.

In October 2010, we entered into three separate license agreements with MedImmune pursuant to which we granted MedImmune a worldwide, sublicensable, exclusive license to use GLA to develop and sell vaccines in three different infectious disease indications. MedImmune paid us upfront payments under the license agreements in 2010. Two of the three agreements remain in full force and effect, and the rights granted under the third have returned to us. Under each license agreement, MedImmune is obligated to make additional payments based on the achievement of certain developmental, regulatory and commercial milestones for the licensed indication. We recognized no revenue for the achievement of development milestones under one of these license agreements for the years ended December 31, 2017 and 2016, and $2.5 million in milestone revenue for the year ended December 31, 2015. MedImmune is also obligated to pay us a low double-digit percentage share of any non-royalty payments that it receives from sublicensees and mid single-digit royalty payments on net sales of licensed products, which royalty is subject to reduction under certain circumstances.

In October 2014, we entered into a collaboration with Sanofi Pasteur for the development of a Herpes Simplex Virus, or HSV, immune therapy. Sanofi Pasteur and Immune Design will each contribute product candidates to the collaboration: Sanofi Pasteur will contribute HSV-529, a clinical-stage replication-defective HSV vaccine product candidate, and Immune Design will contribute G103, our preclinical trivalent vaccine product candidate. The collaboration will explore the potential of various combinations of agents, including leveraging Immune Design’s GLAAS platform, with the goal to select the best potential immune therapy for patients. Each company will develop the products jointly through Phase 2 clinical trials, at which point Sanofi Pasteur intends to continue development of the most promising candidate and be responsible for commercialization. Sanofi Pasteur will bear the costs of all preclinical and clinical development, with Immune Design providing a specific formulation of GLA from the GLAAS platform at its cost through Phase 2 studies. Immune Design will be eligible to receive future milestone and royalty payments on any licensed product developed from the collaboration. We recognized $6.9 million, $4.6 million and $4.2 million in collaboration service revenue under this agreement for the years ended December 31, 2017, 2016 and 2015, respectively.

From time to time, we also enter into non-exclusive license arrangements, material transfer agreements or option agreements with respect to GLA in specified non-oncology indications. The parties with whom we contract are in certain cases obligated to make additional payments based on achievement of milestones.

GLA Product Sales

We sell formulations of GLA to selected companies for use in ongoing preclinical studies and clinical trials. All revenues associated with the sale of GLA supplied by us are reported as GLA product sales with the applicable costs reported under cost of product sales.

Research and Development Expenses

We focus our resources on our internal and collaborative research and development activities, including the conduct of preclinical studies, product development, clinical trials and activities related to regulatory filings for our product candidates and clinical trials. We recognize our research and development expenses as they are incurred. Research and development costs consist of salaries and benefits, including associated stock-based compensation, lab supplies and facility costs, as well as fees paid to other entities that conduct certain research and development activities, including clinical studies and manufacturing, on our behalf.

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We are conducting research and development activities on several oncology disease targets and account for research and development costs on a program-by-program basis. The table below summarizes our direct research and development expenses for the periods indicated. Our direct research and development expenses consist principally of external costs, such as fees paid to contract manufacturing organizations (CMOs), clinical research organizations (CROs), consultants, clinical trial sites and for contract research services. We typically use our employee and infrastructure resources across multiple research and development programs and therefore do not allocate salaries, stock-based compensation, employee benefit or other indirect costs related to our research and development to specific product candidates. Those expenses are included in "Indirect research and development expense by type" in the table below (in thousands):

	YEARS ENDED DECEMBER 31,		
	2017	2016	2015
	(in thousands)		
Direct research and development expense by platform:			
ZVex	$11,692	$15,465	$14,262
GLAAS	3,971	5,298	4,883
G103	6,646	4,432	3,911
Other	2,100	—	—
Total direct research and development program expense	24,409	25,195	23,056
Indirect research and development expense by type:			
Personnel related costs	12,775	11,591	8,334
Research and development supplies and services	3,915	6,531	653
Allocated facility, equipment, travel and other expense	2,571	1,817	1,044
Total indirect research and development expense	19,261	19,939	10,031
Total research and development expense	$43,670	$45,134	$33,087

We plan to increase our research and development expenses for the foreseeable future as we continue to develop our product candidates. At this time, we cannot reasonably estimate the nature, timing or costs of the efforts that will be necessary to complete the remainder of the development of any of our product candidates or the period in which material net cash, if any, from these product candidates may commence. This is due to the numerous risks and uncertainties associated with developing drugs, including the uncertainty of:

- the scope, rate of progress, expense and results of our ongoing and additional clinical trials that we may conduct;
- the scope, rate of progress and expense of process development;
- other research activities; and
- the timing of regulatory approvals.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and related costs for employees in executive, finance, information technology and human resources functions. Other significant general and administrative expenses include professional fees for accounting and legal services, expenses associated with obtaining and maintaining patents and other intellectual property and allocation of facilities costs.

We expect that our general and administrative expenses will increase as we continue to expand infrastructure to support operating as a public company and our advancing development efforts. These increases have and will likely include costs related to the hiring of additional personnel, director and officer liability insurance and increased fees for directors, outside consultants, lawyers and accountants. We also expect to incur significant costs to comply with corporate governance, internal controls and similar requirements applicable to public companies.

Interest and other income

Interest and other income consists of interest income earned on our cash and cash equivalents and marketable securities, foreign currency gain or loss and the gain or loss on the disposal of property and equipment, if any.

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Results of Operations

Comparison of Years Ended December 31, 2017 and 2016

The following table summarizes our results of operations for the years ended December 31, 2017 and 2016:

	YEARS ENDED DECEMBER 31,		INCREASE/ DECREASE
	2017	2016	
	(in thousands)		
Total revenues	$7,195	$13,260	$ (6,065)
Operating expenses:			
Cost of product sales	84	481	(397)
Research and development	43,670	45,134	(1,464)
General and administrative	16,253	21,859	(5,606)
Total operating expenses	60,007	67,474	(7,467)
Loss from operations	(52,812)	(54,214)	1,402
Interest and other income	950	684	266
Net loss attributable to common stockholders	$(51,862)	$(53,530)	$ 1,668

Total Revenues and Cost of Product Sales

The $6.1 million decrease in total revenues was primarily attributable to a $7.0 million decrease in licensing revenue as a result of the $7.0 million milestone revenue recognized under our License Agreement with Sanofi during the year ended December 31, 2016. There was no such licensing revenue from Sanofi or any other collaboration partner recognized during the year ended December 31, 2017. In addition, product sales to collaboration partners and other third parties under material transfer agreements decreased by $1.3 million during the year ended December 31, 2017 compared to the year ended December 31, 2016, as there were no product sales to any of our collaboration partners and one shipment of $0.3 million made to other third parties under material transfer agreements during 2017 compared to $1.5 million made to collaboration partners during 2016. These increases were partially offset by a $2.2 million increase in collaboration revenue related to the performance of research services associated with the Sanofi Pasteur G103 collaboration that was entered into in the fourth quarter of 2014. Product sales to collaboration partners and other third parties and collaboration service revenue will fluctuate from period to period based upon the timing and amount of product shipments made to collaboration partners and other third parties and the amount of contract services performed during such period, respectively.

Research and Development Expenses

The $1.5 million decrease in research and development expense was primarily attributable to a decrease of $3.2 million in-licensing royalties and fees due to other third parties from which we license various technologies and a $0.3 million decrease in clinical trial costs based upon the level of patient activities performed during the comparable periods. Offsetting these decreases was a $1.2 million increase in personnel-related expenses, which was primarily due to an increase in compensation and benefits as a result of an increase in research and development headcount, which included a new VP of Regulatory Affairs and a new VP of Oncology Platform to the executive team to support our advancing research and clinical pipeline activities. In addition, there was a $0.7 million increase in facility related costs and expenses associated with our new facility lease for our headquarters in Seattle, which commenced on January 1, 2017 and an increase of $0.3 million in contract manufacturing costs related to the various process development and manufacturing services performed at our contract manufacturers due primarily to the timing of when the services are completed and performed. Contract manufacturing costs will fluctuate from period to period based upon the timing of when contract manufacturing services are performed during the periods.

General and Administrative Expenses

The $5.6 million decrease in general and administrative expense was primarily attributable to the $5.9 million litigation-related settlement recorded during the year ended December 31, 2016, as part of our Settlement Agreement with TVS. In addition, we had an increase of $0.7 million in personnel related expenses due to a slight increase in headcount to support operations which was offset by a $0.6 million decrease in professional services.

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Comparison of Years Ended December 31, 2016 and 2015

The following table summarizes the results of our operations for the years ended December 31, 2016 and 2015:

	YEARS ENDED DECEMBER 31,		INCREASE/ DECREASE
	2016	2015	
	(in thousands)		
Total revenues	$13,260	$9,510	$ 3,750
Operating expenses:			
Cost of product sales	481	774	(293)
Research and development	45,134	33,087	12,047
General and administrative	21,859	15,134	6,725
Total operating expenses	67,474	48,995	18,479
Loss from operations	(54,214)	(39,485)	(14,729)
Interest and other income	684	40	644
Net loss attributable to common stockholders	$(53,530)	$(39,445)	$ (14,085)

Total Revenue and Cost of Product Sales

The $3.8 million increase in total revenues was primarily attributable to a $3.5 million increase in licensing revenue as a result of the $7.0 million milestone revenue recognized under our License Agreement with Sanofi during the year ended December 31, 2016 compared to $3.5 million in licensing revenue recognized in the same period in prior year. In addition, we had a $0.5 million increase in collaboration revenue related to the timing of research services associated with the Sanofi Pasteur G103 collaboration that was entered into in the fourth quarter of 2014. These increases were partially offset by a $0.2 million decrease in product sales related to the timing of product shipments to our collaboration partners.

Research and Development Expenses

The $12.0 million increase in research and development expense was primarily attributable to an increase of $9.2 million in our clinical trials costs related to the continuing advancement of our Phase 1 and Phase 2 clinical trials, an increase of $3.3 million in personnel-related expenses which was primarily due to an increase in compensation and benefits and higher stock-based compensation as a result of an increase in research and development headcount to support our advancing research and clinical pipeline, an increase of $0.8 million in professional services, research and development supplies and services, facility-related and travel and entertainment expenses as a result of the increase in activity in our research and development and clinical trials activity, and an increase of $0.4 million in license and royalty fees due to other third parties. These increases were partially offset by a decrease of $1.8 million in our ongoing contract manufacturing and process development programs due primarily to the timing of when services are completed and performed.

General and Administrative Expenses

The $6.7 million increase in general and administrative expense was primarily attributable to the $5.9 million litigation-related settlement recorded during the year ended December 31, 2016, as part of our Settlement Agreement with TVS. In addition, we had an increase of $0.8 million in personnel related expenses due to a slight increase in headcount to support operations and higher stock-based compensation expense.

Liquidity and Capital Resources

Since our inception through December 31, 2017, we have raised or earned a total of $386.1 million in cash, including:

- $343.7 million from the sale of our common stock, convertible preferred stock and warrants and the exercise of the warrants in connection with our IPO;
- $21.3 million from the licensing of our technology;
- $13.5 million from our collaboration agreements; and
- $7.6 million primarily from GLA sales.

In October 2017, we completed an underwritten follow-on public offering, which resulted in the sale of 22,425,000 shares of our common stock to the public at a price of $4.10 per share. We received net proceeds from the offering of $86.6 million, inclusive of the exercise of a portion of the underwriters' option to purchase additional shares, after

deducting underwriting discounts and commissions and offering expenses totaling $5.4 million.
As of December 31, 2017, we had cash and cash equivalents, short-term investments and other receivables totaling $144.2 million. In addition to our existing cash and cash equivalents and short-term investments, we are eligible to receive research and development funding and to earn milestone and other contingent payments for the achievement of defined collaboration

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objectives and certain development, regulatory and commercial milestones and royalty payments under our collaboration agreements. Our ability to earn these milestone and contingent payments and the timing of achieving these milestones is primarily dependent upon the outcome of our collaborators' research and development activities and is uncertain at this time.

At-The-Market Offering

On July 3, 2017, we filed a prospectus supplement for an at-the-market offering, or ATM, program with the SEC related to the offer and sale from time to time of our common stock at an aggregate offering price of up to $50.0 million through Cowen and Company, LLC, as sales agent. The shares of common stock will be issued pursuant to our shelf registration statement on Form S-3 (File No. 333-206324). No shares of common stock have been sold under this prospectus supplement.

Funding Requirements

Our primary uses of capital are, and we expect will continue to be, compensation and related expenses, third-party clinical and preclinical research and development services, including manufacturing, laboratory and related supplies, legal, patent and other regulatory expenses and general overhead costs. We believe our use of CROs and CMOs provides us with flexibility in managing our spending and limits our cost commitments.

Because our product candidates are in various stages of clinical and preclinical development and the outcome of these efforts is uncertain, we cannot estimate the actual amounts necessary to successfully complete the development and commercialization of our product candidates or whether, or when, we may achieve profitability. Until such time, if ever, that we can generate substantial product revenues, we expect to finance our cash needs through equity or debt financings and, potentially, collaboration arrangements. Except for any obligations of our collaborators to reimburse us for research and development expenses or to make milestone or royalty payments under our agreements with them, we do not have any committed external source of liquidity. To the extent that we raise additional capital through the future sale of equity or debt, the ownership interest of our stockholders will be diluted and the terms of these securities may include liquidation or other preferences that adversely affect the rights of our existing common stockholders. If we raise additional funds through collaboration arrangements in the future, we may have to relinquish valuable rights to our technologies, future revenue streams or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

Based on our recent underwritten follow-on public offering, and our research and development plans and our timing expectations related to the progress of our programs, we expect that our existing cash and cash equivalents, short-term investments and other receivables as of December 31, 2017 will enable us to fund our operating expenses and capital expenditure requirements for at least the next 12 months following our financial statement issuance date. We have based this estimate on assumptions that may prove to be wrong, and we could use our capital resources sooner than we expect. Additionally, the process of developing products and testing them in clinical trials is costly, and the timing of progress and expenses in these trials is uncertain. Our future capital requirements will depend on many factors, including, among others:

- the scope, rate of progress, results and costs of our clinical trials, preclinical studies and other research and development activities;
- the scope, rate of progress and costs of our manufacturing development and commercial manufacturing activities;
- the cost, timing and outcomes of regulatory proceedings, including FDA review of any Biologics License Application, or BLA, we file;
- payments required with respect to development milestones we achieve under our in-licensing agreements;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims;
- the costs associated with commercializing our product candidates, if they receive regulatory approval;
- the cost and timing of developing our ability to establish sales and marketing capabilities;
- the costs of current or future litigation or judgments;
- competing technological efforts and market developments;
- changes in our existing research relationships;

- our ability to establish collaborative arrangements to the extent necessary;
- revenues received from any existing or future products; and
- payments received under any current or future strategic partnerships.

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Cash Flows

The following is a summary of our cash flows:

	YEARS ENDED DECEMBER 31,		
	2017	2016	2015
	(in thousands)		
Net cash used in operating activities	$(53,059)	$(35,740)	$(37,801)
Net cash used in investing activities	(7,039)	(62,421)	(427)
Net cash provided by financing activities	87,338	30,454	75,795

Net Cash Used in Operating Activities

Net cash used in operating activities was $53.1 million for the year ended December 31, 2017 and consisted primarily of our net loss of $51.9 million and a net increase in operating assets and liabilities of $10.2 million, which included restricted cash of $6.0 million associated with the TVS Settlement Agreement and a reduction in deferred revenue of $2.5 million attributable to the Sanofi Pasteur G103 collaboration agreement, which was offset by non-cash charges of $8.6 million for stock-based compensation expense and $0.4 million for depreciation and amortization expense.

Net cash used in operating activities was $35.7 million for the year ended December 31, 2016 and consisted primarily of our net loss of $53.5 million, which was offset by non-cash charges of $9.3 million for stock-based compensation expense and $0.4 million in depreciation and amortization, and a net increase in operating assets and liabilities of $8.1 million.

Net cash used in operating activities was $37.8 million for the year ended December 31, 2015 and consisted primarily of our net loss of $39.4 million and a net increase in operating assets and liabilities of $4.9 million, which was offset by non-cash charges of $6.3 million for stock-based compensation expense and $0.2 million for depreciation and amortization.

Net Cash Used in Investing Activities

Net cash used in investing activities was $7.0 million for the year ended December 31, 2017 and consisted primarily of purchases of $71.6 million in short-term investments in U.S. Treasury securities and $0.4 million in property and equipment, primarily lab equipment to support research and development efforts, which was offset by $65.0 million in maturities of these investments.

Net cash used in investing activities was $62.4 million for the year ended December 31, 2016 and consisted primarily of purchases of $102.3 million in short-term investments in U.S. Treasury securities, which was offset by $40.0 million in maturities of these investments.

Net cash used in investing activities was $0.4 million for the year ended December 31, 2015 and primarily relates to the purchase of property and equipment, specifically lab equipment to support research and development efforts.

Net Cash Provided by Financing Activities

Net cash provided by financing activities was $87.3 million for the year ended December 31, 2017 and consisted primarily of $86.6 million in net proceeds from our October 2017 public common stock offering and $0.7 million in cash received from the issuances of common stock under our stock-based compensation plans.

Net cash provided by financing activities was $30.4 million for the year ended December 31, 2016 and consisted of $30.3 million in net proceeds from our September 2016 public common stock offering and $0.1 million in cash received from the issuances of common stock under our stock-based compensation plans.

Net cash provided by financing activities was $75.8 million for the year ended December 31, 2015 and consisted primarily of $75.4 million in net proceeds received from our secondary offering in April 2015, and $0.4 million in cash received from the issuances of common stock under our stock-based compensation plans.

Contractual Obligations and Contingent Liabilities

The following summarizes our significant contractual obligations as of December 31, 2017:

CONTRACTUAL OBLIGATIONS	TOTAL	1 YEAR	2 TO 4 YEARS	MORE THAN 4 YEARS
	(in thousands)			
Operating leases (1)	$5,414	$ 1,486	$ 3,928	$ —

(1) Represents future minimum lease payments under non-cancelable operating leases in effect as of December 31, 2017, for our facilities in Seattle, Washington and South San Francisco, California. The minimum lease payments above do not include common area

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maintenance charges or real estate taxes. We were required to provide a $121,000 letter of credit as a security deposit on our lease for facilities in South San Francisco, of which no funds had been drawn down as of December 31, 2017. In addition, we provided a $200,000 letter of credit as a security deposit on our lease for facilities in Seattle, which commenced on January 1, 2017. See Note 9 to our consolidated financial statements appearing elsewhere in this report for further discussion of our leases.

The contractual obligations table above does not include any potential future milestone payments to third parties as part of certain collaboration and licensing agreements, which could total up to $8.8 million in aggregate payments for our clinical supply agreement with NanoPass Technologies LTD (NanoPass), up to $5.8 million in aggregate payments for each licensed product for our license agreement with TheraVectys SA (TVS) and up to $7.7 million aggregate payments for ZVex products we develop. Additionally, we could owe additional payments to IDRI of up to $2.3 million and $1.3 million, respectively, for the first and each subsequent exclusive licensed GLA/SLA product we develop and $1.3 million and $625,000, respectively, for the first and each subsequent non-exclusive licensed GLA/SLA product we develop. It also does not include any potential future royalty payments we may be required to make under our licensing agreements as described in Note 10 to our consolidated financial statements appearing elsewhere in this report.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which we have prepared in accordance with generally accepted accounting principles in the United States, or GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported revenues and expenses during the reporting periods. We evaluate these estimates and judgments on an ongoing basis. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Our actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully described in Note 2 to our consolidated financial statements appearing at the end of this report, we believe that the following accounting policies are the most critical to fully understanding and evaluating our financial condition and results of operations.

Principles of Consolidation

Our consolidated financial statements include the financial position and results of operations of Immune Design Corp. and Immune Design Ltd., our wholly owned subsidiary. Immune Design Ltd. was incorporated in the United Kingdom in February 2016 and to date there have been no financial transactions or balances related to this entity.

Short-Term Investments

Our short-term investments include funds invested in U.S. Treasury securities with a final maturity of each security of less than one year. All investments are classified as available-for-sale securities and are recorded at fair value based on quoted prices in active markets, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses and declines in fair value that are deemed to be other than temporary are reflected in the condensed consolidated statements of operations and comprehensive income (loss) using the specific-identification method.

Comprehensive Loss

Comprehensive loss is comprised of net loss and other comprehensive income or loss that are excluded from net loss. For the years ended December 31, 2017 and 2016, other comprehensive loss consisted of unrealized losses on our available-for-sale securities. For the year ended December 31, 2015, there was no difference between comprehensive loss and net loss.

Revenue Recognition

We derive our revenue from collaboration and licensing agreements and the sale of products associated with material transfer, collaboration and GLA supply agreements.

Licensing fees are recognized when the amounts are earned and determinable during the applicable period. We recognize up-front nonrefundable license fees when due under contractual agreements and when we do not have a continuing obligation to provide services related to the agreement. Revenue associated with nonrefundable up-front license fees under arrangements where the license fees and research and development activities cannot be accounted for as separate units of accounting is deferred and recognized as revenue on a straight-line basis over the expected term of our continued involvement in the research and development process. Revenues from the achievement of research and development milestones, if deemed substantive, are recognized as revenue when the milestones are achieved, and the milestone payments are due and collectible. If not deemed

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substantive, we recognize such milestones as revenue on a straight-line basis over the remaining expected term of continued involvement in the research and development process.

Milestones are considered substantive if all of the following conditions are met: (1) the milestone is nonrefundable, (2) achievement of the milestone was not reasonably assured at the inception of the arrangement; (3) substantive effort is involved to achieve the milestone; and (4) the amount of the milestone appears reasonable in relation to the effort expended, the other milestones in the arrangement and the related risk associated with the achievement of the milestone and any ongoing research and development or other services are priced at fair value. Payments received in advance of work performed are recorded as deferred revenue.

Certain agreements from which we derive our revenue include multiple deliverables. We recognize the revenue of each deliverable at fair value, determined to be the estimated selling price in cases where neither vendor-specific objective evidence nor third-party evidence is available. Revenues derived from funding of development costs are recognized when the related costs are incurred and when collectability is reasonably assured.

Revenue is recognized when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the price to the customer is fixed or determinable; and (4) collectability is reasonably assured. The evaluation of these revenue recognition criteria requires significant management judgment. For instance, we use judgment to assess collectability based on factors such as the customer's creditworthiness and past collection history, if applicable. If we determine that collection of a payment is not reasonably assured, revenue recognition is deferred until receipt of payment. We also use judgment to assess whether a price is fixed or determinable including but not limited to, reviewing contractual terms and conditions related to payment terms.

Revenue from product sales of GLA is recognized when the risk of loss has passed to the customer or deferred until such time that risk of loss has passed. All revenues associated from the sale of GLA supplied by us are reported under product sales with the applicable costs reported under cost of product sales. Product sales consist of the direct costs associated with the manufacture and formulation of GLA, including costs to purchase raw materials, third-party contract manufacturing costs, assay testing and ongoing product stability testing.

Accrued Liabilities

Accrued liabilities represent accrued compensation including vacation accruals, unearned revenue and accrued expenses. As part of the process of preparing our consolidated financial statements, we are required to estimate our accrued professional services and research and development expenses. This process involves reviewing contracts and vendor agreements, communicating with our applicable personnel to identify services that have been performed on our behalf. We estimate the level of service performed and the associated cost incurred for the service when we have not yet been invoiced or otherwise notified of actual cost. We make estimates of our accrued expenses as of each balance sheet date in our consolidated financial statements based on facts and circumstances known to us.

We base our expenses related to contract manufacturing and clinical studies on our estimates of the services received and efforts expended pursuant to contracts with multiple contract manufacturing organizations and clinical research organizations that conduct and manage supply and clinical studies on our behalf. In accruing service fees, we estimate the time period over which services will be performed and the level of effort to be expended in each period. If the actual timing of the performance of services or the level of effort varies from our estimate, we adjust the accrual accordingly. Although we do not expect our estimates to be materially different from amounts actually incurred, if our estimates of the status and timing of services performed differ from the actual status and timing of services performed, we may report amounts that are too high or too low in any particular period. To date, we have not experienced any significant adjustments to our estimates.

Stock-Based Compensation

In accordance with ASC 718, Stock Compensation, we determine the fair value of stock options and other stock-based compensation issued to employees as of the grant date. We recognize the fair value of stock-based compensation as compensation expense over the requisite service period, which is the vesting period. We also record stock options and other stock-based compensation issued to non-employees at their fair value as of the grant date. We then periodically remeasure the awards to reflect the current fair value at each reporting period and recognize expense over the related service period.

Stock-based compensation expense includes stock options granted to employees and non-employees and has been reported in our statements of operations as follows:

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	YEARS ENDED DECEMBER 31,		
	2017	2016	2015
Employee:			
Research and development	$3,613	$3,923	$2,034
General and administrative	4,879	5,029	3,810
Non-Employee:			
Research and development	85	268	205
General and administrative	56	63	248
Total stock-based compensation expense	$8,633	$9,283	$6,297

We calculate the fair value of stock-based compensation awards using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the use of subjective assumptions, including the expected term of the stock options, stock price volatility, risk free interest rate and the fair value of the underlying common stock on the date of grant. We used the following assumptions in the model:

We determine the risk-free interest rate by reference to implied yields available from U.S. Treasury securities with a remaining term equal to the expected life assumed at the date of grant.

The expected term represents the period that the stock-based awards are expected to be outstanding. Our historical option exercise experience does not provide a reasonable basis upon which to estimate an expected term because of a lack of sufficient data. Therefore we estimate the expected term by using the “simplified method,” which calculates the expected term as the average of the time-to-vesting and the contractual life of the options.

We do not have sufficient history to estimate the volatility of our common stock price. We calculate expected volatility based on reported data for selected, reasonably similar publicly traded companies for which the historical information is available. For the purpose of identifying peer companies, we consider characteristics such as industry, stage of development, market capitalization, risk profile, length of trading history and similar vesting terms. We plan to continue to use the guideline peer group volatility information until the historical volatility of our common stock is relevant to measure expected volatility for future option grants.

The assumed dividend yield is based on our expectation of not paying dividends in the foreseeable future.

The assumptions that we used in the Black-Scholes option pricing model are set forth below:

	YEARS ENDED DECEMBER 31,		
	2017	2016	2015
Weighted-average estimated fair value	$4.41	$10.07	$15.65
Risk-free interest rate	1.9% - 2.4%	1.1% - 2.4%	1.5% - 1.9%
Expected term of options (in years)	5.50 - 9.17	5.50 - 9.46	5.50 - 6.08
Expected stock price volatility	80% - 91%	77% - 93%	77% - 91%
Expected dividend yield	—%	—%	—%

Prior to the adoption of ASU No. 2016-09 on January 1, 2017, compensation expense recognized was calculated based on awards ultimately expected to vest and was reduced for estimated forfeitures. Upon adoption of ASU No. 2016-09, effective January 1, 2017, we have elected to account for forfeitures as they occur. As of January 1, 2017, we had unrecorded forfeitures of $157,000. Upon adoption, we recognized this expense as a cumulative effect adjustment to retained earnings with a corresponding increase to APIC.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under SEC rules.

JOBS Act

On April 5, 2012, the JOBS Act was enacted. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, or the Securities Act, for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have

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irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

The market risk inherent in our financial instruments and in our financial position represents the potential loss arising from adverse changes in interest rates and concentration of credit risk. As of December 31, 2017, we had cash and cash equivalents of $72.5 million consisting of bank deposits and interest-bearing money market accounts and short-term investments of $68.7 million consisting of U.S. Treasury securities. Our cash balances deposited in a bank in the United States may be in excess of insured levels. We do not believe our cash, cash equivalents and short-term investments have significant risk of default or illiquidity.

Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because the majority of our investments are in short-term marketable debt securities. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. In an attempt to limit interest rate risk, we follow guidelines to limit the average and longest single maturity dates, place our investments with high quality issuers and follow internally developed guidelines to limit the amount of credit exposure to any one issuer. Some of the securities that we invest in may be subject to market risk. This means that a change in prevailing interest rates may cause the value of the investment to fluctuate. For example, if we purchase a security that was issued with a fixed interest rate and the prevailing interest rate later rises, the value of our investment may decline. If a ten percent change in interest rates were to have occurred on December 31, 2017, this change would not have had a material effect on the fair value of our investment portfolio as of that date. In general, money market funds are not subject to market risk because the interest paid on such funds fluctuates with the prevailing interest rate.

We contract with contract manufacturers internationally. Transactions with these providers are predominantly settled in U.S. dollars and, therefore, we believe that we have only minimal exposure to foreign currency exchange risks. We do not hedge against foreign currency risks.

Item 8. Financial Statements and Supplementary Data.

The financial statements required by this Item 8 are set forth beginning at page F-1 of this Annual Report on Form 10-K and are incorporated herein by reference.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of December 31, 2017, Management, including our Principal Executive Officer and Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), as of the end of the period covered by this report. Based upon the evaluation, our President and Chief Executive Officer and Executive Vice President, Strategy and Finance concluded that the disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated to our management, including our President and Chief Executive Officer and Executive Vice President, Strategy and Finance, as appropriate to allow timely discussion regarding required disclosure. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective.

Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles, or GAAP. Our internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective.

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Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2017 based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework), or COSO. Based on our evaluation under the criteria set forth in Internal Control - Integrated Framework issued by the COSO, our management concluded our internal control over financial reporting was effective as of December 31, 2017.

Attestation Report of the Registered Public Accounting Firm

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm due to an exemption established by the JOBS Act for emerging growth companies.

Changes in Internal Control Over Financial Reporting

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

Item 9B. Other Information.

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item is incorporated by reference to the information set forth in the sections titled "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to the information set forth in the sections titled "Executive Compensation," "Director Compensation" and "Committees of the Board of Directors - Compensation Committee Interlocks and Insider Participation" in our Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated by reference to the information set forth in the sections titled "Security Ownership of Certain Beneficial Owners and Management" and "Securities Authorized for Issuance under Equity Compensation Plans" in our Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to the information set forth in the sections titled "Transactions with Related Persons" and "Election of Directors" in our Proxy Statement.

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated by reference to the information set forth in the section titled "Ratification of Appointment of Independent Registered Public Accounting Firm" in our Proxy Statement.

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PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The financial statements schedules and exhibits filed as part of this Annual Report on Form 10-K are as follows:

(1) Financial Statements

Reference is made to the financial statements included in Item 8 of Part II hereof.

(2) Financial Statement Schedules

All other schedules are omitted because they are not required or the required information is included in the financial statements or notes thereto.

(3) Exhibits

The exhibits listed below are filed as part of this Form 10-K other than Exhibits 32.1 and 32.1, which shall be deemed furnished.

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
3.1	Amended and Restated Certificate of Incorporation of Immune Design Corp. (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-36561) filed with the SEC on July 29, 2014).
3.2	Amended and Restated Bylaws of Immune Design Corp. (incorporated herein by reference to Exhibit 3.4 to the Company's Registration Statement on Form S-1 (File No. 333-196979), as filed with the SEC on June 23, 2014).
4.1	Specimen Common Stock Certificate of Immune Design Corp. (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 (File No. 333-196979), as filed with the SEC on June 23, 2014).
10.1	Amended and Restated Investor Rights Agreement, dated October 16, 2013, by and among Immune Design Corp. and the investors named therein (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 (File No. 333-196979), as filed with the SEC on June 23, 2014).
10.2+	Immune Design Corp. 2008 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 (File No. 333-196979), as filed with the SEC on June 23, 2014).
10.3+	Form of Option Agreement under the Immune Design Corp. 2008 Equity Incentive Plan (incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (File No. 333-196979), as filed with the SEC on June 23, 2014).
10.4+	Immune Design Corp. 2014 Omnibus Incentive Plan (incorporated herein by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-8 (File No. 333-197748), as filed with the SEC on July 31, 2014).
10.5+	Form of Incentive Stock Option Agreement under the Immune Design Corp. 2014 Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.5 to Amendment No. 2 to the Company's Registration Statement on Form S-1/A (File No. 333-196979), as filed with the SEC on July 14, 2014).
10.6+	Form of Non-Qualified Option Agreement under the Immune Design Corp. 2014 Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.6 to Amendment No. 2 to the Company's Registration

	Statement on Form S-1/A (File No. 333-196979), as filed with the SEC on July 14, 2014).
10.7+	Form of Restricted Stock Unit Agreement under the Immune Design Corp. 2014 Omnibus Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-36561), as filed with the SEC on January 10, 2017).
10.8+	Immune Design Corp. 2014 Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 4.9 to the Company's Registration Statement on Form S-8 (File No. 333-197748), as filed with the SEC on July 31, 2014).
10.9+	Employment Agreement, dated June 20, 2014, by and between Immune Design Corp. and Carlos Paya, M.D., Ph.D. (incorporated herein by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1 (File No. 333-196979), as filed with the SEC on June 23, 2014).
10.10+	Employment Agreement, dated June 19, 2014, by and between Immune Design Corp. and Wayne Gombotz, Ph.D. (incorporated herein by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 (File No. 333-196979), as filed with the SEC on June 23, 2014).

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10.11+	Employment Agreement, dated June 23, 2014, by and between Immune Design Corp. and Stephen Brady (incorporated herein by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 333-196979), as filed with the SEC on June 23, 2014).
10.12+	Employment Agreement, dated June 19, 2014, by and between Immune Design Corp. and Jan Henrik ter Meulen, M.D. (incorporated herein by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 (File No. 333-196979), as filed with the SEC on June 23, 2014).
10.13+	Employment Agreement, dated September 30, 2016, by and between Immune Design Corp. and Sergey Yurasov, M.D., Ph.D. (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (File No. 001-36561), as filed with the SEC on November 9, 2016).
10.14+	Form of Indemnification Agreement, by and between Immune Design Corp. and each of its directors and officers (incorporated herein by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-1 (File No. 333-196979), as filed with the SEC on June 23, 2014).
10.15†	Second Amended and Restated License Agreement, dated December 23, 2015, by and between Immune Design Corp. and the Infectious Disease Research Institute (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A (File No. 001-36561), as filed with the SEC on February 16, 2016).
10.17†	License Agreement, dated January 1, 2009, by and between Immune Design Corp. and the California Institute of Technology (incorporated herein by reference to Exhibit 10.21 to the Company's Registration Statement on Form S-1 (File No. 333-196979), as filed with the SEC on June 23, 2014).
10.16†	License Agreement, dated January 16, 2013, by and between Immune Design Corp. and The University of North Carolina at Chapel Hill (incorporated herein by reference to Exhibit 10.20 to Amendment No. 4 to the Company's Registration Statement on Form S-1 (File No. 333-196979), as filed with the SEC on July 17, 2014).
10.17†	Confidential Settlement Agreement, dated October 17, 2016, by and between Immune Design Corp. and TheraVectys SA (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A (File No. 001-36561), as filed with the SEC on March 3, 2017).
10.18†	License Agreement, dated October 17, 2016, by and between Immune Design Corp. and TheraVectys SA (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K/A (File No. 001-36561), as filed with the SEC on March 3, 2017).
10.19†	License Agreement, dated August 6, 2014, by and between Immune Design Corp. and Aventis Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q/A (File No. 001-36561), as filed with the SEC on May 3, 2017).
10.20	Office Lease, dated November 21, 2013, by and between Immune Design Corp. and BXP 601& 651 Gateway Center LP, formerly known as Gateway Center LLC (incorporated herein by reference to Exhibit 10.22 to the Company's Registration Statement on Form S-1 (File No. 333-196979), as filed with the SEC on June 23, 2014).
10.21	First Amendment to Office Lease, dated October 27, 2014, by and between Immune Design Corp. and BXP 601 & 651 Gateway Center LP, formerly known as Gateway Center LLC (incorporated herein by reference to

	Exhibit 10.19 to the Company's Annual Report on Form 10-K (File No. 001-36561), as filed with the SEC on March 31, 2015).
10.22	Second Amendment to Office Lease, dated November 20, 2014, by and between Immune Design Corp. and BXP 601 & 651 Gateway Center LP, formerly known as Gateway Center LLC (incorporated herein by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K (File No. 001-36561), as filed with the SEC on March 31, 2015).
10.23	Lease Agreement, dated January 1, 2016, by and between Immune Design Corp. and ARE-Eastlake Avenue No. 3, LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (File No. 001-36561), as filed with the SEC on August 9, 2016).
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney (included on the signature page to this registration statement).
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1*	Certifications of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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32.2*	Certifications of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Consolidated financial statements from the Annual Report on Form 10-K of Immune Design Corp. for the year ended December 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations and Comprehensive Income (Loss); (iii) the Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity; (iv) the Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements.

+ Indicates a management contract or compensatory plan.

* Furnished herewith and not deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

† Registrant has been granted or requested confidential treatment for certain portions of this exhibit. This exhibit omits the information subject to this confidentiality treatment or request. Omitted portions have been filed separately with the SEC.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, as amended, the registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

IMMUNE DESIGN CORP.
(Registrant)

Date: March 14, 2018 /s/ Carlos Paya, M.D., Ph.D.
Carlos Paya, M.D., Ph.D.
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: March 14, 2018 /s/ Stephen Brady
Stephen Brady
Executive Vice President, Strategy and Finance
(Principal Accounting Officer and Principal Financial Officer)

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Carlos Paya, M.D., Ph.D. and Stephen Brady, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place, and stead, in any and all capacities, to sign any and all amendments to this report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or any of them or their or his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ Carlos Paya, M.D., Ph.D. Carlos Paya, M.D., Ph.D.	President, Chief Executive Officer and Director (Principal Executive Officer)	March 14, 2018
/s/ Stephen Brady Stephen Brady	Executive Vice President, Strategy and Finance (Principal Accounting Officer and Principal Financial Officer)	March 14, 2018
/s/ Ed Penhoet, Ph.D. Ed Penhoet, Ph.D.	Chairman of the Board	March 14, 2018
/s/ David Baltimore, Ph.D. David Baltimore, Ph.D.	Director	March 14, 2018
/s/ Franklin Berger	Director	March 14, 2018

Franklin Berger		
/s/ Lewis Coleman Lewis Coleman	Director	March 14, 2018
/s/ Susan Kelley, M.D. Susan Kelley, M.D.	Director	March 14, 2018
/s/ William Ringo William Ringo	Director	March 14, 2018
/s/ Peter Svennilson Peter Svennilson	Director	March 14, 2018

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IMMUNE DESIGN CORP
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IMMUNE DESIGN CORP
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Immune Design Corp.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Immune Design Corp. as of December 31, 2017 and 2016, the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting.
Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company‘s auditor since 2010.

Redwood City, California
March 14, 2018

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IMMUNE DESIGN CORP
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	DECEMBER 31,	
	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	$72,454	$45,214
Short-term investments	68,653	62,041
Accounts receivable	647	517
Inventory	684	607
Prepaid expenses	1,571	2,546
Restricted cash	6,000	—
Other receivables	3,134	3,156
Total current assets	153,143	114,081
Property and equipment, net	491	414
Security deposit	200	—
Total assets	$153,834	$114,495
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$2,334	$4,559
Accrued liabilities	6,186	4,935
Accrued litigation-related settlement	6,000	7,250
Deferred revenue	—	2,519
Total current liabilities	14,520	19,263
Other noncurrent liabilities	102	56
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, $0.001 par value per share; 100,000,000 authorized at December 31, 2017 and 2016; 48,068,650 and 25,413,055 shares issued and outstanding at December 31, 2017 and 2016, respectively	48	25
Preferred stock, $0.001 par value; 10,000,000 shares authorized at December 31, 2017 and 2016; no shares issued or outstanding	—	—
Additional paid-in capital	374,970	278,913
Accumulated deficit	(235,757)	(183,738)
Accumulated other comprehensive loss	(49)	(24)
Total stockholders' equity	139,212	95,176
Total liabilities and stockholders' equity	$153,834	$114,495

The accompanying notes are an integral part of these consolidated financial statements.

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IMMUNE DESIGN CORP
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except share and per share amounts)

	YEARS ENDED DECEMBER 31,		
	2017	2016	2015
Revenues:			
Collaborative revenue	$6,880	$4,633	$4,157
Licensing revenue	—	7,000	3,500
Product sales	315	1,627	1,853
Total revenues	7,195	13,260	9,510
Operating expenses:			
Cost of product sales	84	481	774
Research and development	43,670	45,134	33,087
General and administrative	16,253	21,859	15,134
Total operating expenses	60,007	67,474	48,995
Loss from operations	(52,812)	(54,214)	(39,485)
Interest and other income	950	684	40
Net loss	$(51,862)	$(53,530)	$(39,445)
Other comprehensive loss:			
Unrealized loss on investments	(25)	(24)	—
Comprehensive loss	$(51,887)	$(53,554)	$(39,445)
Basic and diluted net loss per share	$(1.75)	$(2.47)	$(2.06)
Weighted-average shares used to compute basic and diluted net loss per share	29,626,941	21,638,468	19,155,918

The accompanying notes are an integral part of these consolidated financial statements.

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IMMUNE DESIGN CORP
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share and per share amounts)

	COMMON STOCK SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
Balance, December 31, 2014	16,878,817	17	157,092	(90,763)	—	66,346
Issuance of common stock at $26.50 per share upon completion of public offering, net of offering costs of $5,397	3,047,409	3	75,356	—	—	75,359
Issuance of common stock under stock-based compensation plans	226,976	—	436	—	—	436
Stock-based compensation	—	—	6,297	—	—	6,297
Net loss	—	—	—	(39,445)	—	(39,445)
Balance, December 31, 2015	20,153,202	$ 20	$ 239,181	$ (130,208)	$ —	$ 108,993
Issuance of common stock at $6.25 per share upon completion of public offering, net of offering costs of $2,355	5,226,369	5	30,305	—	—	30,310
Issuance of common stock under stock-based compensation plans	33,484	—	144	—	—	144
Stock-based compensation	—	—	9,283	—	—	9,283
Net loss	—	—	—	(53,530)	—	(53,530)
Unrealized loss on investments	—	—	—	—	(24)	(24)
Balance, December 31, 2016	25,413,055	$ 25	$ 278,913	$ (183,738)	$ (24)	$ 95,176
Issuance of common stock at $4.10 per share upon completion of public offering, net of offering costs of $5,367	22,425,000	23	86,553	—	—	86,576
Issuance of common stock under stock-based compensation plans	230,595	—	714	—	—	714
Stock-based compensation	—	—	8,633	—	—	8,633
Cumulative effect adjustment from adoption of accounting standard on stock-based compensation	—	—	157	(157)	—	—
Net loss	—	—	—	(51,862)	—	(51,862)
Unrealized loss on investments	—	—	—	—	(25)	(25)
Balance, December 31, 2017	48,068,650	$ 48	$ 374,970	$ (235,757)	$ (49)	$ 139,212

The accompanying notes are an integral part of these consolidated financial statements.

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IMMUNE DESIGN CORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	YEARS ENDED DECEMBER 31,		
	2017	2016	2015
Operating activities			
Net loss	$(51,862)	$(53,530)	$(39,445)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	351	304	243
Amortization of premium/discount on investments	(26)	126	—
Stock-based compensation	8,633	9,283	6,297
Changes in operating assets and liabilities:			
Accounts receivable	(130)	455	998
Inventory	(77)	(594)	12
Prepaid expenses	975	(892)	(1,021)
Restricted cash	(6,000)	—	—
Other receivables	22	(3,059)	—
Security deposit	(200)	—	—
Accounts payable	(2,225)	1,485	(3,829)
Accrued liabilities	1,203	976	(519)
Accrued litigation-related settlement	(1,250)	7,250	—
Deferred revenue	(2,545)	2,496	(510)
Deferred rent and other noncurrent liabilities	72	(40)	(27)
Net cash used in operating activities	(53,059)	(35,740)	(37,801)
Investing activities			
Purchases of property and equipment	(428)	(133)	(427)
Purchases of short-term investments	(71,611)	(102,288)	—
Maturities of short-term investments	65,000	40,000	—
Net cash used in investing activities	(7,039)	(62,421)	(427)
Financing activities			
Issuance of common stock in public offering, net of offering costs	86,624	30,310	75,359
Proceeds from issuances of common stock under stock-based compensation plans	714	144	436
Net cash provided by financing activities	87,338	30,454	75,795
Net (decrease) increase in cash and cash equivalents	27,240	(67,707)	37,567
Cash and cash equivalents, beginning of year	45,214	112,921	75,354
Cash and cash equivalents, end of year	$72,454	$45,214	$112,921
Supplemental cash flow information			
Unpaid stock offering costs	$48	$—	$—

The accompanying notes are an integral part of these consolidated financial statements.

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IMMUNE DESIGN CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of the Business

Immune Design Corp. (we, us or our) is a clinical-stage immunotherapy company focused on cancer with next-generation in vivo approaches designed to enable the body's immune system to fight disease. We have engineered our technologies to activate the immune system's natural ability to create tumor-specific cytotoxic T cells (CTLs) to fight cancer. We are developing multiple product candidates from our two discovery platforms, ZVex® and GLAAS®. Our primary product candidates, CMB305 and G100, utilize multiple immuno-oncology approaches and are being evaluated in multiple Phase 1 and Phase 2 trials. We are planning to begin a Phase 3 clinical trial of CMB305 in patients with synovial sarcoma in mid 2018. In addition, we have licensed to third parties the right to use the GLAAS platform in select infectious disease and allergy indications.

We were incorporated in February 2008 in the State of Delaware. Our operations are headquartered in Seattle, Washington and we have an additional facility in South San Francisco, California.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). To conform with GAAP, the preparation of our financial statements requires management to make judgments, assumptions, and estimates that affect the amounts reported in our financial statements and accompanying notes. Estimates are used for, but not limited to, accruals for clinical trial activity, other accrued liabilities, and assumptions used in determining stock-based compensation expense. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable. Actual results could differ materially from those estimates.

Principles of Consolidation

Our consolidated financial statements include the financial position and results of operations of Immune Design Corp. and Immune Design Ltd., our wholly owned subsidiary. Immune Design Ltd. was incorporated in the United Kingdom in February 2016 and to date there have been no financial transactions or balances related to this entity.

Segments

We operate in one segment and use cash flow as the primary measure to manage our business and do not segment the business for internal reporting or decision-making purposes.

Offering Costs

Offering costs represent legal, accounting and other direct costs related to our efforts to raise capital through our follow-on public offerings in October 2017, September 2016 and April 2015 and for our initial public offering (IPO) in July 2014. These costs were deferred until completion of the follow-on public offerings and IPO, respectively, at which time they were reclassified to additional paid-in capital as a reduction of the proceeds.

Cash and Cash Equivalents

Cash equivalents are highly liquid investments with a maturity of 90 days or less at the date of purchase and primarily consist of investments in money market funds. In addition, we maintain cash balances with financial institutions in excess of insured limits and do not anticipate any losses on such cash balances.

Concentration of Risk

We limit our credit risk associated with cash and cash equivalents by placing our deposits with banks we believe are highly creditworthy and our investments with highly rated money market funds.

Short-Term Investments

Our short-term investments include funds invested in U.S. Treasury securities with a final maturity of each security of less than one year. All investments are classified as available-for-sale securities and are recorded at fair value based on quoted prices in active markets, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses and declines in fair value that are deemed to be

other than temporary are reflected in the consolidated statements of operations and comprehensive income (loss) using the specific-identification method.

Accounts Receivable

Accounts receivable are amounts due from other companies related primarily to licensing fees, product sales and research and development services. We considered the need for an allowance for doubtful accounts and have concluded that no allowance was needed as of December 31, 2017 or 2016, as the estimated risk of loss on our accounts receivable was determined to be minimal.

Inventory

Inventory is recorded at the lower of cost or market. Cost includes amounts related to materials and labor, and is determined on a specific identification basis in a manner which approximates the first-in, first-out method. We record adjustments to inventory for potentially excess, obsolete, expired, or impaired items.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over an estimated useful life that is generally three years, while leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease term. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to operations. Maintenance and repairs are expensed as incurred. Asset improvements are capitalized.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or any other significant adverse change that would indicate that the carrying amount of an asset is not recoverable.

Accrued Liabilities

Accrued liabilities represent accrued compensation including vacation accruals, unearned revenue and accrued expenses. As part of the process of preparing our consolidated financial statements, we are required to estimate our accrued professional services and research and development expenses. This process involves reviewing contracts and vendor agreements, communicating with our applicable personnel to identify services that have been performed on our behalf. We estimate the level of service performed and the associated cost incurred for the service when we have not yet been invoiced or otherwise notified of actual cost. We make estimates of our accrued expenses as of each balance sheet date in our consolidated financial statements based on facts and circumstances known to us.

We base our expenses related to contract manufacturing and clinical trials on our estimates of the services received and efforts expended pursuant to contracts with multiple contract manufacturing organizations and clinical research organizations that conduct and manage supply and clinical trials on our behalf. In accruing service fees, we estimate the time period over which services will be performed and the level of effort to be expended in each period. If the actual timing of the performance of services or the level of effort varies from our estimate, we adjust the accrual accordingly. Although we do not expect our estimates to be materially different from amounts actually incurred, if our estimates of the status and timing of services performed differ from the actual status and timing of services performed, we may report amounts that are too high or too low in any particular period. To date, we have not experienced any significant adjustments to our estimates.

Leases and Deferred Rent

We have entered into lease agreements for laboratory and office facilities. These leases are classified as operating leases. Rent expense is recognized on a straight-line basis over the term of the lease. Incentives granted under our facilities leases, including allowances to fund leasehold improvements and rent escalations are accrued as deferred rent. Leasehold improvements funded by the lessor are capitalized and are recognized as reductions to rental expense on a straight-line basis over the term of the lease.

Revenue Recognition

We derive our revenue from collaboration and licensing agreements and the sale of products associated with material transfer, collaboration and supply agreements.

Licensing fees, are recognized when the amounts are earned and determinable during the applicable period. We recognize up-front nonrefundable license fees when due under contractual agreements and when we do not have a continuing obligation to provide services related to the agreement. Revenue associated with nonrefundable up-front license fees under arrangements where the license fees and research and development activities cannot be accounted for as separate units of accounting is deferred and recognized as revenue on a straight-line basis over the expected term of our continued involvement in the research

and development process. Revenues from the achievement of research and development milestones, if deemed substantive, are recognized as revenue when the milestones are achieved, and the milestone payments are due and collectible. If not deemed substantive, we recognize such milestones as revenue on a straight-line basis over the remaining expected term of continued involvement in the research and development process.

Milestones are considered substantive if all of the following conditions are met: (1) the milestone is nonrefundable, (2) achievement of the milestone was not reasonably assured at the inception of the arrangement, (3) substantive effort is involved to achieve the milestone and (4) the amount of the milestone appears reasonable in relation to the effort expended, the other milestones in the arrangement and the related risk associated with the achievement of the milestone and any ongoing research and development or other services are priced at fair value. Payments received in advance of work performed are recorded as unearned revenue.

Certain agreements from which we derive our revenue include multiple deliverables. We recognize the revenue for each deliverable at fair value determined to be the estimated selling price in cases when neither vendor specific objective evidence nor third-party evidence is available. Revenues derived from funding of development costs are recognized when the related costs are incurred and when collectability is reasonably assured.

Revenue is recognized when all of the following criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the price to the customer is fixed or determinable and (4) collectability is reasonably assured. The evaluation of these revenue recognition criteria requires significant management judgment. For instance, we use judgment to assess collectability based on factors such as the customer's creditworthiness and past collection history, if applicable. If we determine that collection of a payment is not reasonably assured, revenue recognition is deferred until receipt of payment. We also use judgment to assess whether a price is fixed or determinable including, but not limited to, reviewing contractual terms and conditions related to payment terms.

Revenue from product sales of glucopyranosyl lipid A (GLA), a product from our GLAAS platforms, is recognized when the risk of loss has passed to the customer or deferred until such time that risk of loss has passed. All revenues associated from the sale of GLA products supplied by us are reported under product sales with the applicable costs reported under cost of product sales. Product sales consist of the direct costs associated with the manufacture and formulation of GLA, including costs to purchase raw materials, third-party contract manufacturing costs, assay testing and ongoing product stability testing.

We consider significant revenue concentrations to be customers who account for 10% or more of total revenues generated by us during the periods presented. We had one collaboration partner that accounted for 96% of revenue for the year ended December 31, 2017, two collaboration partners at 64% and 35% of revenue for the year ended December 31, 2016, and three collaboration partners at 44%, 36% and 20% of revenue for the year ended December 31, 2015. The collaboration partners accounted for 100% of accounts receivable as of December 31, 2017 and 2016. We do not believe the loss of such customers would have a material adverse effect on us.

Stock-Based Compensation

We account for stock-based compensation under the fair value method. Stock-based compensation costs related to employees and directors is measured at the grant date, based on the fair-value-based measurement of the award estimated using the Black-Scholes option-pricing model, and is recognized as expense over the requisite service period on a straight-line basis.

Options granted to non-employee service providers are accounted for at estimated fair value using the Black-Scholes option-pricing model and are remeasured over the vesting term as earned.

Prior to the Financial Accounting Standards Board (FASB) adoption of Accounting Standards Update (ASU) No. 2016-09 on January 1, 2017, stock-based compensation expense recognized was calculated based on awards ultimately expected to vest and was reduced for estimated forfeitures. Upon the FASB adoption of ASU No. 2016-09, effective January 1, 2017, we have elected to account for forfeitures as they occur. As of January 1, 2017, we had unrecorded forfeitures of $157,000. Upon adoption, we recognized this expense as an adjustment to retained earnings with a corresponding increase to additional paid-in-capital. In addition, under this guidance, on a prospective basis,

companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in-capital. Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement and eliminates the requirement that excess tax benefits be realized before companies can recognize them. As of January 1, 2017, we had an unrecognized excess tax benefit of $1.2 million and upon adoption, we recognized this excess tax benefit as a deferred tax asset with a corresponding increase to our deferred tax asset valuation allowance.

Research and Development

Research and development costs are expensed as incurred. Research and development costs primarily include personnel costs, materials and manufacturing to support clinical trials, fees paid to consultants and outside service providers, costs to conduct

clinical trials and allocated overhead. Amounts incurred in connection with collaboration agreements are also included in research and development expense. Payments made prior to the receipt of goods or services to be used in research and development are deferred until the goods or services are received.

Income Taxes

Income taxes are accounted for under the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and the operating loss and tax credit carry forwards. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Deferred tax assets and liabilities are measured at the balance sheet date using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period such tax rate changes are enacted. Our net deferred tax asset has been fully offset by a valuation allowance because of our history of losses. Any potential accrued interest and penalties related to unrecognized tax benefits within operations would be recorded as income tax expense. To date, there have been no interest or penalties charged to us related to the underpayment of income taxes.

Comprehensive Loss

Comprehensive loss is composed of net loss and other comprehensive income or loss that are excluded from net loss. For the years ended December 31, 2017 and 2016, other comprehensive loss consists of unrealized losses on our available-for-sale securities. For the year ended December 31, 2015, there was no difference between comprehensive loss and net loss.

Subsequent Events

We consider events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB deferred the effective date of the revenue recognition guidance to reporting periods beginning after December 15, 2017. The new standard permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). We currently anticipate adopting the new standard effective January 1, 2018, using the modified retrospective method. We will continue to monitor additional modifications, clarifications or interpretations undertaken by the FASB that may impact our current conclusions. We primarily derive our revenue from license and collaboration agreements. The consideration we are eligible to receive under these agreements includes upfront payments, research and development funding, milestone payments and royalties. Each license and collaboration agreement is unique and will be assessed separately under the five-step process under the new standard. The new revenue recognition standard differs from the current accounting standard in many respects, such as in the accounting for variable considerations and the measurement of progress toward completion of performance obligations. We performed a review of all of our ongoing license and collaboration agreements and based upon our assessment and given the nature of our arrangements and the related performance obligations, we determined there will be no impact on our financial position and results of operations as a result of the adoption of the standard on January 1, 2018, the date of adoption.

In February 2016, FASB issued ASU 2016-02 related to lease accounting. This standard will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases that are greater than 12 months in duration. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. There continues to be a differentiation between finance leases and operating leases, however, the principal difference from previous

guidance is that the lease assets and lease liabilities arising from operating leases will be recognized on the balance sheets. For capital or finance leases, lessees will recognize amortization of the right-of-use asset separately from interest on the lease liability. For operating leases, lessees will recognize a single total lease expense. The standard is effective for public companies for the fiscal years and interim reporting periods beginning after December 15, 2018. We plan to adopt this new standard prospectively on January 1, 2019. We are evaluating the impact of the adoption of this standard on our consolidated financial statements. We expect that it will increase our lease assets and correspondingly increase our lease liabilities.

In August 2016, the FASB issued ASU No. 2016-15 which provides new guidance on the classification of certain cash receipts and payments in the statement of cash flows. The new guidance is intended to reduce diversity in practice in how certain

transactions are classified in the statement of cash flows. We will be required to adopt the new guidance beginning with the first fiscal quarter of 2018; early adoption is permitted. We are currently assessing the impact that the new guidance will have on its consolidated statements of cash flows.

In November 2016, the FASB issued ASU No. 2016-18 that relates to restricted cash. The new guidance requires amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We will be required to revise our consolidated statements of cash flows to adopt the new guidance beginning with the first fiscal quarter of 2018; early adoption is permitted. Adoption of the new guidance will not have a significant impact on our financial position and results of operations.

In May 2017, the FASB issued ASU No. 2017-09 to provide clarity and reduce both diversity in practice and cost and complexity when applying the guidance in Topic 718 about a change to the terms and conditions of a share-based payment award. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this update are effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, and applied prospectively to modifications that occur on or after the adoption date. We are currently reviewing and evaluating this recent update and plan to adopt on the required adoption date. For the year ended December 31, 2017, there were no modifications to the terms or conditions of a share-based payment award.

In September 2017, the FASB issued ASU No. 2017-13 to amend revenue recognition (Topic 605), revenue from contracts with customers (Topic 606), leases (Topic 840), and leases (Topic 842) adding Securities and Exchange Commission (SEC) paragraphs pursuant to an SEC Staff Announcement made at the July 20, 2017 Emerging Issues Task Force (EITF) meeting. We are currently reviewing and evaluating this recent update and plan to adopt as required. For the year ended December 31, 2017, there were no modifications or changes incorporated with respect to this recently issued update.

3. Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Because of net losses recognized in each period, potential common shares issuable upon the exercise of outstanding stock options and warrants and the conversion of preferred shares in the IPO into common shares have not been reflected in the calculation of diluted net loss per share due to the anti-dilutive effect. Diluted net loss per share, therefore, does not differ from basic net loss per share.

The common stock equivalents issuable upon the conversion or exercise of the following dilutive securities have been excluded from the computation of diluted net loss per share attributable to common stockholders calculation because their effect would have been anti-dilutive for the periods presented:

	DECEMBER 31,		
	2017	2016	2015
Outstanding stock option grants	4,094,532	3,590,393	2,832,467
Unvested restricted stock awards	195,172	107,250	—
Total	4,289,704	3,697,643	2,832,467

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IMMUNE DESIGN CORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Cash Equivalents and Short-Term Investments

The amortized cost and fair value of our cash equivalents and short-term investments are as follows (in thousands):

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$70,502	$ —	$ —	$70,502
U.S. Treasury securities	68,702	—	(49)	68,653
Total	$139,204	$ —	$ (49)	$139,155
Classified as:				
Cash equivalents				$70,502
Short-term investments				68,653
Total				$139,155

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	$36,412	$ 2	$ —	$36,414
U.S. Treasury securities	62,066	2	(28)	62,040
Total	$98,478	$ 4	$ (28)	$98,454
Classified as:				
Cash equivalents				$36,414
Short-term investments				62,040
Total				$98,454

All U.S. Treasury securities held as of December 31, 2017 and 2016 were classified as available-for-sale securities and had contractual maturities of less than one year. There were no realized gains or losses on these securities for the period presented.

5. Fair Value of Financial Instruments

We measure and record cash and cash equivalents and convertible preferred stock warrant liabilities at fair value in the accompanying financial statements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability, or an exit price, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, is as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, 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.

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.

Level 1 securities consist of highly liquid money market funds. The fair value of Level 1 assets has been determined using quoted prices in active markets for identical assets.

In certain cases where there is limited activity or less transparency around inputs to valuation, securities are classified as Level 3 within the valuation hierarchy.

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IMMUNE DESIGN CORP
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The following tables summarize our financial assets and liabilities measured at fair value on a recurring basis (in thousands):

	December 31, 2017			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:				
Money market funds	$70,502	$ —	$ —	$70,502
U.S. Treasury securities	68,653	—	—	68,653
Total	$139,155	$ —	$ —	$139,155

	December 31, 2016			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:				
Money market funds	$36,414	$ —	$ —	$36,414
U.S. Treasury securities	62,040	—	—	$62,040
Total	$98,454	$ —	$ —	$98,454

6. Inventory

Inventory consists of the following (in thousands):

	DECEMBER 31,	
	2017	2016
Work in process	$ 541	$ 567
Finished goods	143	40
Total inventory	$ 684	$ 607

7. Property and Equipment

Property and equipment consists of the following (in thousands):

	DECEMBER 31,	
	2017	2016
Laboratory equipment	$2,624	$2,330
Leasehold improvements	183	156
Computer equipment and software	584	483
Office equipment, furniture, and fixtures	178	174
Total	3,569	3,143
Less: accumulated depreciation and amortization	(3,078)	(2,729)
Total property and equipment, net	$491	$414

Depreciation and amortization expense was $351,000, $304,000 and $243,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

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8. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	DECEMBER 31,	
	2017	2016
Research and development services	$ 3,352	$ 3,027
Legal and professional services	48	28
Employee compensation	2,777	1,880
Other	9	—
Total accrued liabilities	$ 6,186	$ 4,935

9. Commitments and Contingencies

Operating Leases

We lease laboratory and office space under an operating lease in Seattle, Washington. Our previous lease commenced February 2013 and ended December 31, 2016. In January 2016, we entered into a new lease agreement for approximately 20,133 square feet of office and laboratory space, which includes and expands on the space previously subleased. The lease commenced on January 1, 2017 with a term of five years and an option to extend the term for an additional three years. The annual base rent is $1.1 million for the first year and increases by 2.5% each year thereafter. We recognize rent expense on a straight-line basis over the lease period and accrue for rent expense incurred but not paid. The lease also requires us to pay for operating and maintenance expenses. Through December 31, 2017 and 2016, we incurred $183,000 and $156,000, respectively, in leasehold improvements and accumulated amortization of $147,000 and $123,000, respectively. Also under the terms of the lease, in January 2017 we provided a $200,000 letter of credit as a security deposit.

We also lease 9,640 square feet of office space under an operating lease in South San Francisco, California. The lease commenced in January 2015 and continues through January 2020, with an option to extend for an additional five years. The terms of the office lease provide for rental payments on a monthly basis and on a graduated scale. We recognize rent expense on a straight-line basis over the lease period and accrue for rent expense incurred but not paid. The lease also requires us to pay additional amounts for operating and maintenance expenses beginning January 2016. In connection with the lease, we were required to provide a $121,000 letter of credit as a security deposit. As of December 31, 2017, no funds had been drawn down on the letter of credit.

As of December 31, 2017, future minimum lease payments are as follows (in thousands):

2018	$ 1,486
2019	1,525
2020	1,203
2021	1,200
2022	—
Total future minimum lease payments	$ 5,414

Rent expense under operating leases was approximately $1.5 million, $713,000 and $849,000, for the years ended December 31, 2017, 2016 and 2015, respectively.

In May 2017, we entered into a sublease agreement with a third party subtenant, pursuant to which we are subleasing 5,048 square feet of our Seattle laboratory and office space for a period of three years. The annual base rent payable under this sublease is $273,000 for the first year and will increase by 2.5% each year thereafter. Rent under this sublease agreement is reflected in other income.

Contingencies

In June 2015, we entered into a clinical supply agreement with NanoPass Technologies LTD (NanoPass) for the use of their intradermal delivery device in certain of our clinical trials. In July 2015, in connection with the execution of the

agreement, we

paid an upfront fee of $600,000 for access and rights to use their device. In December 2015, we initiated a Phase 2 clinical trial using the device which triggered a milestone payment of $500,000. Both the upfront fee and milestone payments were capitalized to prepaid expenses on the accompanying balance sheet and are being amortized to research and development expense over the related milestone periods. As of December 31, 2017, the upfront and milestone payments have been fully amortized to research and development expense. In October 2016, we entered into a letter agreement with NanoPass which amended our clinical supply agreement to expand the field of use to include all oncology immunotherapy applications, which provided for additional milestone payments to NanoPass upon achievement of future clinical milestones. Per the terms of the letter agreement, we paid NanoPass an additional one-time non-refundable payment of $150,000. In addition, we agreed to pay certain future milestone fees up to an aggregate of $8.8 million upon the achievement of certain clinical milestones. However, pursuant to our current clinical protocol, we do not plan to use the NanoPass intradermal delivery device in our Phase 3 clinical trial studying CMB305 in patients with synovial sarcoma.

Under our license agreements with the Infectious Disease Research Institute (IDRI), we are contingently obligated to pay any potential future milestone payments, which could total up to $2.3 million and $1.3 million, respectively, for the first and each subsequent exclusive licensed product we develop, and $1.3 million and $625,000, respectively, for the first and each subsequent non-exclusive licensed product we develop. We are also contingently obligated to pay potential future milestone payments to third parties as part of certain collaboration and licensing agreements, which could total up to $7.7 million in aggregate payments for the ZVex products we develop. We also have potential future royalty payments we may be required to make under our licensing agreements as described in Note 10.

Payments under these agreements are uncertain due to the occurrence of the events requiring payment under these agreements, including our share of potential future milestone and royalty payments. These payments generally become due and payable only upon achievement of certain clinical development, regulatory or commercial milestones.

10. License and Collaboration Agreements

Licenses Granted

In August 2014, we entered into an agreement with Sanofi under which we granted Sanofi an exclusive license for use of our GLAAS platform to discover, develop and commercialize products to treat peanut allergy. Sanofi may terminate the agreement at any time upon six months' written notice. We recognized no milestone revenue under this agreement for the year ended December 31, 2017, and $7.0 million and $1.0 million in milestone revenue under this agreement for the years ended December 31, 2016 and 2015, respectively. The agreement provides for additional payments of up to $160.0 million based upon the attainment of certain development and commercialization milestones and tiered royalties on sales of approved products.

We currently have two separate license agreements with MedImmune, LLC (MedImmune), entered into October 2010, pursuant to which we granted MedImmune a worldwide, sublicensable, exclusive license to use GLA to develop and sell vaccines in two different infectious disease indications. Under the license agreements, MedImmune is obligated to use commercially reasonable efforts to develop and obtain regulatory approval for a licensed product in certain markets and to market and sell licensed products in any country where it obtains regulatory approval. In 2010, MedImmune paid us upfront payments under the license agreements. Under each license agreement, MedImmune is obligated to make additional payments based on achievement of certain development, regulatory, and commercial milestones for the licensed indication. MedImmune is also obligated to pay us a low double-digit percentage share of non-royalty payments that it receives from sublicensees and a mid single-digit percentage royalty payment on net sales of licensed products, which royalty is subject to reduction under certain circumstances. Under each license agreement, MedImmune is obligated to make additional aggregate payments of $62.9 million to $72.5 million, depending on the infectious disease indication and the achievement of certain development, regulatory and commercial milestones for the licensed indication. We recognized no revenue for the achievement of development milestones under these license agreements for the years ended December 31, 2017 and 2016, and $2.5 million in milestone revenue for the year ended December 31, 2015.

Licenses Acquired

In July 2008, we licensed certain patent rights, know-how and technology related to our GLAAS platform from the Infectious Disease Research Institute (IDRI), specifically products and formulations containing GLA and another synthetic TLR 4 agonist referred to as SLA. This license was amended and restated in 2010. In November 2015, we entered into a separate agreement with IDRI to license a patent related to our GLAAS technology in the field of cancer. Under this agreement, we paid IDRI an upfront license fee in the amount of $250,000, which was recognized as research and development expense. Upon the

achievement of certain developmental and regulatory milestones, we will be obligated to pay IDRI up to $250,000 and $125,000, respectively, for the first and each subsequent licensed product we develop.

In December 2015, we entered into a Second Amended and Restated License Agreement with IDRI, in which we obtained additional rights under the licensed technology, which rights vary by disease indication, and we returned to IDRI certain previously licensed GLA rights in select, primarily developing-world infectious disease indications. We received an exclusive license for SLA products in oncology, human allergy and addiction, as well as an option to obtain additional exclusive licenses in select infectious disease indications. In December 2015, in connection with the execution of the second restated agreement, we paid an upfront fee of $2.3 million, which was recorded as research and development expense. We are obligated to pay IDRI up to $2.3 million and $1.3 million, respectively, in additional payments for the first and each subsequent exclusive licensed product we develop, and $1.3 million and $625,000, respectively, for the first and each subsequent non-exclusive licensed product we develop, based on the achievement of certain developmental and regulatory milestones. In addition, we will be obligated to pay certain commercialization milestones and royalty payments of single-digit percentage of net sales, if and when a licensed product is commercialized. We are also obligated to share with IDRI a percentage of payments received from any third-party sublicensees. Additionally, if we exercise our option for additional infectious disease indications, we will be required to make upfront, milestone and royalty payments for such additional indications, which payments are subject to similar terms and conditions as are applicable to other milestone and royalty payments.

We recognized no IDRI license-related milestone fees for the year ended December 31, 2017, and $925,000 and $2.9 million in IDRI license-related milestone fees, which were expensed in research and development expenses, for the years ended December 31, 2016 and 2015, respectively.

In 2009, we licensed certain patent rights directed to the production of dendritic cell-targeted therapeutic and prophylactic immunization strategies from the California Institute of Technology (Caltech) in exchange for shares of our common stock valued at $25,000. We made annual minimum royalty payments of $25,000 under the license until we recognized $100,000 in license-related milestone fees, which we expensed in research and development expenses for the year ended December 31, 2017. No license-related milestone fees were recognized or paid for the years ended December 31, 2016 and 2015. In addition, we agreed to pay certain fees in the future, including milestone payments upon achievement of certain development and commercialization milestones and royalty payments on net sales in the low single-digit percentage. We are required to pay Caltech up to an aggregate of $1.5 million in additional payments upon the achievement of certain regulatory and sales milestones.

In June 2015, we entered into a clinical supply agreement with NanoPass for the use of their intradermal delivery device in certain of our clinical trials. See Note 9 for additional information.

In October 2016, we entered into a license agreement with TheraVectys SA (TVS), pursuant to which we received a field limited, non-exclusive, sublicensable license for oncology uses to certain current and future intellectual property rights owned, controlled and licensed by TVS relating to lentiviral vector technologies. We will owe TVS milestone payments based on the achievement of certain development and regulatory milestones for each licensed product, in the aggregate amount of up to $5.8 million, except that the first two milestones payments are waived for CMB305/LV305. In addition, we will be obligated to pay a single commercial milestone payment for each product that achieves a specified net sales amount. We will owe royalties to TVS on product sales that are made directly by us or our affiliates, subject to certain royalty-offset provisions. For the first four products, including LV305/CMB305, royalties will be based on a low-single digit percentage of net sales, and for subsequent products, tiered royalties will be based on low-to-mid-single digit percentages of net sales. TVS will also receive a mid-single digit percentage of revenues that we receive for sublicensing the licensed intellectual property.

Collaborations

In October 2014, we entered into a collaboration with Sanofi Pasteur for the development of a Herpes Simplex Virus (HSV) immune therapy. Sanofi Pasteur and Immune Design are each contributing product candidates to the collaboration: Sanofi Pasteur is contributing HSV-529, a clinical-stage replication-defective HSV vaccine product candidate, and we contribute G103, our preclinical trivalent vaccine product candidate. The collaboration will explore

the potential of various combinations of agents, including leveraging our GLAAS platform, with the goal to select the best potential immune therapy for patients. Each company will develop the products jointly through Phase 2 clinical trials, at which point Sanofi Pasteur intends to continue development of the most promising candidate and be responsible for commercialization. Sanofi Pasteur will bear the costs of all preclinical and clinical development, with Immune Design providing a specific formulation of GLA from the GLAAS platform at its cost through Phase 2 studies. Immune Design will be eligible to receive future milestone and royalty payments on any licensed product developed from the collaboration.

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We recognize funding from collaborative research and development efforts as revenue as we perform or deliver the related services in accordance with contract terms as long as we will receive payment for such services upon standard payment terms. The costs of the related services performed are recorded as research and development expenses on the consolidated statement of operations. For the years ended December 31, 2017, 2016 and 2015, we recognized $6.9 million, $4.6 million and $4.2 million, respectively, in revenue under this collaboration arrangement. As of December 31, 2017 and 2016, we had an outstanding unbilled receivable of $605,000 and zero, respectively, and unearned revenue of zero and $2.5 million, respectively, under this collaboration arrangement. The unbilled receivable represents collaboration research services earned, but not yet billed to Sanofi Pasteur as of December 31, 2017.

11. Stockholders' Equity

Preferred Stock

Our board of directors has the authority to fix and determine and to amend the number of shares of any series of preferred stock that is wholly unissued or to be established and to fix and determine and to amend the designation, preferences, voting powers and limitations, and the relative, participating, optional or other rights, of any series of shares of preferred stock that is wholly unissued or to be established. There was no preferred stock issued and outstanding as of December 31, 2017 and December 31, 2016.

Public Offerings

In April 2015, we closed an underwritten public offering of 3,000,000 shares of our common stock at a price of $26.50 per share. In May 2015, we sold an additional 47,409 shares directly to our underwriters when they exercised a portion of their option to purchase additional shares at $26.50 per share. We received net proceeds of $75.4 million (inclusive of the exercise of a portion of the underwriters' option to purchase additional shares), after underwriting discounts and commissions and offering expenses totaling $5.4 million.

In September 2016, we closed an underwritten public offering of 5,226,369 shares of common stock at a price of $6.25 per share. We received net proceeds of $30.3 million (inclusive of the exercise of a portion of the underwriters' option to purchase additional shares), after underwriting discounts and commissions, and offering expenses totaling $2.4 million.

In October 2017, we closed an underwritten public offering of 22,425,000 shares of common stock at a price of $4.10 per share. We received net proceeds of $86.6 million (inclusive of the exercise of a portion of the underwriters' option to purchase additional shares), after underwriting discounts and commissions, and offering expenses totaling $5.4 million.

Common Stock

We had 48,068,650 and 25,413,055 shares of common stock outstanding as of December 31, 2017 and 2016, respectively. Shares of common stock reserved for future issuance were as follows:

	AS OF DECEMBER 31,	
	2017	2016
Shares available for issuance under the employee stock purchase plan	475,010	503,620
Options granted and outstanding	4,094,532	3,590,393
Unvested restricted stock units	195,172	107,250
Shares available for future option grants and restricted stock awards	947,199	724,723
Shares reserved for future issuance under equity incentive plans	5,711,913	4,925,986

Equity Incentive Plans

2014 Employee Stock Purchase Plan

In April 2014, our board of directors adopted, and in July 2014 our stockholders approved, the 2014 Employee Stock Purchase Plan (2014 ESPP). The total number of shares of common stock available for issuance under the 2014 ESPP may increase annually on January 1 by (i) the lesser of 1% of the total number of shares issued and outstanding as of December 31 of the immediately preceding year or (ii) 200,000 shares, or less as deemed appropriate by the Board of

Directors. For 2017, the Board of Directors determined the current shares available to be issued under the 2014 ESPP was sufficient and did not increase the amount of authorized shares.
2008 Equity Incentive Plan and 2014 Omnibus Incentive Plan

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In 2008, we adopted the 2008 Equity Incentive Plan (2008 Plan) for eligible employees, officers, directors, and consultants, which provided for the grant of incentive and non-statutory stock options, restricted stock awards, restructured stock unit awards grant, and stock appreciation rights. The terms of the stock awards, including vesting requirements, were determined by the board of directors, subject to the provisions of the 2008 Plan.

In April 2014, our board of directors adopted, and in July 2014 our stockholders approved, the 2014 Omnibus Incentive Plan (2014 Plan) which provides for the granting of certain awards to eligible employees, officers, directors, and consultants. Upon approval of the 2014 Plan by the stockholders in July 2014, 1,400,000 shares of our common stock were reserved for issuance under the 2014 Plan, and we ceased granting stock awards under the 2008 Plan. All shares of common stock subject to awards under the 2008 Plan that expire, terminate, or are otherwise surrendered, canceled, forfeited or repurchased without having been fully exercised or resulting in the issuance of common stock become available for issuance under the 2014 Plan.

Stock options granted under the 2008 and 2014 Plans generally vest within four years, and vested options are exercisable until ten years after the date of grant. Vesting of certain employee options may be accelerated in the event of a change in control of our company. We grant stock options to employees with exercise prices equal to the fair value of our common stock on the date of grant. There were a total of 3,927,135 shares of common stock authorized under the 2014 Plan as of December 31, 2017.

The total number of shares of common stock available for issuance under the 2014 Plan will automatically increase annually on January 1 by 4% of the total number of shares issued and outstanding as of December 31 of the immediately preceding year. On January 1, 2017, in accordance with the 2014 Plan annual increase provisions, the authorized shares increased by 1,016,522 shares.

Restricted Stock Units

In 2016, we began issuing restricted stock units (RSUs) to employees under the 2014 Plan. The fair value of the RSUs is determined on the date of grant based on the market price of our common stock. RSUs are recognized as an expense ratably over the vesting period and our RSUs generally vest over four years with 25% of the total award vesting on each anniversary of the vesting commencement date.

Summary RSU information is as follows:

	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2016	—	$ —
Granted	118,000	$ 19.39
Vested	—	$ —
Canceled/Forfeited	(10,750)	$ 19.39
Outstanding at December 31, 2016	107,250	$ 19.39
Granted	224,540	$ 5.60
Vested	(26,802)	$ 19.39
Canceled/Forfeited	(109,816)	$ 6.13
Outstanding at December 31, 2017	195,172	$ 10.99

During the year ended December 31, 2017, the total estimated grant date fair value for RSUs granted was $1.3 million. The total fair value of RSUs vested was $150,000. In 2017, the Company recognized stock-based compensation expenses of $719,000 related to RSUs. As of December 31, 2017, total unrecognized stock-based compensation expenses related to unvested RSUs was $1.5 million, which is expected to be recognized on a straight-line basis over a weighted-average period of approximately 2.35 years.

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Stock Option Activity
Summary stock option information is as follows:

	OPTIONS OUTSTANDING	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACT TERM (IN YEARS)	AGGREGATE INTRINSIC VALUE (IN THOUSANDS)
Outstanding at January 1, 2016	2,832,467	$ 11.48		
Granted	991,110	$ 15.49		
Exercised	(20,782)	$ 3.12		
Forfeited	(182,605)	$ 19.01		
Expired	(29,797)	$ 25.65		
Outstanding at December 31, 2016	3,590,393	$ 12.13	7.33	$ 5,062
Granted	954,301	$ 6.46		
Exercised	(175,183)	$ 2.56		
Forfeited	(117,124)	$ 14.35		
Expired	(157,855)	$ 17.19		
Outstanding at December 31, 2017	4,094,532	$ 10.96	7.21	$ 2,771
Vested and expected to vest after December 31, 2017	4,094,532	$ 10.96	7.21	$ 2,771
Exercisable at December 31, 2017	2,464,086	$ 10.98	6.29	$ 2,771

As of December 31, 2017, there was $10.8 million of total unrecognized stock-based compensation expense related to nonvested stock options that is expected to be recognized over a weighted-average period of 2.1 years. The total intrinsic value of options exercised during the years ended December 31, 2017, 2016 and 2015 was $868,000, $124,000 and $5.0 million, respectively.

Stock-Based Compensation Expense
Total stock-based compensation expense recognized in our statements of operations is as follows (in thousands):

	YEARS ENDED DECEMBER 31,		
	2017	2016	2015
Employee:			
Research and development	$3,613	$3,923	$2,034
General and administrative	4,879	5,029	3,810
Non-Employee:			
Research and development	85	268	205
General and administrative	56	63	248
Total stock-based compensation expense	$8,633	$9,283	$6,297

We use the Black-Scholes option pricing model to estimate the fair value of stock options at the grant date. The Black-Scholes option pricing model requires us to make certain estimates and assumptions, including assumptions related to the expected price volatility of our stock, the period during which the options will be outstanding, the rate of return on risk-free investments, and the expected dividend yield of our stock.
The fair values of stock options granted to employees were calculated using the following assumptions:

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	YEARS ENDED DECEMBER 31,		
	2017	2016	2015
Weighted-average estimated fair value	$4.41	$10.07	$15.65
Risk-free interest rate (1)	1.9% - 2.2%	1.1% - 2.4%	1.5% - 1.9%
Expected term of options (in years) (2)	5.50 - 6.08	5.50 - 9.46	5.50 - 6.08
Expected stock price volatility (3)	80% - 91%	77% - 93%	77% - 91%
Expected dividend yield (4)	—%	—%	—%

(1) The risk-free interest rate assumption was based on zero-coupon U.S. Treasury instruments that had terms consistent with the expected term of our stock option grants.

(2) We used the “simplified method” for options to determine the expected term of our stock option grants. Under this approach, the weighted-average expected life is presumed to be the average of the vesting term and the contractual term of the option.

(3) Volatility is a measure of the amount by which a financial variable, such as share price, has fluctuated or is expected to fluctuate during a period. We analyzed the stock price volatility of companies at a similar stage of development to estimate expected volatility of our stock price.

(4) We have never declared or paid cash dividends and do not presently plan to pay cash dividends in the foreseeable future.

12. Income Taxes

No provision for income taxes has been recorded for the years ended December 31, 2017 and 2016 due to the operating losses incurred since inception for which no benefit has been recorded.

The reconciliation of the U.S. income tax rate to the effective income tax rate for continuing operations is as follows:

	AS OF DECEMBER 31,	
	2017	2016
Statutory tax rate	35.0 %	35.0 %
Effect of:		
Permanent differences	(6.4)	(1.5)
Other	(0.5)	(0.4)
General business credits	15.1	2.4
Change in valuation allowance	15.6	(35.5)
Tax Reform - tax rate change	(58.8)	—
Effective tax rate	— %	— %

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

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Significant components of our deferred taxes are as follows (in thousands):

	AS OF DECEMBER 31,	
	2017	2016
Deferred tax assets:		
Net operating loss carryforwards	$39,971	$52,154
Research and development credit	13,392	5,582
Depreciation and amortization	1,241	2,023
Other temporary differences	4,477	6,154
Gross deferred tax assets	59,081	65,913
Deferred tax asset valuation allowance	(59,081)	(65,913)
Net deferred tax assets	$—	$—

Accounting Standards Codification (ASC) 740, Income Taxes, requires companies to recognize the effect of the tax law changes in the period of enactment. However, the SEC staff issued Staff Accounting Bulletin 118 which will allow companies to record provisional amounts during a measurement period that is similar to the measurement period used when accounting for business combinations.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017, or the Tax Act, was signed into law. Although the Tax Act is generally effective January 1, 2018, GAAP requires recognition of the tax effects of new legislation during the reporting period that includes the enactment date, which was December 22, 2017. The Company has adjusted its deferred tax assets and liabilities based on the reduction of the U.S. federal corporate tax rate from 35% to 21% and assessed the realizability of our deferred tax assets based on our current understanding of the provisions of the Tax Act. The primary impact of the Tax Act resulted from the re-measurement of deferred tax assets and liabilities due to the change in the corporate tax rate, reducing our deferred tax assets by $30.5 million with a corresponding reduction in our valuation allowance. Overall, this had a net zero effect on our effective tax rate for the year as the Company has a full valuation allowance against its deferred tax assets and is currently in a taxable loss. We consider our accounting for the impacts of the Tax Act to be incomplete and the Company will continue to assess the impact of the Tax Act (and expected further guidance from federal and state tax authorities as well as further guidance for the associated income tax accounting) on our business and consolidated financial statements over the next 12 months. Additional work will be necessary for a more detailed analysis of our deferred tax assets and liabilities as well as potential correlative adjustments. We do not expect any material subsequent adjustments to these amounts. Adjustments, if any, are not expected to have any impact to our results of operations due to our loss position and valuation allowance.

Realization of deferred tax assets is dependent on future earnings, if any, the timing and amount of which are uncertain. Accordingly, the deferred tax assets have been offset by a valuation allowance. The valuation allowance relates primarily to net deferred tax assets from operating losses and research and development credits. The net deferred tax asset has been fully offset by a valuation allowance. The valuation allowance (decreased) increased by $(6.8) million and $18.9 million during 2017 and 2016, respectively.

As of December 31, 2017 and 2016, we had approximately $190.3 million and $152.5 million in federal net operating loss carryforwards and approximately $13.4 million and $5.6 million in federal research and development tax credit carryforwards, respectively. The net operating losses and federal research and development credits will begin to expire in varying amounts between 2028 and 2037 if not utilized.

The Tax Reform Act of 1986, or the Tax Reform Act, provides for a limitation on the annual use of net operating loss and research and development tax credit carryforwards following certain ownership changes (as defined by the Act) that could limit our ability to utilize these carryforwards. We may have experienced an ownership change, as defined by the Act, as a result of past financings. Accordingly, our ability to utilize the aforementioned carryforwards may be limited. Additionally, U.S. tax laws limit the time during which these carryforwards may be applied against future taxes; therefore, we may not be able to take full advantage of these carryforwards for federal income tax purposes.

As of January 1, 2017, the Company had unrecognized excess tax benefits of $1.2 million related to prior stock option exercises. Upon adoption of ASU 2016-09, the Company recognized this excess tax benefit as a deferred tax asset with a corresponding increase to the deferred tax asset valuation allowance.

We file income tax returns in the U.S. federal jurisdiction as well as the state of California. We are not currently under audit in any tax jurisdiction. Tax years from 2008 through 2017 are currently open for audit by federal and state taxing authorities.

We recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. During the years ended December 31, 2017 and 2016, we did not recognize any accrued interest or penalties associated with unrecognized benefits. Additionally, we did not record any unrecognized tax benefits at December 31, 2017 and 2016.

13. Legal Proceedings

TheraVectys SA v. Immune Design Corp.

On October 17, 2016, we entered into a Settlement Agreement and a License Agreement with TheraVectys SA (TVS) obtaining certain present and future intellectual property rights and resolving the litigation that TVS initiated against us in the Chancery Court of the State of Delaware in July 2014, as well as related claims and counterclaims. In the proceeding, TVS had alleged that it had entered into a contractual relationship with Henogen SA (Henogen) in 2010 with respect to the production of lentiviral vector vaccines for TVS. Henogen is a contract manufacturing organization with which we contracted for the manufacture of our LV305 product candidate. TVS alleged that its contractual relationship with Henogen contained an exclusivity provision limiting Henogen's ability to participate in the manufacturing process of a vaccine based on lentiviral DNA vectors for third parties, as well as a provision preventing Henogen from sharing or using certain TVS confidential technology for manufacturing processes developed by TVS with or for the benefit of others. TVS alleged that we entered into a contractual relationship with Henogen in 2012 to manufacture lentiviral vectors for vaccines, which TVS contends interfered with its contract with Henogen and resulted in the use of certain TVS confidential information and trade secrets. In addition, the complaint alleged that we obtained shipments of lentiviral vectors for vaccines from Henogen and conducted clinical trials with these lentiviral vectors. The complaint asserted four counts for relief: tortious interference with contractual relationship, unfair competition, misappropriation of trade secrets, and unjust enrichment. Claimed damages were not specified.

Under the Settlement Agreement, TVS agreed to dismiss all pending litigation brought by TVS against us and to withdraw patent opposition proceedings (EPO Proceeding) brought by TVS against our European Patent No EP 2 456 786 (EU Patent). Also under the Settlement Agreement, both parties agreed to a broad release of claims against one another based on acts or omissions arising out of the litigation, or the facts and circumstances giving rise to the litigation. Neither party made any admission of liability or wrongdoing under the Settlement Agreement.

As a non-contingent fee for a license to certain present and future intellectual property of TVS, and in consideration for the settlement of all claims and disputes between the parties, we paid $6.0 million into an escrow account (Escrowed Payment), and we also agreed to pay $1.25 million to TVS when we next raised $25.0 million, in the aggregate, through equity sales, debt or licensing revenue. The Escrowed Payment was to be disbursed to TVS as follows: (a) fifty percent (50%) when (i) Institut Pasteur consented to the granting by TVS to us of a sublicense to certain patents licensed by TVS (or to be licensed by TVS) from Institut Pasteur and (ii) the litigation in the United States and Belgium had been dismissed; and (b) fifty percent (50%) upon the final resolution of the EPO Proceeding if the scope of the EU Patent remained unchanged (Escrow Conditions); provided, that delays in satisfying the Escrow Conditions would potentially result in a reduction of the amount of the Escrowed Payment that would be disbursed to TVS.

In November 2017, we paid $1.25 million to TVS upon completion of an underwritten public offering in which we raised estimated net proceeds of approximately $86.6 million, after deducting underwriting discounts, commissions and offering expenses.

In February 2018, the parties came to an agreement on the timing and satisfaction of the Escrow Conditions, and the escrow agent disbursed $5.25 million of the Escrowed Payment to TVS and $750,000 of the Escrowed Payment to Immune Design. No additional payments are expected to be made under the terms of the Settlement Agreement (see Note 15).

In addition, the License Agreement provides us with a field limited, non-exclusive, sublicensable license for oncology uses to certain current and future intellectual property rights owned, controlled and licensed by TVS. For licensed products developed under the License Agreement, we would be obligated to pay certain development and commercial milestones and royalties.

We determined that the aggregate payment amount expected to be paid to TVS is $7.3 million and as such, the aggregate payment amount should be allocated between (1) dismissal of the litigation; and (2) license to current and future TVS intellectual property (IP). As we are not able to reliably estimate the fair value of the litigation dismissal, we assigned a fair value to the aggregate amount of the license to current and future TVS IP through the use of a benchmarking approach and determined the fair value of the license to current and future IP obtained from TVS by benchmarking this deal against similar recent (within the last 5 years) deals within our industry. The metrics we used in our benchmarking approach included similarities in industry, product type, therapeutic area, stage of product development and exclusivity. Based upon the results of

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our benchmark approach, we determined that the fair value assigned to the license to current and future TVS IP to be $1.4 million with the remaining residual amount of $5.9 million allocated to the dismissal of the litigation.
For the year ended December 31, 2016, the $5.9 million allocated to the dismissal of litigation is recorded as a general and administrative expense and the $1.4 million allocated to the license acquired for current and future TVS IP granted to us is recorded as a research and development expense on the consolidated statements of operations.
European Patent Opposition
In February 2013, a third party filed an opposition at the European Patent Office (EPO) requesting revocation of European Patent No. 2068918 directed to GLA formulations and uses. This patent is owned by Infectious Disease Research Institute (IDRI), and we hold an exclusive license to this patent in certain fields. The oral proceedings for this opposition were held in September 2016. At the oral proceedings, the EPO maintained the patent in an amended form, which continues to cover the GLAAS products being developed by us and our licensees. We and the opponent have appealed this decision. However, the outcome of an appeal to this proceeding will not be known for several years.
14. Employee Benefit Plan
We sponsor a 401(k) defined contribution plan for our employees. Employee contributions are voluntary. We may match employee contributions in amounts to be determined at our sole discretion. Currently, we have elected to satisfy the safe-harbor rules by matching contributions equal to 100% of employee salary deferrals that do not exceed 3% of the employee's compensation, plus 50% matching employee salary deferrals between 3% and 5% of the employee's compensation. Employer contributions have totaled approximately $300,000, $243,000, and $214,000 for the years ended December 31, 2017, 2016 and 2015 respectively.
15. Subsequent Event
In February 2018, in accordance with the terms of the Settlement Agreement entered into on October 17, 2016, between the Company and TVS (see Note 13), the parties came to an agreement on the timing and satisfaction of the Escrow Conditions, and the escrow agent disbursed $5.25 million of the Escrowed Payment to TVS and $750,000 of the Escrowed Payment to the Company. The $750,000 recoupment of the Escrowed Payment by the Company is considered a nonrecognized subsequent event and will be recognized in the quarter ended March 31, 2018 as a reduction to general and administrative expenses.
16. Selected Quarterly Financial Information (Unaudited)
The following amounts are in thousands, except per share amounts:

	Quarter Ended			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
	(unaudited)			
Total revenues	$5,465	$729	$516	$485
Net loss	$(12,620)	$(13,846)	$(13,416)	$(11,980)
Basic and diluted net loss per share	$(0.50)	$(0.54)	$(0.52)	$(0.29)

	Quarter Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
	(unaudited)			
Total revenues	$1,863	$1,133	$8,206	$2,058
Net loss	$(12,294)	$(14,347)	$(12,443)	$(14,446)
Basic and diluted net loss per share	$(0.61)	$(0.71)	$(0.60)	$(0.57)

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