

NEKTAR THERAPEUTICS  
Form 10-Q  
August 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-24006

NEKTAR THERAPEUTICS

(Exact name of registrant as specified in its charter)

Delaware 94-3134940  
(State or other jurisdiction of (IRS Employer

incorporation or organization) Identification No.)

455 Mission Bay Boulevard South

San Francisco, California 94158

(Address of principal executive offices)

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415-482-5300

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

The number of outstanding shares of the registrant's Common Stock, \$0.0001 par value, was 136,732,450 on July 28, 2016.

NEKTAR THERAPEUTICS

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## Forward-Looking Statements

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). All statements other than statements of historical fact are “forward-looking statements” for purposes of this quarterly report on Form 10-Q, including any projections of market size, earnings, revenue, milestone payments, royalties, sales or other financial items, any statements of the plans and objectives of management for future operations (including, but not limited to, preclinical development, clinical trials and manufacturing), any statements related to our financial condition and future working capital needs, any statements regarding potential future financing alternatives, any statements concerning proposed drug candidates, any statements regarding the timing for the start or end of clinical trials or submission of regulatory approval filings, any statements regarding future economic conditions or performance, any statements regarding the success of our collaboration arrangements, timing of commercial launches and product sales levels by our collaboration partners and future payments that may come due to us under these arrangements, any statements regarding our plans and objectives to initiate or continue clinical trials, and any statements of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as “may,” “will,” “expects,” “plans,” “anticipates,” “estimates,” “potential” or “contingent,” or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, such expectations or any of the forward-looking statements may prove to be incorrect and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including, but not limited to, the risk factors set forth in Part II, Item 1A “Risk Factors” below and for the reasons described elsewhere in this quarterly report on Form 10-Q. All forward-looking statements and reasons why results may differ included in this report are made as of the date hereof and we do not intend to update any forward-looking statements except as required by law or applicable regulations. Except where the context otherwise requires, in this quarterly report on Form 10-Q, the “Company,” “Nektar,” “we,” “us,” and “our” refer to Nektar Therapeutics, a Delaware corporation, and, where appropriate, its subsidiaries.

## Trademarks

The Nektar brand and product names, including but not limited to Nektar<sup>®</sup>, contained in this document are trademarks and registered trademarks of Nektar Therapeutics in the United States (U.S.) and certain other countries. This document also contains references to trademarks and service marks of other companies that are the property of their respective owners.

## PART I: FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements—Unaudited:  
NEKTAR THERAPEUTICS

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(Unaudited)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$55,676	\$55,570
Short-term investments	219,178	253,374
Accounts receivable, net	27,777	19,947
Inventory	10,262	11,346
Other current assets	5,427	9,814
Total current assets	318,320	350,051
Property, plant and equipment, net	67,774	71,336
Goodwill	76,501	76,501
Other assets	504	754
Total assets	\$463,099	\$498,642
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$2,328	\$2,363
Accrued compensation	12,463	5,998
Accrued clinical trial expenses	13,470	8,220
Other accrued expenses	6,919	4,156
Interest payable	4,144	4,198
Capital lease obligations, current portion	3,616	4,756
Liability related to refundable upfront payment	12,500	—
Deferred revenue, current portion	16,015	21,428
Other current liabilities	7,827	10,127
Total current liabilities	79,282	61,246
Senior secured notes, net	242,567	241,699
Capital lease obligations, less current portion	2,756	1,073
Liability related to the sale of future royalties, net	111,590	116,029
Deferred revenue, less current portion	60,135	62,426
Other long-term liabilities	6,020	9,740
Total liabilities	502,350	492,213

Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, \$0.0001 par value; 10,000 shares authorized; no shares		
designated, issued or outstanding at June 30, 2016 or December 31, 2015	—	—
Common stock, \$0.0001 par value; 300,000 shares authorized; 136,602 shares and		
135,289 shares issued and outstanding at June 30, 2016 and December 31, 2015,		
respectively	13	13
Capital in excess of par value	1,898,342	1,876,072
Accumulated other comprehensive loss	(2,019 )	(2,170 )
Accumulated deficit	(1,935,587)	(1,867,486)
Total stockholders' equity (deficit)	(39,251 )	6,429
Total liabilities and stockholders' equity (deficit)	\$463,099	\$498,642

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

## NEKTAR THERAPEUTICS

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share information)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
<b>Revenue:</b>				
Product sales	\$12,867	\$10,968	\$26,966	\$18,942
Royalty revenue	3,516	745	7,576	870
Non-cash royalty revenue related to sale of future royalties	8,115	4,740	14,650	8,702
License, collaboration and other revenue	8,270	6,208	42,457	102,948
Total revenue	32,768	22,661	91,649	131,462
<b>Operating costs and expenses:</b>				
Cost of goods sold	7,708	10,534	16,578	18,978
Research and development	52,350	45,412	101,618	92,423
General and administrative	11,035	10,184	21,262	20,487
Total operating costs and expenses	71,093	66,130	139,458	131,888
Loss from operations	(38,325 )	(43,469 )	(47,809 )	(426 )
<b>Non-operating income (expense):</b>				
Interest expense	(5,627 )	(4,118 )	(11,304 )	(8,289 )
Non-cash interest expense on liability related to sale of future royalties	(4,982 )	(5,152 )	(10,027 )	(10,202 )
Interest income and other income (expense), net	458	246	1,333	457
Total non-operating expense, net	(10,151 )	(9,024 )	(19,998 )	(18,034 )
Loss before provision for income taxes	(48,476 )	(52,493 )	(67,807 )	(18,460 )
Provision for income taxes	127	164	294	377
Net loss	\$(48,603 )	\$(52,657 )	\$(68,101 )	\$(18,837 )
Basic and diluted net loss per share	\$(0.36 )	\$(0.40 )	\$(0.50 )	\$(0.14 )
Weighted average shares outstanding used in computing net loss per share	136,350	131,643	136,072	131,502

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

Three months ended    Six months ended  
June 30,                      June 30,

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	2016	2015	2016	2015
Comprehensive loss	\$(48,787)	\$(52,879)	\$(67,950)	\$(18,768)

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



## NEKTAR THERAPEUTICS

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six months ended June 30,	
	2016	2015
<b>Cash flows from operating activities:</b>		
Net loss	\$(68,101 )	\$(18,837 )
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Non-cash royalty revenue related to sale of future royalties	(14,650 )	(8,702 )
Non-cash interest expense on liability related to sale of future royalties	10,027	10,202
Stock-based compensation	12,627	9,737
Depreciation and amortization	7,634	5,833
Other non-cash transactions	(1,260 )	(621 )
Changes in operating assets and liabilities:		
Accounts receivable, net	(7,830 )	(73 )
Inventory	1,084	2,828
Other assets	4,637	190
Accounts payable	17	(10 )
Accrued compensation	6,465	5,075
Accrued clinical trial expenses	5,250	1,238
Other accrued expenses	2,831	1,859
Interest payable	(54 )	—
Liability related to refundable upfront payment	12,500	—
Deferred revenue	(7,704 )	(4,434 )
Other liabilities	(725 )	11,772
Net cash (used in) provided by operating activities	(37,252 )	16,057
<b>Cash flows from investing activities:</b>		
Purchases of investments	(72,806 )	(124,468 )
Maturities of investments	107,363	111,001
Sales of investments	—	5,215
Purchases of property, plant and equipment	(3,234 )	(4,584 )
Net cash provided by (used in) investing activities	31,323	(12,836 )
<b>Cash flows from financing activities:</b>		
Payment of capital lease obligations	(3,517 )	(2,484 )
Proceeds from shares issued under equity compensation plans	9,643	7,798
Net cash provided by financing activities	6,126	5,314
Effect of exchange rates on cash and cash equivalents	(91 )	(25 )
Net increase in cash and cash equivalents	106	8,510
Cash and cash equivalents at beginning of period	55,570	12,365

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Cash and cash equivalents at end of period	\$55,676	\$20,875
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$10,448	\$8,320

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

NEKTAR THERAPEUTICS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

(Unaudited)

Note 1 — Organization and Summary of Significant Accounting Policies

Organization

We are a biopharmaceutical company headquartered in San Francisco, California and incorporated in Delaware. We are developing a pipeline of drug candidates that utilize our PEGylation and advanced polymer conjugate technology platforms with the objective to improve the benefits of drugs for patients.

Our research and development activities have required significant ongoing investment to date and are expected to continue to require significant investment. As a result, we expect to continue to incur substantial losses and negative cash flows from operations in the future. We have financed our operations primarily through cash generated from licensing, collaboration and manufacturing agreements and financing transactions. At June 30, 2016, we had approximately \$274.9 million in cash and investments in marketable securities. Also, as of June 30, 2016, we had \$256.4 million in debt, including \$250.0 million in principal of senior secured notes and \$6.4 million of capital lease obligations, of which \$3.6 million is current.

Basis of Presentation and Principles of Consolidation

Our consolidated financial statements include the financial position, results of operations and cash flows of our wholly-owned subsidiaries: Nektar Therapeutics (India) Private Limited (Nektar India) and Nektar Therapeutics UK Limited. All intercompany accounts and transactions have been eliminated in consolidation.

We prepared our Condensed Consolidated Financial Statements following the requirements of the Securities and Exchange Commission (SEC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. generally accepted accounting principles (GAAP) for annual periods can be condensed or omitted. In the opinion of management, these financial statements include all normal and recurring adjustments that we consider necessary for the fair presentation of our financial position and operating results.

Our Condensed Consolidated Financial Statements are denominated in U.S. dollars. Accordingly, changes in exchange rates between the applicable foreign currency and the U.S. dollar will affect the translation of each foreign subsidiary's financial results into U.S. dollars for purposes of reporting our consolidated financial results. Translation gains and losses are included in accumulated other comprehensive loss in the stockholders' equity section of the Condensed Consolidated Balance Sheets. To date, such cumulative currency translation adjustments have not been significant to our consolidated financial position.

Our comprehensive loss consists of our net loss plus our foreign currency translation gains and losses and unrealized holding gains and losses on available-for-sale securities, neither of which were significant during the three and six months ended June 30, 2016 and 2015. In addition, there were no significant reclassifications out of accumulated other comprehensive loss to the statements of operations during the three and six months ended June 30, 2016 and 2015.

The accompanying Condensed Consolidated Financial Statements are unaudited. The Condensed Consolidated Balance Sheet data as of December 31, 2015 was derived from the audited consolidated financial statements which are included in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on February 29, 2016. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and the accompanying notes to those financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Revenue, expenses, assets, and liabilities can vary during each quarter of the year. The results and trends in these interim Condensed Consolidated Financial Statements are not necessarily indicative of the results to be expected for the full year or any other periods.

#### Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accounting estimates and assumptions are inherently uncertain. Actual results could differ materially from those estimates and assumptions. Our estimates

include those related to estimated selling prices of deliverables in collaboration agreements, estimated periods of performance, the net realizable value of inventory, the impairment of investments, the impairment of goodwill and long-lived assets, contingencies, accrued clinical trial expenses, estimated non-cash royalty revenue and interest expense from our liability related to our sale of future royalties, stock-based compensation, and ongoing litigation, among other estimates. We base our estimates on historical experience and on other assumptions that management believes are reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities when these values are not readily apparent from other sources. As appropriate, estimates are assessed each period and updated to reflect current information and any changes in estimates will generally be reflected in the period first identified.

#### Reclassifications

Certain items previously reported in specific financial statement captions have been reclassified to conform to the current period presentation, including as a result of the adoption of new accounting guidance related to debt issuance costs described below. Such reclassifications do not materially impact previously reported revenue, operating income (loss), net income (loss), total assets, liabilities or stockholders' equity (deficit).

#### Segment Information

We operate in one business segment which focuses on applying our technology platforms to improve the performance of established and novel drug candidates. We operate in one segment because our business offerings have similar economics and other characteristics, including the nature of products and manufacturing processes, types of customers, distribution methods and regulatory environment. We are comprehensively managed as one business segment by our Chief Executive Officer and his management team.

#### Significant Concentrations

Our customers are primarily pharmaceutical and biotechnology companies that are located in the U.S. and Europe. Our accounts receivable balance contains billed and unbilled trade receivables from product sales, milestones, other contingent payments and royalties, as well as time and materials based billings from collaborative research and development agreements. When appropriate, we provide for an allowance for doubtful accounts by reserving for specifically identified doubtful accounts. We generally do not require collateral from our customers. We perform a regular review of our customers' payment histories and associated credit risk. We have not experienced significant credit losses from our accounts receivable and our allowance for doubtful accounts was not significant at either June 30, 2016 or December 31, 2015.

We are dependent on our suppliers and contract manufacturers to provide raw materials, drugs and devices of appropriate quality and reliability and to meet applicable contract and regulatory requirements. In certain cases, we rely on single sources of supply of one or more critical materials. Consequently, in the event that supplies are delayed or interrupted for any reason, our ability to develop and produce our drug candidates or our ability to meet our supply obligations could be significantly impaired, which could have a material adverse effect on our business, financial condition and results of operations.

#### Revenue Recognition

Our revenue is derived from our arrangements with pharmaceutical and biotechnology collaboration partners and may result from one or more of the following: upfront and license fees, payments for contract research and development, milestone and other contingent payments, manufacturing and supply payments, and royalties. Our performance obligations under our collaborations may include licensing our intellectual property, manufacturing and supply

obligations, and research and development obligations. In order to account for the multiple-element arrangements, we identify the deliverables included within the arrangement and evaluate which deliverables represent separate units of accounting. Analyzing the arrangement to identify deliverables requires the use of judgment, and each deliverable may be an obligation to deliver goods or services, a right or license to use an asset, or another performance obligation. Revenue is recognized separately for each identified unit of accounting when the basic revenue recognition criteria are met: there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed or determinable, and collection is reasonably assured.

At the inception of each new multiple-element arrangement or the material modification of an existing multiple-element arrangement, we allocate all consideration received under multiple-element arrangements to all units of accounting based on the relative selling price method, generally based on our best estimate of selling price (ESP). The objective of ESP is to determine the price at which we would transact a sale if the product or service was sold on a stand-alone basis. We determine ESP for the elements in our collaboration arrangements by considering multiple factors including, but not limited to, technical complexity of the performance obligation and similarity of elements to those performed under previous arrangements. Since we apply significant judgment in arriving at the ESPs, any material change in our estimates would significantly affect the allocation of the total consideration to the different elements of a multiple element arrangement.

#### Product sales

Product sales are primarily derived from fixed price and cost-plus manufacturing and supply agreements with our collaboration partners. We have not experienced any significant returns from our customers.

#### Royalty revenue

Generally, we are entitled to royalties from our collaboration partners based on the net sales of their approved drugs that are marketed and sold in one or more countries where we hold royalty rights. We recognize royalty revenue when the cash is received or when the royalty amount to be received is estimable and collection is reasonably assured. With respect to the non-cash royalties related to sale of future royalties described in Note 4, revenue is recognized when estimable, otherwise, revenue is recognized during the period in which the related royalty report is received, which generally occurs in the quarter after the applicable product sales are made.

#### License, collaboration and other revenue

The amount of upfront fees and other payments received by us in license and collaboration arrangements that are allocated to continuing performance obligations, such as manufacturing and supply obligations, are deferred and generally recognized ratably over our expected performance period under each respective arrangement. We make our best estimate of the period over which we expect to fulfill our performance obligations, which may include technology transfer assistance, research activities, clinical development activities, and manufacturing activities from development through the commercialization of the product. Given the uncertainties of these collaboration arrangements, significant judgment is required to determine the duration of the performance period and this estimate is periodically re-evaluated.

Contingent consideration received from the achievement of a substantive milestone is recognized in its entirety in the period in which the milestone is achieved, which we believe is consistent with the substance of our performance under our various license and collaboration agreements. A milestone is defined as an event (i) that can only be achieved based in whole or in part either on the entity's performance or on the occurrence of a specific outcome resulting from the entity's performance, (ii) for which there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved, and (iii) that would result in additional payments being due to the entity. A milestone is substantive if the consideration earned from the achievement of the milestone is consistent with our performance required to achieve the milestone or the increase in value to the collaboration resulting from our performance, relates solely to our past performance, and is reasonable relative to all of the other deliverables and payments within the arrangement.

Our license and collaboration agreements with our partners provide for payments to us upon the achievement of development milestones, such as the completion of clinical trials or regulatory submissions, approvals by regulatory authorities, and commercial launches of drugs. Given the challenges inherent in developing and obtaining regulatory

approval for drug products and in achieving commercial launches, there was substantial uncertainty whether any such milestones would be achieved at the time of execution of these licensing and collaboration agreements. In addition, we evaluated whether the development milestones met the remaining criteria to be considered substantive. As a result of our analysis, we consider our remaining development milestones under all of our license and collaboration agreements to be substantive and, accordingly, we expect to recognize as revenue future payments received from each milestone only if and as such milestone is achieved.

Our license and collaboration agreements with certain partners also provide for contingent payments to us based solely upon the performance of the respective partner. For such contingent amounts, we expect to recognize the payments as revenue when earned under the applicable contract, which is generally upon completion of performance by the respective partner, provided that collection is reasonably assured.



Our license and collaboration agreements with our partners also provide for payments to us upon the achievement of specified sales volumes of approved drugs. We consider these payments to be similar to royalty payments and we will recognize such sales-based payments upon achievement of such sales volumes, provided that collection is reasonably assured.

#### Research and Development Expense

Research and development costs are expensed as incurred and include salaries, benefits and other operating costs such as outside services, supplies and allocated overhead costs. We perform research and development for our proprietary drug candidates and technology development and for certain third parties under collaboration agreements. For our proprietary drug candidates and our internal technology development programs, we invest our own funds without reimbursement from a third party.

We record accruals for the estimated costs of our clinical trial activities performed by third parties. The financial terms of these agreements are subject to negotiation, vary from contract to contract and may result in uneven payment flows to our vendors. Payments under the contracts depend on factors such as the achievement of certain events, successful enrollment of patients, and completion of certain clinical trial activities. We generally accrue costs associated with the start-up and reporting phases of the clinical trials ratably over the estimated duration of the start-up and reporting phases. We generally accrue costs associated with the treatment phase of clinical trials based on the total estimated cost of the treatment phase on a per patient basis and we expense the per patient cost ratably over the estimated patient treatment period based on patient enrollment in the trials. In specific circumstances, such as for certain time-based costs, we recognize clinical trial expenses using a methodology that we consider to be more reflective of the timing of costs incurred. Advance payments for goods or services that will be used or rendered for future research and development activities are capitalized as prepaid expenses and recognized as expense as the related goods are delivered or the related services are performed. We base our estimates on the best information available at the time. However, additional information may become available to us which may allow us to make a more accurate estimate in future periods. In this event, we may be required to record adjustments to research and development expenses in future periods when the actual level of activity becomes more certain. Such increases or decreases in cost are generally considered to be changes in estimates and will be reflected in research and development expenses in the period identified.

#### Long-Lived Assets

We assess the impairment of long-lived assets, primarily property, plant and equipment and goodwill, whenever events or changes in business circumstances indicate that the carrying amounts of the assets may not be fully recoverable. When such events occur, we determine whether there has been an impairment in value by comparing the carrying value of the asset with its fair value, as measured by the anticipated undiscounted net cash flows associated with the asset. In the case of goodwill impairment, we perform an impairment test at least annually, on October 1 of each year, and market capitalization is generally used as the measure of fair value. If an impairment in value exists, the asset is written down to its estimated fair value.

#### Income Taxes

For the three and six months ended June 30, 2016 and 2015, we recorded an income tax provision for our Nektar India operations at an effective tax rate of approximately 35%. The U.S. federal deferred tax assets generated from our net operating losses have been fully reserved, as we believe it is not more likely than not that the benefit will be realized.

#### Adoption of New Accounting Principle

In April 2015, the Financial Accounting Standards Board (FASB) issued guidance to simplify the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability. This guidance is effective for our interim and annual periods beginning January 1, 2016. Upon adoption, the new guidance must be applied retrospectively to all periods presented. Accordingly, as of January 1, 2016, we reclassified \$0.4 million and \$3.0 million of capitalized debt issuance costs to senior secured notes, net, and liability related to the sale of future royalties, net, respectively, from our other assets balance. This reclassification has also been applied retrospectively to these balances in our Condensed Consolidated Balance Sheet as of December 31, 2015.

#### Recent Accounting Pronouncements

In May 2014, the FASB issued guidance codified in Accounting Standards Codification (ASC) 606, Revenue Recognition — Revenue from Contracts with Customers, which amends the guidance in former ASC 605, Revenue Recognition, and is effective for public companies for fiscal years beginning after December 15, 2017. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt this new guidance. We are currently evaluating the impact of the provisions of ASC 606.

In March 2016, the FASB issued guidance to simplify several aspects of employee share-based payment accounting, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance will become effective for us beginning in the first quarter of 2017. Early adoption is permitted. We are currently evaluating the impact of the adoption of this standard.

In February 2016, the FASB issued guidance to amend a number of aspects of lease accounting, including requiring lessees to recognize almost all leases with a term greater than one year as a right-of-use asset and corresponding liability, measured at the present value of the lease payments. The guidance will become effective for us beginning in the first quarter of 2019 and is required to be adopted using a modified retrospective approach. Early adoption is permitted. We are currently evaluating the impact of the adoption of this standard.

Note 2 — Cash and Investments in Marketable Securities

Cash and investments in marketable securities, including cash equivalents, are as follows (in thousands):

	Estimated Fair Value at	
	June 30,	December 31,
	2016	2015
Cash and cash equivalents	\$55,676	\$55,570
Short-term investments	219,178	253,374
Total cash and investments in marketable securities	\$274,854	\$308,944

We invest in liquid, high quality debt securities. Our investments in debt securities are subject to interest rate risk. To minimize the exposure due to an adverse shift in interest rates, we invest in securities with maturities of two years or less and maintain a weighted average maturity of one year or less. As of June 30, 2016 and December 31, 2015, all of our investments had maturities of one year or less.

Gross unrealized gains and losses were not significant at either June 30, 2016 or December 31, 2015. During the three and six months ended June 30, 2016 and the three months ended June 30, 2015, we did not sell any of our available-for-sale securities. During the six months ended June 30, 2015, we sold available-for-sale securities totaling \$5.2 million and gross realized gains and losses on those sales were not significant. The cost of securities sold is based on the specific identification method.

Under the terms of our 7.75% senior secured notes due October 2020, we are required to maintain a minimum cash and investments in marketable securities balance of \$60.0 million during the term of the notes.

Our portfolio of cash and investments in marketable securities includes (in thousands):

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	Fair Value Hierarchy	Estimated Fair Value at	
		June 30,	December 31,
	Level	2016	2015
Corporate notes and bonds	2	\$121,333	\$181,969
Corporate commercial paper	2	78,052	61,150
Obligations of U.S. government agencies	2	16,863	7,325
Available-for-sale investments		216,248	250,444
Money market funds	1	54,632	53,728
Certificate of deposit	N/A	2,930	2,930
Cash	N/A	1,044	1,842
Total cash and investments in marketable securities		\$274,854	\$308,944

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

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

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.

All of our investments are categorized as Level 1 or Level 2, as explained in the table above. We use a market approach to value our Level 2 investments. The disclosed fair value related to our investments is based primarily on the reported fair values in our period-end brokerage statements, which are based on market prices from a variety of industry standard data providers and generally represent quoted prices for similar assets in active markets or have been derived from observable market data. We independently validate these fair values using available market quotes and other information. During the three and six months ended June 30, 2016 and 2015, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

Additionally, as of June 30, 2016, based on a discounted cash flow analysis using Level 3 inputs including financial discount rates, we believe the \$250.0 million in principal amount of our 7.75% senior secured notes due October 2020 is consistent with its fair value.

### Note 3 — Inventory

Inventory consists of the following (in thousands):

	June 30, 2016	December 31, 2015
Raw materials	\$ 2,630	\$ 3,236
Work-in-process	6,632	6,087
Finished goods	1,000	2,023
Total inventory	\$ 10,262	\$ 11,346

Inventory is generally manufactured upon receipt of firm purchase orders from our collaboration partners. Inventory includes direct materials, direct labor, and manufacturing overhead and cost is determined on a first-in, first-out basis. Inventory is valued at the lower of cost or market and defective or excess inventory is written down to net realizable value based on historical experience or projected usage.

### Note 4 — Liability Related to Sale of Future Royalties

On February 24, 2012, we entered into a Purchase and Sale Agreement (the Purchase and Sale Agreement) with RPI Finance Trust (RPI), an affiliate of Royalty Pharma, pursuant to which we sold, and RPI purchased, our right to receive royalty payments (the Royalty Entitlement) arising from the worldwide net sales, from and after January 1, 2012, of (a) CIMZIA<sup>®</sup>, under our license, manufacturing and supply agreement with UCB Pharma (UCB), and (b) MIRCERA<sup>®</sup>, under our license, manufacturing and supply agreement with F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc. (together referred to as Roche). We received aggregate cash proceeds of \$124.0 million for the Royalty Entitlement. As part of this sale, we incurred approximately \$4.4 million in transaction costs, which will be amortized to interest expense over the estimated life of the Purchase and Sale Agreement. Although we sold all of

our rights to receive royalties from the CIMZIA<sup>®</sup> and MIRCERA<sup>®</sup> products, as a result of our ongoing manufacturing and supply obligations related to the generation of these royalties, we will continue to account for these royalties as revenue. We recorded the \$124.0 million in proceeds from this transaction as a liability (Royalty Obligation) that will be amortized using the interest method over the estimated life of the Purchase and Sale Agreement as royalties from the CIMZIA<sup>®</sup> and MIRCERA<sup>®</sup> products are remitted directly to RPI. During the six months ended June 30, 2016 and 2015, we recognized \$14.7 million and \$8.7 million, respectively, in non-cash royalties from net sales of CIMZIA<sup>®</sup> and MIRCERA<sup>®</sup> and we recorded \$10.0 million and \$10.2 million, respectively, of related non-cash interest expense.

Since its inception, our estimate of the total interest expense on the Royalty Obligation resulted in an effective annual interest rate of approximately 17%. We periodically assess the estimated royalty payments to RPI from UCB and Roche and to the extent such payments are greater or less than our initial estimates, or the timing of such payments is materially different than our original estimates, we will prospectively adjust the amortization of the Royalty Obligation.

Pursuant to the Purchase and Sale Agreement, in March 2014 and March 2013, we were required to pay RPI \$7.0 million and \$3.0 million, respectively, as a result of worldwide net sales of MIRCERA<sup>®</sup> for the 12 month periods ended December 31, 2013 and 2012 not reaching certain minimum thresholds. The Purchase and Sale Agreement does not include any other potential payments related to minimum net sales thresholds and, therefore, we do not expect to make any further payments to RPI related to this agreement.

In addition, the Purchase and Sale Agreement grants RPI the right to receive certain reports and other information relating to the Royalty Entitlement and contains other representations and warranties, covenants and indemnification obligations that are customary for a transaction of this nature. To our knowledge, we are currently in compliance with these provisions of the Purchase and Sale

Agreement; however, if we were to breach our obligations, we could be required to pay damages to RPI that are not limited to the purchase price we received in the sale transaction.

#### Note 5 — Commitments and Contingencies

##### Legal Matters

From time to time, we are involved in lawsuits, arbitrations, claims, investigations and proceedings, consisting of intellectual property, commercial, employment and other matters, which arise in the ordinary course of business. We make provisions for liabilities when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Such provisions are reviewed at least quarterly and adjusted to reflect the impact of settlement negotiations, judicial and administrative rulings, advice of legal counsel, and other information and events pertaining to a particular case. Litigation is inherently unpredictable. If any unfavorable ruling were to occur in any specific period, there exists the possibility of a material adverse impact on the results of our operations of that period and on our cash flows and liquidity.

On August 14, 2015, Enzon, Inc. filed a breach of contract complaint in the Supreme Court of the State of New York (Court) claiming damages of \$1.5 million plus interest for unpaid licensing fees through the date of the complaint. Enzon alleged that we failed to pay a post-patent expiration immunity fee related to one of the licenses. Following a hearing held on December 21, 2015, the Court granted Nektar's motion to dismiss the Enzon complaint. Enzon has filed an appeal to the Court's dismissal decision.

##### Indemnifications in Connection with Commercial Agreements

As part of our collaboration agreements with our partners related to the license, development, manufacture and supply of drugs based on our proprietary technologies and drug candidates, we generally agree to defend, indemnify and hold harmless our partners from and against third party liabilities arising out of the agreement, including product liability (with respect to our activities) and infringement of intellectual property to the extent the intellectual property is developed by us and licensed to our partners. The term of these indemnification obligations is generally perpetual any time after execution of the agreement. There is generally no limitation on the potential amount of future payments we could be required to make under these indemnification obligations.

From time to time we enter into other strategic agreements such as divestitures and financing transactions pursuant to which we are required to make representations and warranties and undertake to perform or comply with certain covenants. In the event it is determined that we breached certain of the representations and warranties or covenants made by us in any such agreements, we could incur substantial indemnification liabilities depending on the timing, nature, and amount of any such claims.

To date, we have not incurred costs to defend lawsuits or settle claims related to these indemnification obligations. Because the aggregate amount of any potential indemnification obligation is not a stated amount, the overall maximum amount of any such obligations cannot be reasonably estimated. No liabilities have been recorded for these obligations in our Condensed Consolidated Balance Sheets at either June 30, 2016 or December 31, 2015.

Note 6 — License and Collaboration Agreements

We have entered into various collaboration agreements including license agreements and collaborative research, development and commercialization agreements with various pharmaceutical and biotechnology companies. Under these collaboration arrangements, we are entitled to receive license fees, upfront payments, milestone and other contingent payments, royalties, sales milestones, and payments for the manufacture and supply of our proprietary PEGylation materials and/or reimbursement for research and development activities. All of our collaboration agreements are generally cancelable by our partners without significant financial penalty. Our costs of performing these services are generally included in research and development expense, except that costs for product sales to our collaboration partners are included in cost of goods sold.



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In accordance with our collaboration agreements, we recognized license, collaboration and other revenue as follows (in thousands):

Partner	Drug or Drug Candidate	Three months ended June 30,		Six months ended June 30,	
		2016	2015	2016	2015
AstraZeneca AB	MOVANTIK™ (NKTR-118) and MOVANTIK™ fixed-dose combination program (NKTR-119)	\$—	\$—	\$28,000	\$90,000
Roche	PEGASYS® and MIRCERA®	1,919	3,197	3,842	6,408
Daiichi Sankyo Europe GmbH	ONZEALD™ (NKTR-102)	3,258	—	3,258	—
Amgen, Inc.	Neulasta® BAY41-6551	1,250	1,250	2,500	2,500
Bayer Healthcare LLC	(Amikacin Inhale)	357	395	714	1,205
Baxalta Incorporated	ADYNOVATE™	207	88	313	197
Other		1,279	1,278	3,830	2,638
License, collaboration and other revenue		\$8,270	\$6,208	\$42,457	\$102,948

As of June 30, 2016, our collaboration agreements with partners included potential future payments for development milestones totaling approximately \$147.0 million, including amounts from our agreements with Daiichi, Bayer, Baxalta and Ophthotech described below. In addition, under our collaboration agreements we are entitled to receive contingent development payments and contingent sales milestones and royalty payments, including those related to MOVANTIK™ and the MOVANTIK™ fixed-dose combination drug development programs, as described below.

There have been no material changes to our collaboration agreements in the six months ended June 30, 2016, except as described below.

Daiichi Sankyo Europe GmbH: ONZEALD™ (etirinotecan pegol), also referred to as NKTR-102

Effective May 30, 2016, we entered into a collaboration and license agreement with Daiichi Sankyo Europe GmbH, a German limited liability company (Daiichi), under which we granted Daiichi exclusive commercialization rights in the European Economic Area, Switzerland, and Turkey (collectively, the European Territory) to our proprietary product candidate ONZEALD™ (etirinotecan pegol), which is also known as NKTR-102, a long-acting topoisomerase I inhibitor in clinical development for the treatment of adult patients with advanced breast cancer who have brain metastases (BCBM). Nektar retains all rights to ONZEALD™ in all countries outside the European Territory including the United States.

Under the terms of the agreement and in consideration for the exclusive commercialization rights in the European Territory, Daiichi will pay Nektar a \$20.0 million up-front payment and Nektar will be eligible to receive up to an aggregate of \$60.0 million in regulatory and commercial milestones, including a \$10.0 million payment upon the first commercial sale of ONZEALD™ following conditional marketing approval by the European Commission (EC), a \$25.0 million payment upon the first commercial sale following final marketing authorization approval of ONZEALD™ by the EC, and a \$25.0 million sales milestone upon Daiichi's first achievement of a certain specified annual net sales target. We are also eligible to receive a 20% royalty on net sales of ONZEALD™ by Daiichi in all countries in the European Territory except for net sales in Turkey where Nektar is eligible to receive a 15% royalty. The parties will enter into a supply agreement whereby we will be responsible for supplying Daiichi with its requirements for ONZEALD™ on a fully burdened reimbursed cost basis. Daiichi will be responsible for all commercialization activities for ONZEALD™ in the European Territory and will bear all associated costs. In addition, we are responsible for funding and conducting a Phase 3 confirmatory trial in patients with BCBM (Confirmatory Trial).

Daiichi may terminate the agreement in the event that the EC does not grant conditional marketing approval for ONZEALD™ based on the Confirmatory Trial or the conditional marketing approval for ONZEALD™ is not granted prior to a pre-specified future date (Daiichi Pre-Conditional Approval Termination). Nektar may terminate the Agreement in the event that the EC requires changes in the Confirmatory Trial that materially increase the costs of such trial and Daiichi elects not to reimburse Nektar for such incremental costs (Nektar Pre-Conditional Approval Termination). In the event of a Daiichi Pre-Conditional Approval Termination or a Nektar Pre-Conditional Approval Termination, we would be obligated to pay Daiichi a \$12.5 million termination payment. Following conditional marketing approval of ONZEALD™ by the EC, we would no longer have such termination payment obligation. Each party has certain other termination rights based on the safety or efficacy findings including the outcome of the Confirmatory Trial and any material uncured breaches of the Agreement. The \$20.0 million upfront payment due from Daiichi to us and the \$12.5

million contingent termination payment from us to Daiichi are recorded in our accounts receivable, net and liability related to refundable upfront payment balances, respectively, in our Condensed Consolidated Balance Sheet at June 30, 2016.

We identified our grant of the exclusive license to Daiichi on May 30, 2016 and our ongoing clinical and regulatory development service obligations as the significant, non-contingent deliverables under the agreement and determined that each represents a separate unit of accounting. We made our best estimate of the selling price for the license grant based on a discounted cash flow analysis of projected ONZEALD™ sales and estimated the selling price for the development services based on our experience with the costs of similar clinical studies and regulatory activities. Based on these estimates, we allocated the \$7.5 million non-refundable portion of the \$20.0 million upfront payment due from Daiichi to these items based on their relative selling prices. As a result, we recognized \$3.3 million of revenue in the three months ended June 30, 2016 from this arrangement, primarily related to the delivery of the license. As of June 30, 2016, we have deferred revenue of approximately \$4.2 million related to our development service obligations under this agreement, which we expect to recognize through May 2021, the estimated end of our development obligations. If and when the remaining \$12.5 million portion of the upfront payment becomes non-refundable, we expect to allocate this amount between the license and development service obligation consistent with the estimated selling prices of these deliverables. The license related amount will be recognized immediately and the development service related amount will be recorded as deferred revenue and recognized ratably over the remaining obligation period.

We determined that the milestones noted above payable to us by Daiichi upon the first commercial sales of ONZEALD™ following conditional marketing approval and following final marketing authorization approval of ONZEALD™ by the EC are substantive milestones that will be recognized if and when achieved. In addition, we determined that the sales milestone due to us upon Daiichi's first achievement of a certain specified annual net sales target should be considered a contingent payment and will be recognized if and when achieved.

AstraZeneca AB: MOVANTIK™ (naloxegol oxalate), previously referred to as naloxegol and NKTR-118, and MOVANTIK™ fixed-dose combination program, previously referred to as NKTR-119

We are a party to an agreement with AstraZeneca AB (AstraZeneca) under which we granted AstraZeneca a worldwide, exclusive license under our patents and other intellectual property to develop, market, and sell MOVANTIK™ and MOVANTIK™ fixed-dose combination program. AstraZeneca is responsible for all research, development and commercialization and is responsible for all drug development and commercialization decisions for MOVANTIK™ and the MOVANTIK™ fixed-dose combination program. AstraZeneca paid us an upfront payment of \$125.0 million, which we received in the fourth quarter of 2009 and which was fully recognized as of December 31, 2010. In addition, we have received the payments described further below based on development events related to MOVANTIK™ completed solely by AstraZeneca. We are entitled to receive up to \$75.0 million of commercial launch contingent payments related to the MOVANTIK™ fixed-dose combination program, based on development events to be pursued and completed solely by AstraZeneca. In addition, we are entitled to significant and escalating double-digit royalty payments and sales milestone payments based on annual worldwide net sales of MOVANTIK™ and MOVANTIK™ fixed-dose combination products.

On September 16, 2014, the United States Food and Drug Administration (FDA) approved MOVANTIK™ for the treatment of opioid-induced constipation (OIC) in adult patients with chronic, non-cancer pain. On December 9, 2014, AstraZeneca announced that MOVENTIG® (the naloxegol brand name in the European Union or EU) has been granted Marketing Authorisation by the European Commission (EC) for the treatment of opioid-induced constipation (OIC) in adult patients who have had an inadequate response to laxative(s). In March 2015, AstraZeneca announced that MOVANTIK™ launched in the United States which resulted in our receipt of a \$100.0 million non-refundable commercial launch payment on March 31, 2015, which was recognized as revenue in March 2015. In March 2015,

we agreed to pay AstraZeneca a total of \$10.0 million to fund U.S. television advertising in consideration for certain additional commercial information rights. We recorded this \$10.0 million obligation as a liability, and made the initial \$5.0 million payment to AstraZeneca in July 2015. The remaining \$5.0 million, which was paid in July 2016, is included in other current liabilities in our Condensed Consolidated Balance Sheet at June 30, 2016. We determined that this \$10.0 million obligation should be recorded as a reduction of revenue, which we recorded in the three months ended March 31, 2015. In August 2015, we received and recognized as revenue an additional \$40.0 million non-refundable payment triggered by the first commercial sale of MOVENTIG® in Germany.

On March 1, 2016, AstraZeneca announced that it had entered into an agreement with ProStrakan Group plc (ProStrakan), a subsidiary of Kyowa Hakko Kirin Co. Ltd., granting ProStrakan exclusive marketing rights to MOVENTIG® in the EU, Iceland, Liechtenstein, Norway and Switzerland. Under the terms of AstraZeneca's agreement with ProStrakan, ProStrakan made a \$70.0 million upfront payment to AstraZeneca and will make additional payments based on achieving market access milestones, tiered net sales royalties, as well as sales milestones. Under our license agreement with AstraZeneca, AstraZeneca and we will share the upfront payment, market access milestones, royalties and sales milestones from ProStrakan with AstraZeneca receiving 60% and Nektar receiving 40%. This payment sharing arrangement is in lieu of other royalties payable by AstraZeneca to us and a portion of the sales

milestones as described below. Our 40% share of royalty payments made by ProStrakan to AstraZeneca will be financially equivalent to us receiving high single-digit to low double-digit royalties dependent on the level of ProStrakan's net sales. ProStrakan's MOVENTI<sup>®</sup> net sales will be included for purposes of achieving the annual global sales milestones payable to us by AstraZeneca and will also be included for purposes of determining the applicable ex-U.S. royalty rate, from the tier schedule in our AstraZeneca license agreement, that will be applied to ex-U.S. sales outside of the ProStrakan territory. The global sales milestones under our license agreement with AstraZeneca will be reduced in relation to the amount of ProStrakan MOVENTIG<sup>®</sup> net sales that contribute to any given annual sales milestone target. As a result, we were entitled to receive 40% (or \$28.0 million) of the \$70.0 million payment received by AstraZeneca from ProStrakan in March 2016, recognized this amount as revenue in March 2016 and received this \$28.0 million in April 2016. As of June 30, 2016, we do not have deferred revenue related to our agreement with AstraZeneca.

In general, other than as described above and in this paragraph, AstraZeneca has full responsibility for all research, development and commercialization costs under our license agreement. As part of its approval of MOVANTIK<sup>™</sup>, the FDA required AstraZeneca to perform a post-marketing, observational epidemiological study comparing MOVANTIK<sup>™</sup> to other treatments of OIC in patients with chronic, non-cancer pain. As a result, the royalty rate payable to us from net sales of MOVANTIK<sup>™</sup> in the U.S. by AstraZeneca will be reduced by up to two percentage points to fund 33% of the external costs incurred by AstraZeneca to fund such post approval study once it is initiated, subject to a \$35.0 million aggregate cap. Any costs incurred by AstraZeneca can only be recovered by the reduction of the royalty paid to us. In no case can amounts be recovered by the reduction of a contingent payment due from AstraZeneca to us or through a payment from us to AstraZeneca.

#### Baxalta Incorporated: Hemophilia

We are a party to an exclusive research, development, license and manufacturing and supply agreement with Baxalta Incorporated (Baxalta) executed in September 2005 to develop products designed to improve therapies for Hemophilia A patients using our PEGylation technology. Under the terms of the agreement, we are entitled to research and development funding and are responsible for supplying Baxalta with its requirements for our proprietary materials. Baxalta is responsible for all clinical development, regulatory, and commercialization expenses.

This Hemophilia A program includes ADYNOVATE<sup>™</sup>, which was approved by the FDA in November 2015 for use in adults and adolescents, aged 12 years and older, who have Hemophilia A, and is now marketed in the U.S. As a result of the FDA's approval, we achieved and recognized a \$10.0 million development milestone in November 2015, which was received in January 2016. In addition, under the terms of this agreement, as of June 30, 2016, we are entitled to a \$10.0 million development milestone due upon marketing authorization in the EU, as well as sales milestones upon achievement of annual sales targets and royalties based on annual worldwide net sales of products resulting from this agreement. As of June 30, 2016, we do not have deferred revenue related to this agreement.

#### Roche: PEGASYS<sup>®</sup> and MIRCERA<sup>®</sup>

In February 2012, we entered into a toll-manufacturing agreement with Roche under which we will manufacture the proprietary PEGylation material used by Roche to produce MIRCERA<sup>®</sup>. Roche entered into the toll-manufacturing agreement with the objective of establishing us as a secondary back-up supply source on a non-exclusive basis. Under the terms of our toll-manufacturing agreement, Roche paid us an upfront payment of \$5.0 million and an additional \$22.0 million in performance-based milestone payments upon our achievement of certain manufacturing readiness, validation and production milestones, including the delivery of specified quantities of PEGylation materials, all of which were completed as of January 2013. Roche will also pay us additional consideration for any future orders of the PEGylation materials for MIRCERA<sup>®</sup> beyond the initial quantities manufactured through January 2013. Roche has the right to terminate the toll-manufacturing agreement due to an uncured material default by us. In addition, in

August 2013, we agreed to deliver additional quantities of PEGylation materials used by Roche to produce PEGASYS® and MIRCERA®, all of which were delivered in the last quarter of 2013, for total consideration of \$18.6 million. As of June 30, 2016, we have deferred revenue of approximately \$3.8 million related to this agreement, which we expect to recognize through December 2016, the estimated end of our obligations under this agreement.

In February 1997, we entered into a license, manufacturing and supply agreement with Roche, under which we granted Roche a worldwide, exclusive license to certain intellectual property related to our proprietary PEGylation materials used in the manufacture and commercialization of PEGASYS®. Our performance obligations under this PEGASYS® agreement ended on December 31, 2015.

Amgen, Inc.: Neulasta®

In October 2010, we amended and restated an existing supply and license agreement by entering into a supply, dedicated suite and manufacturing guarantee agreement (the amended and restated agreement) and a license agreement with Amgen Inc. and Amgen Manufacturing, Limited (together referred to as Amgen). Under the terms of the amended and restated agreement, we received a \$50.0

million payment in the fourth quarter of 2010 in return for our guaranteeing the supply of certain quantities of our proprietary PEGylation materials to Amgen. As of June 30, 2016, we have deferred revenue of approximately \$21.7 million related to this agreement, which we expect to recognize through October 2020, the estimated end of our obligations under this agreement.

Bayer Healthcare LLC: BAY41-6551 (Amikacin Inhale)

In August 2007, we entered into a co-development, license and co-promotion agreement with Bayer Healthcare LLC (Bayer) to develop a specially-formulated inhaled Amikacin. We are responsible for development and manufacturing and supply of the nebulizer device included in the Amikacin product. In April 2013, Bayer initiated a Phase 3 clinical trial in the treatment of intubated and mechanically ventilated patients with Gram-negative pneumonia. As of June 30, 2016, we have received an upfront payment of \$40.0 million (which was paid to us in 2007) and milestone payments totaling \$30.0 million (the last of which was paid to us in 2013). In addition, in June 2013, we made a \$10.0 million payment to Bayer for the reimbursement of some of its costs of the Phase 3 clinical trial.

We are entitled to receive a total of up to an additional \$50.0 million of development milestones upon achievement of certain development objectives, as well as sales milestones upon achievement of annual sales targets and royalties based on annual worldwide net sales of Amikacin Inhale. As of June 30, 2016, we have deferred revenue of approximately \$18.6 million related to this agreement, which we expect to recognize through June 2029, the estimated end of our obligations under this agreement.

Ophthotech Corporation: Fovista®

We are a party to an agreement with Ophthotech Corporation (Ophthotech), dated September 30, 2006, under which Ophthotech received a worldwide, exclusive license to certain of our proprietary PEGylation technology to develop, manufacture and sell Fovista®. Under the terms of our agreement, we are the exclusive supplier of all of Ophthotech's clinical and commercial requirements for our proprietary PEGylation reagent used in Fovista®, which is currently in Phase 3 clinical development. On May 19, 2014, Ophthotech entered into a Licensing and Commercialization Agreement with Novartis Pharma AG for Fovista®. Under our agreement with Ophthotech, in June 2014, we received a \$19.8 million payment in connection with this licensing agreement. As of June 30, 2016, we have deferred revenue of approximately \$17.5 million related to this agreement, which we expect to recognize through March 2029, the estimated end of our obligations under our agreement with Ophthotech.

In addition, we are entitled to up to \$9.5 million in additional payments based upon Ophthotech's potential achievement of certain regulatory and sales milestones, including a \$2.5 million milestone due upon acceptance for review of a regulatory approval application in the U.S. or EU. We are also entitled to royalties on net sales of Fovista® that vary based on sales levels, if commercialized.

Other

In addition, as of June 30, 2016, we have a number of collaboration agreements, including with our collaboration partner UCB, under which we are entitled to up to a total of \$45.5 million of development milestones upon achievement of certain development objectives, as well as sales milestones upon achievement of annual sales targets and royalties based on net sales of commercialized products, if any. However, given the current phase of development of the potential products under these collaboration agreements, we cannot estimate the probability or timing of achieving these milestones. As of June 30, 2016, we have deferred revenue of approximately \$10.3 million related to these other collaboration agreements, which we expect to recognize through 2020, the estimated end of our obligations under those agreements.

## Note 7 — Stock-Based Compensation

Total stock-based compensation expense was recognized in our Condensed Consolidated Statements of Operations as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Cost of goods sold	\$402	\$239	\$790	\$563
Research and development	3,125	2,125	6,324	4,547
General and administrative	2,737	2,196	5,513	4,627
Total stock-based compensation	\$6,264	\$4,560	\$12,627	\$9,737



During the three months ended June 30, 2016 and 2015, we granted options to purchase 589,090 and 68,200 shares, respectively, at a weighted average grant-date fair value of \$7.22 per share and \$4.81 per share, respectively.

During the six months ended June 30, 2016 and 2015, we granted options to purchase 789,290 and 479,010 shares, respectively, at a weighted average grant-date fair value of \$6.88 per share and \$6.31 per share, respectively.

As a result of stock issuances under our equity compensation plans, during the three months ended June 30, 2016 and 2015, we issued 451,391 and 733,952 shares of our common stock, respectively, and during the six months ended June 30, 2016 and 2015, we issued 1,313,937 and 969,250 shares of our common stock, respectively.

#### Note 8 — Net Loss Per Share

Basic net loss per share is calculated based on the weighted-average number of common shares outstanding during the periods presented. For all periods presented in the accompanying Condensed Consolidated Statements of Operations, the net loss available to common stockholders is equal to the reported net loss. Basic and diluted net loss per share are the same due to our historical net losses and the requirement to exclude potentially dilutive securities which would have an anti-dilutive effect on net loss per share.

During the three and six months ended June 30, 2016 and 2015, potentially dilutive securities consisted of common shares underlying outstanding stock options and RSUs. During the three months ended June 30, 2016 and 2015, there were weighted average outstanding stock options and RSUs of 19.4 million and 21.6 million shares, respectively, and during the six months ended June 30, 2016 and 2015, there were weighted average outstanding stock options and RSUs of 19.6 million and 21.7 million shares, respectively.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this section as well as factors described in "Part II, Item 1A-Risk Factors."

### Overview

#### Strategic Direction of Our Business

We are a biopharmaceutical company developing a pipeline of drug candidates that utilize our PEGylation and advanced polymer conjugate technology platforms, which are designed to enable the development of new molecular entities that target known mechanisms of action. Our current proprietary pipeline is comprised of drug candidates across a number of therapeutic areas including oncology, pain, anti-infectives, and immunology. Our research and development activities involve small molecule drugs, peptides and protein biologic drug candidates. We create innovative drug candidates by using our proprietary advanced polymer conjugate technologies and expertise to modify the chemical structure of pharmacophores to create new molecular entities. Polymer chemistry is a science focused on the synthesis or bonding of polymer architectures with drug molecules to alter the properties of a molecule. Additionally, we may utilize established pharmacologic targets to engineer a new drug candidate relying on a combination of the known properties of these targets and our proprietary polymer chemistry technology and expertise. Our drug candidates are designed to improve the overall benefits and use of a drug for patients by improving the metabolism, distribution, pharmacokinetics, pharmacodynamics, half-life and/or bioavailability of drugs. Our objective is to apply our advanced polymer conjugate technology platform to create new drug candidates in multiple therapeutic areas that address large potential markets.

In 2014, we achieved the first approval of one of our proprietary drug candidates, MOVANTIK™ (naloxegol), under a global license agreement with AstraZeneca. MOVANTIK™ is an oral peripherally-acting opioid antagonist, for the treatment of opioid-induced constipation, or OIC, a side effect caused by chronic administration of prescription opioid pain medicines. AstraZeneca markets and sells MOVANTIK™ in the United States in collaboration with Daiichi Sankyo, Inc. On March 31, 2015, AstraZeneca and Daiichi launched MOVANTIK™ in the United States. On March 1, 2016, AstraZeneca entered into an agreement with ProStrakan Group plc (ProStrakan), a subsidiary of Kyowa Hakko Kirin Co. Ltd., granting ProStrakan exclusive marketing rights to MOVENTIG® (the naloxegol brand name in the EU) in the EU, Iceland, Liechtenstein, Norway and Switzerland. Under the terms of that agreement, ProStrakan made a \$70 million upfront payment to AstraZeneca and will make future payments based on achieving market access milestones, tiered net sales royalties, as well as sales milestones. Under our license agreement, AstraZeneca and Nektar will share the upfront payment, market access milestones, royalties and sales milestones from ProStrakan with AstraZeneca receiving 60% and Nektar receiving 40%. Given the significant sales milestone and royalty opportunity for us associated with MOVANTIK™ under our AstraZeneca license agreement, the level of sales achieved by AstraZeneca for MOVANTIK™ will have a significant impact on our operating results and financial condition over the coming years.

We have a collaboration with Baxalta to develop and commercialize PEGylated drug candidates with the objective of providing new long-acting therapies for hemophilia patients. Under this collaboration, we worked with Baxalta to develop ADYNOVATE™ (previously referred to as BAX 855), an extended half-life recombinant factor VIII (rFVIII) treatment for Hemophilia A based on ADVATE® [Antihemophilic Factor (Recombinant)]. In November 2015, ADYNOVATE™ was approved by the FDA for use in adults and adolescents, aged 12 years and older, who have Hemophilia A. Baxalta announced the launch and first shipments of ADYNOVATE™ on November 30, 2015. On April 4, 2016, Baxalta announced that the Ministry of Health, Labour and Welfare in Japan approved ADYNOVATE™ for patients aged 12 years and older with Hemophilia A. ADYNOVATE™ is also under

regulatory review in Europe, Switzerland and Canada. The level of sales achieved by Baxalta for ADYNOVATE™ and our related royalties will be important to our operating results and financial condition over the coming years.

NKTR-181 is a novel mu-opioid analgesic drug candidate for chronic pain conditions and is currently in Phase 3 clinical development. We enrolled the first patient in the first Phase 3 efficacy study in February 2015 and we recently completed enrollment in the study. In this study, we are randomizing patients with chronic low back pain in an enriched enrollment randomized withdrawal design which will include a qualifying screening period, an open-label titration period where NKTR-181 is given to all patients, followed by a 12 week double-blind randomized period where subjects will be randomized on a 1:1 basis to receive either NKTR-181 or placebo. The NKTR-181 Phase 3 study design includes a single interim sample size assessment to be conducted by an independent analysis center (IAC) after approximately fifty percent of the initially planned 416 patients completed the study. The protocol of the NKTR-181 study defined only two possible outcomes for this pre-planned blinded interim sample size assessment: (1) if the conditional powering at the midpoint of the trial fell between 50-85%, the sample size was to be increased by approximately 200 patients; or (2) if the conditional powering fell below 50%, or above 85%, the sample size was not to be changed. The IAC's determination is nondiscretionary and was based upon our determination of pre-defined acceptable power to detect a statistically significant difference between NKTR-181 and placebo based on the primary efficacy endpoint. On February 29, 2016, the IAC instructed Nektar to increase the sample size by approximately 200 patients.

NKTR-102 (etirinotecan pegol, also known as ONZEALD™) is our next-generation topoisomerase I inhibitor proprietary drug candidate. In 2015, we announced topline data from a Phase 3 clinical study for NKTR-102, which we call the BEACON study (BrEAst Cancer Outcomes with NKTR-102), as a single-agent therapy for women with advanced metastatic breast cancer. The BEACON study compared NKTR-102 to an active control arm comprised of a single chemotherapy agent of physician's choice (TPC) in patients who were heavily pre-treated with a median of three prior therapies for metastatic disease. In a topline analysis of 852 patients from the trial, NKTR-102 provided a 2.1 month improvement in median overall survival (OS) over TPC (12.4 months for patients receiving NKTR-102 compared to 10.3 months for patients receiving TPC). Based on a stratified log-rank analysis, the primary endpoint measuring the Hazard Ratio (HR) for survival in the NKTR-102 group compared to the active control arm was 0.87 with a p-value of 0.08, which did not achieve statistical significance. Secondary endpoints in the BEACON study included objective response rate and progression-free survival, which did not achieve statistical significance in the study. We also announced that we observed a significant overall survival benefit in two pre-specified subgroups—patients with a history of brain metastases and patients with baseline liver metastases at study entry.

We have explored future regulatory and development paths forward for ONZEALD™ with the EU and U.S. health authorities. In Europe, we met with the National Authorities in Sweden and the United Kingdom to discuss the BEACON data. On May 26, 2016, the Committee for Medicinal Products for Human Use granted an accelerated assessment procedure for the planned ONZEALD™ filing, which provides for an accelerated marketing authorization application (MAA) review timeline. In June 2016, we also met with the European Medicines Agency (EMA) and filed an MAA for conditional approval of ONZEALD™ for adult patients with advanced breast cancer who have brain metastases. On July 14, 2016, we received a letter from the EMA notifying us that the ONZEALD™ application successfully passed validation to be accepted for review. As contemplated by our recently announced European commercialization collaboration with Daiichi and in connection with our MAA filing for ONZEALD™, in 2016 we plan to initiate a randomized Phase 3 confirmatory study to evaluate ONZEALD™ as compared to a single-agent chemotherapy of physician's choice in approximately 350 adult patients with advanced breast cancer who have brain metastases (Confirmatory Study). The primary endpoint of the Confirmatory Study will be overall survival (OS) and the Confirmatory Study will include a pre-specified interim analysis for OS which is to be conducted after 130 events have occurred in the study. In addition, based on our meetings with the FDA's Oncology Division, the FDA staff has indicated that positive results from the Confirmatory Study could also support an NDA filing in the U.S. where Nektar has retained all rights to ONZEALD™.

In December 2015, we dosed the first patient in a Phase 1/2 clinical study for NKTR-214, which is our engineered immunostimulatory CD122-biased cytokine designed to preferentially activate the beta and gamma sub-units of the IL-2 receptor with the objective to induce proliferation of tumor-killing T cells within the body (CD8-positive effector T cells and natural killer T cells) without stimulating regulatory T cells (CD4-positive T cells). The study is being conducted initially at two primary investigator sites: the University of Texas MD Anderson Cancer Center and Yale Cancer Center. The dose-escalation stage of the Phase 1/2 study in approximately 20 patients is designed to evaluate safety and efficacy, and define the recommended Phase 2 dose of NKTR-214 in patients with solid tumors. In addition to a determination of the recommended Phase 2 dose, the study will assess preliminary anti-tumor activity, including objective response rate. The immunologic effect of NKTR-214 on tumor-infiltrating lymphocytes and other immune infiltrating cells in both blood and tumor tissue will also be assessed. Following the dose-escalation stage of the study, dose expansion cohorts are planned to evaluate NKTR-214 in specific tumor types, including melanoma, renal cell carcinoma and non-small cell lung cancer.

We also have two significant drug development programs with Bayer. The first is a collaboration to develop BAY41-6551 (Amikacin Inhale, formerly known as NKTR-061), which is an inhaled solution of amikacin, an aminoglycoside antibiotic. We originally developed the liquid aerosol inhalation platform and the NKTR-061 drug candidate and entered into a collaboration agreement with Bayer to further advance the drug candidate's development and potential commercialization. Bayer is currently enrolling patients in a Phase 3 clinical study for Amikacin Inhale.

Bayer is conducting this study under a Special Protocol Assessment process agreed to with the FDA. The second is our significant royalty rights in the Cipro DPI (Cipro Dry Powder Inhaler, previously called Cipro Inhale) program with Bayer that we transferred to Novartis as part of the 2008 pulmonary asset divestiture transaction. In August 2012, Bayer initiated a global Phase 3 program called RESPIRE for the Cipro DPI product candidate in patients with non-cystic fibrosis bronchiectasis. These programs represent a significant future economic opportunity for us.

While the approved drugs and clinical development programs described above are key elements of our future success, we believe it is critically important that we continue to make substantial investments in our earlier-stage drug candidate pipeline. We have several drug candidates in earlier stage clinical development or being explored in research that we are preparing to advance into the clinic in future years. We are also advancing several other drug candidates in preclinical development in the areas of cancer immunotherapy, pain and other therapeutic indications. While we believe that our substantial investment in research and development has the potential to create significant value if one or more of our drug candidates demonstrates positive clinical results, receives regulatory approval in one or more major markets and achieves commercial success, drug research and development is an inherently uncertain process and there is a high risk of failure at every stage prior to approval and the timing and outcome of clinical trial results

are extremely difficult to predict. Clinical development successes and failures can have a disproportionately positive or negative impact on our scientific and medical prospects, financial condition and prospects, results of operations and market value.

Historically, we have entered into a number of license and supply contracts under which we manufactured and supplied our proprietary PEGylation reagents on a fixed price or cost-plus basis. Our current strategy is to manufacture and supply PEGylation reagents to support our proprietary drug candidates or our third-party collaborators where we have a strategic development and commercialization relationship or where we derive substantial economic benefit.

#### Key Developments and Trends in Liquidity and Capital Resources

As of June 30, 2016, we estimated that we had at least twelve months of working capital to fund our current business plans. At June 30, 2016, we had approximately \$274.9 million in cash and investments in marketable securities. Also, as of June 30, 2016, we had \$256.4 million in debt, including \$250.0 million in principal of senior secured notes and \$6.4 million of capital lease obligations.

#### Results of Operations

##### Three and Six Months Ended June 30, 2016 and 2015

Revenue (in thousands, except percentages)

	Three months ended June 30,		Percentage		
	2016	2015	Increase/ (Decrease)	Increase/ (Decrease)	
	2016	2015	2016 vs. 2015	2016 vs. 2015	
Product sales	\$ 12,867	\$ 10,968	\$ 1,899	17	%
Royalty revenue	3,516	745	2,771	>100%	
Non-cash royalty revenue related to sale of					
future royalties	8,115	4,740	3,375	71	%
License, collaboration and other revenue	8,270	6,208	2,062	33	%
Total revenue	\$ 32,768	\$ 22,661	\$ 10,107	45	%
		Six months ended June 30,	Increase/ (Decrease)	Percentage Increase/ (Decrease)	
			2016 vs. 2015		

	2016	2015		2016 vs. 2015	
Product sales	\$26,966	\$18,942	\$ 8,024	42	%
Royalty revenue	7,576	870	6,706	>100%	
Non-cash royalty revenue related to sale of					
future royalties	14,650	8,702	5,948	68	%
License, collaboration and other revenue	42,457	102,948	(60,491 )	(59	)%
Total revenue	\$91,649	\$131,462	\$ (39,813 )	(30	)%

Our revenue is derived from our collaboration agreements, under which we may receive product sales revenue, royalties, license fees, milestone and other contingent payments and/or contract research payments. Revenue is recognized when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed or determinable, and collection is reasonably assured. The amount of upfront fees received under our license and collaboration agreements allocated to continuing obligations, such as manufacturing and supply commitments, is recognized ratably over our expected performance period under the arrangement. As a result, there may be significant variations in the timing of receipt of cash payments and our recognition of revenue. We make our best estimate of the period over which we expect to fulfill our performance obligations. Given the uncertainties in research and development collaborations, significant judgment is required by us to determine the performance periods.

#### Product sales

Product sales include predominantly fixed price manufacturing and supply agreements with our collaboration partners and result from the receipt of firm purchase orders from those partners. The timing of shipments is based solely on the demand and requirements of our collaboration partners and is not ratably throughout the year.

Product sales increased for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015 primarily due to increased product demand from a number of our collaboration partners. We expect product sales for the full year of 2016 will increase as compared to 2015 primarily due to increased product demand from one of our collaboration partners.

Royalty revenue and non-cash royalty revenue related to sale of future royalties

We receive royalty revenue from certain of our collaboration partners based on their net sales of commercial products. Royalty revenue received in cash increased for the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015 primarily due to the launch of commercial sales by AstraZeneca of MOVANTI<sup>TM</sup> in the U.S. in March 2015 and MOVENTIG<sup>®</sup> in the EU in August 2015 and the launch of ADYNOVATE<sup>TM</sup> by Baxalta in the U.S. in November 2015. We expect royalty revenue for the full year of 2016 will increase as compared to 2015 due to royalties we expect to receive from MOVANTI<sup>TM</sup>, MOVENTIG<sup>®</sup> and ADYNOVATE<sup>TM</sup>.

In February 2012, we sold all of our rights to receive future royalty payments on CIMZIA<sup>®</sup> and MIRCERA<sup>®</sup>. As described in Note 4 to our Condensed Consolidated Financial Statements, this royalty sale transaction has been recorded as a liability that amortizes over the estimated royalty payment period. As a result of this liability accounting, even though the royalties from UCB and Roche are remitted directly to the purchaser of these royalty interests, we will continue to record revenue for these royalties. We expect non-cash royalties from net sales of CIMZIA<sup>®</sup> and MIRCERA<sup>®</sup> for the full year of 2016 will increase as compared to 2015.

License, Collaboration and Other Revenue

License, collaboration and other revenue includes the recognition of upfront payments, milestone and other contingent payments received in connection with our license and collaboration agreements and reimbursed research and development expenses. The level of license, collaboration and other revenue depends in part upon the estimated amortization period of the upfront payments, the achievement of milestones and other contingent events, the continuation of existing collaborations, the amount of reimbursed research and development work, and entering into new collaboration agreements, if any.

License, collaboration and other revenue increased for the three months ended June 30, 2016 compared to the three months ended June 30, 2015 primarily due to the recognition of \$3.3 million from the Daiichi Sankyo arrangement. License, collaboration and other revenue decreased for the six months ended June 30, 2016 compared to the six months ended June 30, 2015 primarily as a result of the recognition in March 2015 of the \$100.0 million milestone payment received from AstraZeneca as a result of the U.S. commercial launch of MOVANTI<sup>TM</sup>, partially offset by the recognition of \$28.0 million in March 2016 for our 40% share of the \$70.0 million sublicense payment received by AstraZeneca from ProStrakan in March 2016. In addition, in March 2015, we agreed to pay AstraZeneca \$10.0 million, including \$5.0 million paid in July 2015 and \$5.0 million paid in July 2016, to fund U.S. television advertising in consideration for certain additional commercial information rights. We determined that this \$10.0 million obligation should be recorded as a reduction of revenue, which we recorded in the three months ended March 31, 2015.

We expect our license, collaboration and other revenue for the full year of 2016 will decrease significantly as compared to 2015 primarily due to the recognition in 2015 of the significant non-recurring payments resulting from AstraZeneca's commercial launches of MOVANTI<sup>TM</sup> and MOVENTIG<sup>®</sup>.



## Cost of Goods Sold and Product Gross Margin (in thousands, except percentages)

	Three months ended June 30,		Increase/ (Decrease)	Percentage Increase/ (Decrease)
	2016	2015	2016 vs. 2015	2016 vs. 2015
Cost of goods sold	\$7,708	\$10,534	\$ (2,826 )	(27 )%
Product gross profit (loss)	5,159	434	\$ 4,725	>100%
Product gross margin	40 %	4 %		

	Six months ended June 30,		Increase/ (Decrease)	Percentage Increase/ (Decrease)
	2016	2015	2016 vs. 2015	2016 vs. 2015
Cost of goods sold	\$16,578	\$18,978	\$ (2,400 )	(13 )%
Product gross profit (loss)	10,388	(36 )	\$ 10,424	>100%
Product gross margin	39 %	0 %		

Cost of goods sold decreased during the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015 primarily due to the mix of product sales, which resulted in decreases to cost of goods sold even though product sales increased during the same periods.

The improvement in product gross profit (loss) and product gross margin during the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015 is primarily due to a more favorable product mix in 2016 compared to 2015. The manufacturing arrangement with one of our collaboration partners includes a fixed price for our proprietary PEGylation reagent materials, which is less than the fully burdened manufacturing cost for the reagent in 2016 and 2015 and we expect this situation to continue with this partner in future years. There were fewer shipments to this partner in total and relative to shipments to other customers during the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015. In addition to product sales from reagent materials supplied to the partner where our sales are less than our fully burdened manufacturing cost, we also receive royalty revenue from this collaboration. In the three and six months ended June 30, 2016 and 2015, the royalty revenue from this collaboration exceeded the related negative gross profit.

We expect product gross margin to continue to fluctuate in future periods depending on the level and mix of manufacturing orders from our customers due to the predominantly fixed cost base associated with our manufacturing activities. We expect product gross margin for the full year of 2016 to be substantially similar to the six months ended June 30, 2016, as a result of anticipated collaboration partner demand and product mix.

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Research and Development Expense (in thousands, except percentages)

	Three months ended June 30,		Percentage	
	2016	2015	Increase/ (Decrease)	Increase/ (Decrease)
	2016	2015	2016 vs. 2015	2016 vs. 2015
Research and development expense	\$52,350	\$45,412	\$ 6,938	15 %

	Six months ended June 30,		Percentage	
	2016	2015	Increase/ (Decrease)	Increase/ (Decrease)
	2016	2015	2016 vs. 2015	2016 vs. 2015
Research and development expense	\$101,618	\$92,423	\$ 9,195	10 %

Research and development expense consists primarily of clinical study costs, direct costs of outside research, materials, supplies, licenses and fees as well as personnel costs (including salaries, benefits, and stock-based compensation). Research and development expense also includes certain overhead allocations consisting of support and facilities-related costs.

Research and development expense increased during the three and six months ended June 30, 2016 compared to the three and six months ended June 30, 2015 primarily due to costs incurred in our Phase 3 clinical program for NKTR-181 and our NKTR-214 Phase 1/2 clinical study initiated at the end of 2015. We expect research and development expense in the full year of 2016 to increase as compared to 2015.

Other than as described in the Overview section above, there have been no material changes to the status of clinical programs in the six months ended June 30, 2016 from the activities discussed in our Annual Report on Form 10-K for the year ended December 31, 2015 on file with the Securities and Exchange Commission.

General and Administrative Expense (in thousands, except percentages)

			Percentage	
			Increase/ (Decrease)	Increase/ (Decrease)
	Three months ended June 30, 2016	2015	2016 vs. 2015	2016 vs. 2015
General and administrative expense	\$ 11,035	\$ 10,184	851	8 %

			Percentage	
			Increase/ (Decrease)	Increase/ (Decrease)
	Six months ended June 30, 2016	2015	2016 vs. 2015	2016 vs. 2015
General and administrative expense	\$ 21,262	\$ 20,487	775	4 %

General and administrative expense includes the cost of administrative staffing, business development, marketing, finance, and legal activities. General and administrative expense during the three and six months ended June 30, 2016 increased marginally compared with the three and six months ended June 30, 2015. We expect general and administrative expenses in the full year of 2016 to decrease marginally compared to 2015.

Interest Expense (in thousands, except percentages)

Three months ended June 30,	Increase/ (Decrease)	Percentage Increase/
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	2016	2015	2016 vs. 2015	(Decrease)	
					2016 vs. 2015
Interest expense	\$5,627	\$4,118	\$ 1,509	37	%
Non-cash interest expense on					
liability related to sale of future royalties	4,982	5,152	(170 )	(3 )	%
					Percentage
					Increase/ (Decrease)
					Increase/ (Decrease)
	Six months ended June 30, 2016	2015	2016 vs. 2015	2016 vs. 2015	
Interest expense	\$11,304	\$8,289	\$ 3,015	36	%
Non-cash interest expense on					
liability related to sale of future royalties	10,027	10,202	(175 )	(2 )	%

Interest expense for the three and six months ended June 30, 2016 increased as compared to the three and six months ended June 30, 2015 primarily as a result of our secured notes transaction completed in October 2015. In October 2015, we issued \$250.0 million in aggregate principal amount of 7.75% senior secured notes due October 2020 and used a portion of the proceeds from these notes to redeem the \$125.0 million in aggregate principal amount of 12% senior secured notes due July 2017. Interest on the 7.75% senior secured notes is calculated based on actual days outstanding over a 360 day year. We expect interest expense during the full year of 2016 to increase compared to 2015 as a result of the year over year increase to the principal balance of our outstanding secured notes, partially offset by the reduction in the secured note interest rate from 12% to 7.75%.

Non-cash interest expense on the liability related to sale of future royalties for the three and six months ended June 30, 2016 decreased marginally compared with the three and six months ended June 30, 2015. In February 2012, we sold all of our rights to

receive future royalty payments on CIMZIA® and MIRCERA® in exchange for \$124.0 million. As described in Note 4 to our Condensed Consolidated Financial Statements, this royalty sale transaction has been recorded as a liability that amortizes over the estimated royalty payment period as CIMZIA® and MIRCERA® royalties are remitted directly to the purchaser. We impute interest on the transaction and record interest expense at the effective interest rate, which we currently estimate to be approximately 17%. There are a number of factors that could materially affect the estimated interest rate, in particular, the amount and timing of royalty payments from future net sales of CIMZIA® and MIRCERA®, and we assess this estimate on a periodic basis. As a result, future interest rates could differ significantly and any such change in interest rate will be adjusted prospectively. Unless we adjust our estimated interest rate, we expect non-cash interest expense on the liability related to sale of future royalties for the full year of 2016 to decrease marginally compared to 2015 as a result of the decreasing royalty liability balance.

### Liquidity and Capital Resources

We have financed our operations primarily through revenue from product sales, royalties and research and development contracts, as well as public offering and private placements of debt and equity securities. At June 30, 2016, we had approximately \$274.9 million in cash and investments in marketable securities. Also, as of June 30, 2016, we had \$256.4 million in debt, including \$250.0 million in principal of senior secured notes and \$6.4 million of capital lease obligations.

As of June 30, 2016, we estimated that we had at least twelve months of working capital to fund our current business plans. We expect the clinical development of our proprietary drug candidates including NKTR-181, Amikacin Inhale, and NKTR-214, will require significant investment in order to continue to advance in clinical development with the objective of entering into a collaboration partnership or obtaining regulatory approval. However, we have no credit facility or any other sources of committed capital. In the past we have received a number of significant payments from collaboration agreements and other significant transactions. In the future, we expect to continue to receive increasing royalties from commercial sales of products such as MOVANTIK™, MOVENTIG® and ADYNOVATE™ as they continue to increase sales after their recent product launches and potential substantial payments from future collaboration transactions if drug candidates in our pipeline achieve positive clinical or regulatory outcomes. Our current business plan is also subject to significant uncertainties and risks as a result of, among other factors, the sales levels of products for which we are entitled to royalties such as MOVANTIK™, MOVENTIG® and ADYNOVATE™, clinical program outcomes, whether, when and on what terms we are able to enter into new collaboration transactions, expenses being higher than anticipated, unplanned expenses, cash receipts being lower than anticipated, and the need to satisfy contingent liabilities, including litigation matters and indemnification obligations.

The availability and terms of various financing alternatives substantially depend on many factors including the success or failure of drug development programs in our pipeline, including NKTR-181, Amikacin Inhale and NKTR-214, as well as other early stage development programs. The availability and terms of financing alternatives and any future significant payments from existing or new collaborations depend on the positive outcome of ongoing or planned clinical studies, whether we or our partners are successful in obtaining regulatory authority approvals in major markets, and if approved, the commercial success of these drugs, as well as general capital market conditions. We will pursue various financing alternatives as needed to continue to fund our research and development activities and to fund the expansion of our business as appropriate.

Due to the potential for adverse developments in the credit markets in 2016 and thereafter, we may experience reduced liquidity with respect to some of our investments in marketable securities. These investments are generally held to maturity, which, in accordance with our investment policy, is less than two years. However, if the need arises to liquidate such securities before maturity, we may experience losses on liquidation. At June 30, 2016, the average time to maturity of the investments held in our portfolio was approximately four months and the maturity of any single investment did not exceed one year. To date we have not experienced any liquidity issues with respect to these

securities, but if such issues arise, we may be required to hold some, or all, of these securities until maturity. We believe that, even allowing for potential liquidity issues with respect to these securities, our remaining cash and investments in marketable securities will be sufficient to meet our anticipated cash needs for at least the next twelve months.

#### Cash flows from operating activities

Cash flows used in operating activities for the six months ended June 30, 2016 totaled \$37.3 million, which includes \$65.5 million of net operating cash uses as well as \$9.8 million for interest payments on our senior secured notes, partially offset by the receipt of a \$28.0 million payment in April 2016 from AstraZeneca related to its sub-license to ProStrakan as well as the receipt of a \$10.0 million milestone in January 2016 from our Baxalta collaboration agreement, which was recorded in accounts receivable in our Condensed Consolidated Balance Sheet at December 31, 2015. The accounts receivable balance in our Condensed Consolidated Balance Sheet as of June 30, 2016 includes a \$20.0 million payment receivable from Daiichi Sankyo related to our NKTR-102 collaboration arrangement in Europe. We expect that cash flows used in operating activities, excluding upfront, milestone and other contingent payments received, if any, will decrease in the full year of 2016 compared to 2015 primarily as a result of increased cash receipts from product sales and royalties.

Cash flows provided by operating activities for the six months ended June 30, 2015 totaled \$16.1 million, which includes the receipt of \$102.0 million for milestones from collaboration agreements, including the \$100.0 million payment received as a result of the US launch of MOVANTIK™, partially offset by \$78.4 million of net operating cash uses as well as \$7.5 million for interest payments on our senior secured notes.

#### Cash flows from investing activities

We paid \$3.2 million and \$4.6 million to purchase property, plant and equipment in the six months ended June 30, 2016 and 2015, respectively. We expect our capital expenditures in the full year of 2016 to decrease marginally compared to 2015.

#### Cash flows used in financing activities

We received proceeds from issuance of common stock related to our employee option and stock purchase plans of \$9.6 million and \$7.8 million in the six months ended June 30, 2016 and 2015, respectively.

#### Contractual Obligations

There were no material changes during the six months ended June 30, 2016 to the summary of contractual obligations included in our Annual Report on Form 10-K for the year ended December 31, 2015 on file with the Securities and Exchange Commission.

#### Off-Balance Sheet Arrangements

We do not utilize off-balance sheet financing arrangements as a source of liquidity or financing.

#### Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. We evaluate our estimates on an ongoing basis. Actual results may differ from those estimates under different assumptions or conditions. There have been no material changes to our critical accounting policies and estimates discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our market risks at June 30, 2016 have not changed significantly from those discussed in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2015 on file with the Securities and Exchange Commission.

Item 4. Controls and Procedures  
Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 (Exchange Act) reports is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon, and as of the date of, this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.



#### Changes in Internal Control Over Financial Reporting

We continuously seek to improve the efficiency and effectiveness of our internal controls. This results in refinements to processes throughout the Company. However, there was no change in our internal control over financial reporting that occurred in the three months ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## PART II: OTHER INFORMATION

### Item 1. Legal Proceedings

Reference is hereby made to our disclosures in “Legal Matters” under Note 5 to our Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q and the information under the heading “Legal Matters” is incorporated by reference herein.

### Item 1A. Risk Factors

Investors in Nektar Therapeutics should carefully consider the risks described below before making an investment decision. The risks described below may not be the only ones relating to our company. This description includes any material changes to and supersedes the description of the risk factors associated with our business previously disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015. Additional risks that we currently believe are immaterial may also impair our business operations. Our business, results of operations, financial condition, cash flows and future prospects and the trading price of our common stock and our abilities to repay our senior secured notes could be harmed as a result of any of these risks, and investors may lose all or part of their investment. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2015, including our consolidated financial statements and related notes, and our other filings made from time to time with the Securities and Exchange Commission (SEC).

#### Risks Related to Our Business

Drug development is a long and inherently uncertain process with a high risk of failure at every stage of development.

We have a number of proprietary drug candidates and partnered drug candidates in research and development ranging from the early discovery research phase through preclinical testing and clinical trials. Preclinical testing and clinical studies are long, expensive, difficult to design and implement and highly uncertain as to outcome. It will take us, or our collaborative partners, many years to conduct extensive preclinical tests and clinical trials to demonstrate the safety and efficacy in humans of our product candidates. The start or end of a clinical study is often delayed or halted due to changing regulatory requirements, manufacturing challenges, required clinical trial administrative actions, slower than anticipated patient enrollment, changing standards of care, availability or prevalence of use of a comparator drug or required prior therapy, clinical outcomes, or our and our partners’ financial constraints.

Drug development is a highly uncertain scientific and medical endeavor, and failure can unexpectedly occur at any stage of preclinical and clinical development. Typically, there is a high rate of attrition for drug candidates in preclinical and clinical trials due to scientific feasibility, safety, efficacy, changing standards of medical care and other variables. The risk of failure increases for our drug candidates that are based on new technologies, such as the application of our advanced polymer conjugate technology to NKTR-102, NKTR-181, NKTR-214 and other drug candidates currently in discovery research or preclinical development. For example, while we believe our NKTR-181 Phase 3 clinical program employs the most appropriate clinical trial design, we were unable to identify a single cause for the Phase 2 study for NKTR-181 not meeting its primary efficacy endpoint, and therefore there is increased risk in

effectively designing a Phase 3 clinical program for NKTR-181. The failure of one or more of our drug candidates could have a material adverse effect on our business, financial condition and results of operations.

The risk of clinical failure for any drug candidate remains high prior to regulatory approval.

A number of companies have suffered significant unforeseen failures in clinical studies due to factors such as inconclusive efficacy or safety, even after achieving preclinical proof-of-concept or positive results from earlier clinical studies that were satisfactory both to them and to reviewing regulatory authorities. Clinical study outcomes remain very unpredictable and it is possible that one or more of our clinical studies could fail at any time due to efficacy, safety or other important clinical findings or regulatory requirements. The results from preclinical testing or early clinical trials of a product candidate may not predict the results that will be obtained in later phase clinical trials of the product candidate. We, the FDA, IRB, an independent ethics committee, or other applicable regulatory authorities may suspend clinical trials of a product candidate at any time for various reasons, including a belief that subjects participating in such trials are being exposed to unacceptable health risks or adverse side effects. Similarly, an IRB or ethics committee may suspend a clinical trial at a particular trial site. If one or more of our drug candidates fail in clinical studies, it could have a material adverse effect on our business, financial condition and results of operations.

Our results of operations and financial condition depend significantly on the ability of our collaboration partners to successfully develop and market drugs and they may fail to do so.

Under our collaboration agreements with various pharmaceutical or biotechnology companies, our collaboration partner is generally solely responsible for:

- designing and conducting large scale clinical studies;
- preparing and filing documents necessary to obtain government approvals to sell a given drug candidate; and/or
- marketing and selling the drugs when and if they are approved.

Our reliance on collaboration partners poses a number of significant risks to our business, including risks that:

- we have very little control over the timing and level of resources that our collaboration partners dedicate to commercial marketing efforts such as the amount of investment in sales and marketing personnel, general marketing campaigns, direct-to-consumer advertising, product sampling, pricing agreements and rebate strategies with government and private payers, manufacturing and supply of drug product, and other marketing and selling activities that need to be undertaken and well executed for a drug to have the potential to achieve commercial success;
- collaboration partners with commercial rights may choose to devote fewer resources to the marketing of our partnered drugs than they devote to their own drugs or other drugs that they have in-licensed;
- we have very little control over the timing and amount of resources our partners devote to development programs in one or more major markets;
- disagreements with partners could lead to delays in, or termination of, the research, development or commercialization of product candidates or to litigation or arbitration proceedings;
- disputes may arise or escalate in the future with respect to the ownership of rights to technology or intellectual property developed with partners;
- we do not have the ability to unilaterally terminate agreements (or partners may have extension or renewal rights) that we believe are not on commercially reasonable terms or consistent with our current business strategy;
- partners may be unable to pay us as expected; and
- partners may terminate their agreements with us unilaterally for any or no reason, in some cases with the payment of a termination fee penalty and in other cases with no termination fee penalty.

Given these risks, the success of our current and future collaboration partnerships is highly unpredictable and can have a substantial negative or positive impact on our business—in particular, we expect the commercial outcomes of MOVANTIK™, MOVENTIG and ADYNOVATE™ (previously referred to as BAX 855) to have a particularly significant impact on our near to mid- term financial results and financial condition. Additionally, there are also several important drugs in later stage development with collaboration partners including Amikacin Inhale, Cipro DPI, and Fovista®. If the approved drugs fail to achieve commercial success or the drugs in development fail to have positive late stage clinical outcomes sufficient to support regulatory approval in major markets, it could significantly impair our access to capital necessary to fund our research and development efforts for our proprietary drug candidates. If we are unable to obtain sufficient capital resources to advance our drug candidate pipeline, it would negatively impact the value of our business, results of operations and financial condition.

We are a party to numerous collaboration agreements and other significant agreements which contain complex commercial terms that could result in disputes, litigation or indemnification liability that could adversely affect our business, results of operations and financial condition.

We currently derive, and expect to derive in the foreseeable future, all of our revenue from collaboration agreements with biotechnology and pharmaceutical companies. These collaboration agreements contain complex commercial terms, including:

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clinical development and commercialization obligations that are based on certain commercial reasonableness performance standards that can often be difficult to enforce if disputes arise as to adequacy of our partner's performance;

- research and development performance and reimbursement obligations for our personnel and other resources allocated to partnered drug candidate development programs;
- clinical and commercial manufacturing agreements, some of which are priced on an actual cost basis for products supplied by us to our partners with complicated cost allocation formulas and methodologies;

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- intellectual property ownership allocation between us and our partners for improvements and new inventions developed during the course of the collaboration;
- royalties on drug sales based on a number of complex variables, including net sales calculations, geography, scope of patent claim coverage, patent life, generic competitors, bundled pricing and other factors; and
- indemnity obligations for intellectual property infringement, product liability and certain other claims.

We are a party to certain significant agreements, including an asset purchase agreement with Novartis pursuant to which we sold a significant portion of our pulmonary business at the end of 2008, the worldwide exclusive license agreement with AstraZeneca related to the further development and commercialization of MOVANTIK™, and the purchase and sale agreement with RPI Finance Trust (RPI) related to the sale of our royalty interests in UCB's CIMZIA® and Roche's MIRCERA® that we completed in February 2012. Each of these agreements contains complex representations and warranties, covenants and indemnification obligations. If we breach any of our agreements with Novartis, AstraZeneca, RPI or any other third party agreements, it could subject us to substantial liabilities and harm our financial condition.

From time to time, we have informal dispute resolution discussions with third parties regarding the appropriate interpretation of the complex commercial terms contained in our agreements. For example, in 2015 we filed a lawsuit against Allergan and MAP seeking economic damages related to a dispute over the economic sharing provisions of our license agreement with MAP. On August 14, 2015, Enzon, Inc. filed a breach of contract complaint claiming damages of \$1.5 million plus interest for unpaid licensing fees through the date of the complaint. After the court granted our motion to dismiss the complaint, Enzon filed an appeal to the court's dismissal decision. One or more disputes may arise or escalate in the future regarding our collaboration agreements, transaction documents, or third-party license agreements that may ultimately result in costly litigation and unfavorable interpretation of contract terms, which would have a material adverse effect on our business, financial condition and results of operations.

If we or our partners do not obtain regulatory approval for our drug candidates on a timely basis, or at all, or if the terms of any approval impose significant restrictions or limitations on use, our business, results of operations and financial condition will be negatively affected.

We or our partners may not obtain regulatory approval for drug candidates on a timely basis, or at all, or the terms of any approval (which in some countries includes pricing approval) may impose significant restrictions or limitations on use. Drug candidates must undergo rigorous animal and human testing and an extensive review process for safety and efficacy by the FDA and equivalent foreign regulatory authorities. The time required for obtaining regulatory decisions is uncertain and difficult to predict. The FDA and other U.S. and foreign regulatory authorities have substantial discretion, at any phase of development, to terminate clinical studies, require additional clinical development or other testing, delay or withhold registration and marketing approval and mandate product withdrawals, including recalls. For example, while data from certain pre-specified subgroups in the BEACON study was positive, the study did not achieve statistical significance for its primary endpoint and the FDA and European Medicines Agency rarely approve drugs on the basis of studies that do not achieve statistical significance on the primary endpoint. Further, regulatory authorities have the discretion to analyze data using their own methodologies that may differ from those used by us or our partners which could lead such authorities to arrive at different conclusions regarding the safety or efficacy of a drug candidate. In addition, undesirable side effects caused by our drug candidates could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restricted label or the delay or denial of regulatory approval by regulatory authorities. For example, AstraZeneca will be conducting a post-marketing, observational epidemiological study comparing MOVANTIK™ to other treatments of OIC in patients with chronic, non-cancer pain and the results of this study could at some point in the future negatively impact the labeling, regulatory status, and commercial potential of MOVANTIK™.

Even if we or our partners receive regulatory approval of a product, the approval may limit the indicated uses for which the drug may be marketed. Our partnered drugs that have obtained regulatory approval, and the manufacturing

processes for these products, are subject to continued review and periodic inspections by the FDA and other regulatory authorities. Discovery from such review and inspection of previously unknown problems may result in restrictions on marketed products or on us, including withdrawal or recall of such products from the market, suspension of related manufacturing operations or a more restricted label. The failure to obtain timely regulatory approval of product candidates, any product marketing limitations or a product withdrawal would negatively impact our business, results of operations and financial condition.

We have substantial future capital requirements and there is a risk we may not have access to sufficient capital to meet our current business plan. If we do not receive substantial milestone or royalty payments from our existing collaboration agreements, execute new high value collaborations or other arrangements, or are unable to raise additional capital in one or more financing transactions, we would be unable to continue our current level of investment in research and development.

As of June 30, 2016, we had cash and investments in marketable securities valued at approximately \$274.9 million. Also, as of June 30, 2016, we had \$256.4 million in debt, including \$250.0 million in principal of senior secured notes and \$6.4 million of capital lease obligations. While we believe that our cash position will be sufficient to meet our liquidity requirements through at least the next 12 months, our future capital requirements will depend upon numerous unpredictable factors, including:

- the cost, timing and outcomes of clinical studies and regulatory reviews of our proprietary drug candidates that we have licensed to our collaboration partners —important examples include Amikacin Inhale and CIPRO Inhale licensed to Bayer;
- the commercial launch and sales levels of products marketed by our collaboration partners for which we are entitled to royalties and sales milestones—importantly, the level of success in marketing and selling MOVANTI<sup>TM</sup> by AstraZeneca in the U.S. and ADYNOVATE<sup>TM</sup> by Baxalta globally, as well as MOVENTIG<sup>®</sup> (the naloxegol brand name in the EU) by ProStrakan in the EU;
  - if and when we receive potential milestone payments and royalties from our existing collaborations if the drug candidates subject to those collaborations achieve clinical, regulatory or commercial success;
- the progress, timing, cost and results of our clinical development programs;
- the success, progress, timing and costs of our efforts to implement new collaborations, licenses and other transactions that increase our current net cash, such as the sale of additional royalty interests held by us, term loan or other debt arrangements, and the issuance of securities;
- the number of patients, enrollment criteria, primary and secondary endpoints, and the number of clinical studies required by the regulatory authorities in order to consider for approval our drug candidates and those of our collaboration partners;