

NEKTAR THERAPEUTICS

FORM 10-K (Annual Report)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

Form 10-K

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

For the fiscal year ended December 31, 2015

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
(State or other jurisdiction of
incorporation or organization)

94-3134940
(IRS Employer
Identification No.)

455 Mission Bay Boulevard South
San Francisco, California 94158
(Address of principal executive offices and zip code)

415-482-5300
(Registrant's telephone number, including area code)

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

Title of Each Class
Common Stock, \$0.0001 par value

Name of Each Exchange on Which Registered
NASDAQ Global Select Market

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

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 in Exchange Act Rule 12b-2) Yes No

The approximate aggregate market value of voting stock held by non-affiliates of the registrant, based upon the last sale price of the registrant's common stock on the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2015, as reported on the NASDAQ Global Select Market, was approximately \$1,647,937,071. This calculation excludes approximately 455,416 shares held by directors and executive officers of the registrant. Exclusion of these shares does not constitute a determination that each such person is an affiliate of the registrant.

As of February 19, 2016, the number of outstanding shares of the registrant's common stock was 135,939,051.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of registrant's definitive Proxy Statement to be filed for its 2016 Annual Meeting of Stockholders are incorporated by reference into Part III hereof. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of the fiscal year covered by this Annual Report on Form 10-K.

NEKTAR THERAPEUTICS
2015 ANNUAL REPORT ON FORM 10-K
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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, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical fact are “forward-looking statements” for purposes of this annual report on Form 10-K, including any projections of 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 “continue,” 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 I, Item 1A “Risk Factors” below and for the reasons described elsewhere in this annual report on Form 10-K. 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 annual report on Form 10-K, 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®, 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

Item 1. 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™ (previously referred to as naloxegol and NKTR-118), under a global license agreement with AstraZeneca AB (AstraZeneca). MOVANTIK™ is an oral peripherally-acting mu-opioid antagonist (PAMORA), approved in both the U.S. and Europe for the treatment of opioid-induced constipation, or OIC, a common side effect caused by chronic administration of prescription opioid pain medicines. MOVANTIK™ was developed using our oral small molecule polymer conjugate technology and we advanced this drug through the completion of Phase 2 clinical studies prior to licensing it to AstraZeneca. On March 31, 2015, AstraZeneca announced that it launched MOVANTIK™ in the United States, as a result of which we received a \$100 million commercial launch milestone on March 31, 2015. In August 2015, we received an additional \$40.0 million payment triggered by the first commercial sale of MOVENTIG® by AstraZeneca in Germany.

We have a collaboration with certain subsidiaries of Baxalta Incorporated (Baxalta), formerly Baxter International Inc. (Baxter) before the separation of Baxalta from Baxter in July 2015, to identify and develop PEGylated drug candidates with the objective of providing new longer-acting therapies for hemophilia patients. Under this collaboration, we worked with Baxter 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 U.S. Food and Drug Administration (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™ in the U.S. on November 30, 2015. In December 2015, Baxalta announced positive Phase 3 study results of ADYNOVATE™ in patients younger than 12 years of age with severe Hemophilia A. With the study results, Baxalta announced that it plans to file for marketing authorization in the European Union and aims to file for a pediatric indication in the U.S. in early 2016. ADYNOVATE™ is currently under regulatory review in Japan, Canada and Switzerland.

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 the study continues to enroll patients. 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 about 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 about 200 patients.

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 in order to proliferate 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 is designed to evaluate safety, efficacy, and define the recommended Phase 2 dose of NKTR-214 in approximately 20 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, which may include melanoma, renal cell carcinoma and non-small cell lung cancer.

NKTR-102 (also known as etirinotecan pegol) is our next-generation topoisomerase I inhibitor proprietary drug candidate. On March 17, 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 subgroup populations—patients with a history of brain metastases and patients with baseline liver metastases at study entry.

We are currently exploring various future regulatory and development paths forward for NKTR-102 with the EU and U.S. regulatory authorities. In Europe, we have met with the National Authorities in Sweden (MPA) and the United Kingdom (MHRA) to discuss the BEACON data. We also met the European Medicines Agency to discuss filing a marketing authorization application (MAA). Based on the outcome of these meetings, we believe that there is a path forward to file an MAA for conditional approval of NKTR-102 for patients with advanced breast cancer having brain metastases. In connection with any MAA filing, we would be required to start a confirmatory trial in conjunction with the MAA review. In the United States, we met with the FDA and the Oncology Division indicated that we would not be able to use the BEACON data to support an accelerated approval for a new drug application (NDA). However, the FDA staff also indicated that positive results from a completed confirmatory trial for the MAA could support an NDA filing. We are currently evaluating next steps for this program. At this time, we do not plan to advance development of NKTR-102 without a collaboration partner.

We have a collaboration with Bayer Healthcare LLC (Bayer) 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 NKTR-061 drug candidate and the associated liquid aerosol inhalation platform and entered into a collaboration agreement with Bayer to advance the drug candidate into further clinical development and potential commercialization. Bayer is currently enrolling patients in a Phase 3 clinical program for Amikacin Inhale. Bayer is conducting this study under a Special Protocol Assessment process agreed to with the FDA.

We have a license, manufacturing and supply agreement with Ophthotech Corporation for Fovista®, an anti-platelet-derived growth factor (anti-PDGF) agent, currently in Phase 3 development for the treatment of wet age-related macular degeneration. We have a license, manufacturing and supply agreement with Halozyme Therapeutics, Inc. for PEG-PH20, which is entering Phase 3 development for the treatment of pancreatic cancer. We have a license, manufacturing and supply agreement with UCB Pharma for dapirolizumab pegol, a monovalent pegylated Fab antibody fragment against the CD40 ligand (CD40L), being developed for the treatment of autoimmune diseases, including systemic lupus erythematosus (SLE) for which the candidate is entering Phase 2 development with UCB partner Biogen. We also have a number of license, manufacturing and supply agreements with other leading biotechnology and pharmaceutical companies, including Amgen Inc., Allergan, Inc., Merck & Co., Inc., Pfizer, Inc. and F. Hoffmann-La Roche Ltd (Roche). A total of ten products using our PEGylation technology have received regulatory approval in the U.S. or EU. There are also a number of other products in clinical development that incorporate our advanced PEGylation and advanced polymer conjugate technologies.

On December 31, 2008, we completed the sale and transfer of certain pulmonary technology rights, certain pulmonary collaboration agreements and approximately 140 dedicated pulmonary personnel and operations to Novartis Pharma AG (Novartis). We retained all of our rights to Amikacin Inhale and our right to receive royalties on net sales of the Cipro DPI (Cipro Dry Powder Inhaler, previously called Cipro Inhale) program with Bayer Schering Pharma AG that we transferred to Novartis as part of the 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. The two placebo-controlled trials, RESPIRE-1 and RESPIRE-2, are enrolling up to 600 patients and will evaluate Cipro DPI as a chronic, intermittent therapy over a period of 48 weeks.

Corporate Information

We were incorporated in California in 1990 and reincorporated in Delaware in 1998. We maintain our executive offices at 455 Mission Bay Boulevard South, San Francisco, California 94158, and our main telephone number is (415) 482-5300. Our website is located at www.nektar.com. The information contained in, or that can be accessed through, our website is not part of, and is not incorporated in, this Annual Report.

Our Technology Platform

As a leader in the PEGylation field, we have advanced our technology platform to include new advanced polymer conjugate chemistries and polymer technologies that can be tailored in specific and customized ways with the objective of optimizing and significantly improving the profile of a wide range of molecules including many classes of drugs targeting numerous disease areas. PEGylation has been a highly effective technology platform for the development of therapeutics with significant commercial success, such as Amgen's Neulasta® (pegfilgrastim) and Roche's PEGASYS® (PEG-interferon alfa-2a). Nearly all of the PEGylated drugs approved over the last fifteen years were enabled with our PEGylation technology through our collaborations and licensing partnerships with a number of well-known biotechnology and pharmaceutical companies. PEGylation is a versatile technology as a result of polyethylene glycol (PEG) being a water soluble, amphiphilic, non-toxic, non-immunogenic compound that has been shown to safely clear from the body. Its primary use to date has been in currently approved biologic drugs to favorably alter their pharmacokinetic or pharmacodynamic properties. However, in spite of its widespread success in commercial drugs, there are some limitations with the first-generation PEGylation approaches that have been used with biologics. These techniques cannot be used successfully to create small molecule drugs which could potentially benefit from the application of the technology. Other limitations of the early applications of PEGylation technology include sub-optimal bioavailability and bioactivity, and its limited ability to be used to fine-tune properties of the drug, as well as its inability to be used to create oral drugs.

With our expertise and proprietary technology in PEGylation, we have created the next generation of PEGylation technology. Our advanced polymer conjugate technology platform is designed to overcome the limitations of the first generation of the technology platform and to allow the platform to be utilized with a broader range of molecules across many therapeutic areas. We have also developed robust manufacturing processes for generating second generation PEGylation reagents that allow us to utilize the full potential of these newer approaches.

Both our PEGylation and advanced polymer conjugate technology platforms have the potential to offer one or more of the following benefits:

- improve efficacy or safety of a drug as a result of better pharmacokinetics, pharmacodynamics, longer half-life and sustained exposure of the drug;
- improve targeting or binding affinity of a drug to its target receptors with the potential to improve efficacy and reduce toxicity or drug resistance;
- improve solubility of a drug;
- enable oral administration of parenterally-administered drugs, or drugs that must be administered intravenously or subcutaneously, and increase oral bioavailability of small molecules;
- prevent drugs from crossing the blood-brain barrier, or reduce their rate of passage into the brain, thereby limiting undesirable central nervous system effects;
- reduce first-pass metabolism effects of certain drug classes with the potential to improve efficacy, which could reduce the need for other medicines and reduce toxicity;
- reduce the rates of drug absorption and of elimination or metabolism by improving stability of the drug in the body and providing it with more time to act on its target;

- differentially alter binding affinity of a drug for multiple receptors, improving its selectivity for one receptor over another; and
- reduce immune response to certain macromolecules with the potential to prolong their effectiveness with repeated doses.

We have a broad range of approaches that we may use when designing our own drug candidates, some of which are further described below.

Small Molecule Stable Polymer Conjugates

Our customized approach for small molecule polymer conjugates allows for the fine-tuning of the physicochemical and pharmacological properties of small molecule oral drugs to potentially increase their therapeutic benefit. In addition, this approach can enable oral administration of subcutaneously or intravenously delivered small molecule drugs that have low bioavailability when delivered orally. The benefits of this approach can also include: improved potency, modified biodistribution with enhanced pharmacodynamics, and reduced transport across specific membrane barriers in the body, such as the blood-brain barrier. An example of reducing transport across the blood-brain barrier is MOVANTIK™, an orally-available peripherally-acting opioid antagonist that is approved in the United States and European Union. An additional example of the application of membrane transport, specifically slowing transport across the blood-brain barrier is NKTR-181, an orally-available mu-opioid analgesic molecule that is currently in Phase 3 development.

Small Molecule Pro-Drug Releasable Polymer Conjugates

The pro-drug polymer conjugation approach can be used to optimize the pharmacokinetics and pharmacodynamics of a small molecule drug to substantially increase its efficacy and improve its side effect profile. We are currently using this platform with oncolytics, which typically have sub-optimal half-lives that can limit their therapeutic efficacy. With our releasable polymer conjugate technology platform, we believe that these drugs can be modulated for programmed release within the body, optimized bioactivity and increased sustained exposure of active drug to tumor cells in the body. We are using this approach with our lead oncolytic drug candidate, NKTR-102, a next-generation topoisomerase I-inhibitor currently in the Phase 3 BEACON clinical study for treatment of metastatic breast cancer.

Large Molecule Polymer Conjugates (Proteins and Peptides)

Our customized approaches with large molecule polymer conjugates have enabled numerous successful PEGylated biologics on the market today. Based on our knowledge of the technology and biologics, our scientists have designed novel hydrolyzable linkers that in many cases can be used to optimize bioactivity. Through rational drug design, a protein or peptide's pharmacokinetics and pharmacodynamics can be substantially improved and its half-life can be significantly extended. An example of this is Baxalta's ADYNOVATE™ (previously referred to as BAX 855), a longer-acting (PEGylated) form of a full-length recombinant factor VIII (rFVIII) protein, which was approved by the FDA in November 2015 for use in adults and adolescents, aged 12 years and older, who have Hemophilia A.

Large Molecule Pro-Drug Releasable Polymer Conjugates (Cytokines)

Our customized approaches with large molecule polymer conjugates have expanded to include a new approach with biologics, in particular cytokines, which utilizes the polymer as a means to bias action to a certain receptor or receptor sub-type. In addition, a cytokine's pharmacokinetics and pharmacodynamics can be substantially improved and its half-life can be significantly extended. An example of this is NKTR-214, which is a CD122-biased immune-stimulatory cytokine with an every two or every three-week dosing schedule.

Antibody Fragment Polymer Conjugates

This approach uses a large molecular weight PEG conjugated to antibody fragments in order to potentially improve their toxicity profile, extend their half-life and allow for ease of synthesis with the antibody. The specially designed PEG replaces the function of the fragment crystallizable (Fc) domain of full length antibodies with a branched architecture PEG with either stable or degradable linkage. This approach can be used to reduce antigenicity, reduce glomerular filtration rate, enhance uptake by inflamed tissues, and retain antigen-binding affinity and recognition. There is currently one approved product on the market that utilizes our technology with an antibody fragment, CIMZIA® (certolizumab pegol), which was developed by our partner UCB Pharma and is approved for the treatment of Crohn's Disease, psoriatic arthritis and ankylosing spondylitis in the U.S. and rheumatoid arthritis in the U.S. and EU.

Our Strategy

The key elements of our business strategy are described below:

Advance Our Proprietary Clinical Pipeline of Drug Candidates that Leverage Our PEGylation and Advanced Polymer Conjugate Platform

Our objective is to create value by advancing our lead drug candidates through various stages of clinical development. To support this strategy, we have significantly expanded and added expertise to our internal preclinical, clinical development and regulatory departments. A key component of our development strategy is to potentially reduce the risks and time associated with drug development by capitalizing on the known safety and efficacy of existing drugs and drug candidates as well as established pharmacologic targets and drugs directed to those targets. For many of our novel drug candidates, we may seek to study the drug candidates in indications for which the parent drugs have not been studied or approved. We believe that the improved characteristics of our drug candidates will provide meaningful benefit to patients compared to the existing therapies. In addition, in certain instances we have the opportunity to develop new treatments for patients for which the parent drugs are not currently approved.

Ensure Future Growth of our Proprietary Pipeline through Internal Research Efforts and Advancement of our Preclinical Drug Candidates into Clinical Trials

We believe it is important to maintain a diverse pipeline of new drug candidates to continue to build on the value of our business. Our discovery research organization is continuing to identify new drug candidates by applying our technology platform to a wide range of molecule classes, including small molecules and large proteins, peptides and antibodies, across multiple therapeutic areas. We continue to advance our most promising research drug candidates into preclinical development with the objective of advancing these early stage research programs to human clinical studies over the next several years.

Enter into Strategic and High-Value Partnerships to Bring Certain of Our Drug Candidates to Market

We decide on a drug candidate-by-drug candidate basis how far to advance clinical development (e.g. Phase 1, 2 or 3) and whether to commercialize products on our own, or seek a partner, or pursue a combination of these approaches. When we determine to seek a partner, our strategy is to enter into collaborations with leading pharmaceutical and biotechnology companies to fund further clinical development, manage the global regulatory filing process, and market and sell drugs in one or more geographies. The options for future collaboration arrangements range from comprehensive licensing and commercialization arrangements to co-promotion and co-development agreements with the structure of the collaboration depending on factors such as the structure of economic risk sharing, the cost and complexity of development, marketing and commercialization needs, therapeutic area and geographic capabilities.

Continue to Build a Leading Intellectual Property Estate in the Field of PEGylation and Polymer Conjugate Chemistry across Therapeutic Modalities

We are committed to continuing to build on our intellectual property position in the field of PEGylation and polymer conjugate chemistry. To that end, we have a comprehensive patent strategy with the objective of developing a patent estate covering a wide range of novel inventions including among others, polymer materials, conjugates, formulations, synthesis, therapeutic areas, methods of treatment and methods of manufacture.

Nektar Proprietary Drugs and Drug Candidates in Clinical Development

The following table summarizes our proprietary drugs and drug candidates that have either received regulatory approval or are being developed by us or in collaboration with other pharmaceutical companies or independent investigators. The table includes the type of molecule or drug, the target indications for the drug candidate, and the status of the clinical development program.

<u>Drug Candidate</u>	<u>Target Indication</u>	<u>Status (1)</u>
MOVANTIK™ (naloxegol tablets)	Opioid-induced constipation in adult patients with chronic non-cancer pain	Approved in U.S. (Partnered with AstraZeneca AB)
MOVENTIG® (brand name for MOVANTIK™ in Europe)	Opioid-induced constipation in adult patients who have an inadequate response to laxatives	Approved in EU (Partnered with AstraZeneca AB)
ADYNOVATE™ (previously referred to as BAX 855, PEGylated rFVIII)	Hemophilia A	Approved in U.S.; Phase 3 ongoing in EU (partnered with Baxalta)
NKTR-102 (next-generation topoisomerase I inhibitor)	Locally recurrent or metastatic breast cancer	Phase 3
BAY41-6551 (Amikacin Inhale, formerly NKTR-061)	Gram-negative pneumonias	Phase 3 (Partnered with Bayer Healthcare LLC)*
NKTR-181 (orally-available mu-opioid analgesic molecule)	Moderate to severe chronic pain	Phase 3
NKTR-102	Platinum-resistant/refractory ovarian cancer	Completed Phase 2
NKTR-102	Second-line metastatic colorectal cancer in patients with the KRAS gene mutation	Completed Phase 2
NKTR-102 (in combination with 5-Fluorouracil/leucovorin)	Gastrointestinal-related solid tumors	Completed Phase 1
NKTR-214 (CD122-biased immune-stimulatory cytokine)	Oncology	Phase 1/2
MOVANTIK™ fixed-dose combinations (opioid/naloxegol combinations)	Chronic pain without constipation	Research/Preclinical (Partnered with AstraZeneca AB)

(1) Status definitions are:

Filed — an application for approval and marketing has been filed with the applicable government health authority.

Phase 3 or Pivotal — product in large-scale clinical trials conducted to obtain regulatory approval to market and sell the drug (these trials are typically initiated following encouraging Phase 2 trial results).

Phase 2 — a drug candidate in clinical trials to establish dosing and efficacy in patients.

Phase 1 — a drug candidate in clinical trials, typically in healthy subjects, to test safety.

Research/Preclinical — a drug candidate is being studied in research by way of in vitro studies and/or animal studies

* This drug candidate uses, in part, a liquid aerosol technology platform that was transferred to Novartis by us in the pulmonary asset sale transaction that was completed on December 31, 2008. As part of that transaction, we retained an exclusive license to this technology for the development and commercialization of this drug candidate originally developed by us.

Approved Drugs and Drug Candidates Enabled By Our Technology through Licensing Collaborations

The following table outlines our collaborations with a number of pharmaceutical companies that currently license our intellectual property and, in some cases, purchase our proprietary PEGylation materials for their drug products. A total of ten products using our PEGylation technology have received regulatory approval in the U.S. or Europe. There are also a number of other candidates that have been filed for approval or are in various stages of clinical development. These collaborations generally contain one or more elements including a license to our intellectual property rights and manufacturing and supply agreements under which we may receive manufacturing revenue, milestone payments, and/or royalties on commercial sales of drug products.

Drug	Primary or Target Indications	Drug Marketer/Partner	Status(1)
Neulasta [®] (pegfilgrastim)	Neutropenia	Amgen Inc.	Approved
PEGASYS [®] (peginterferon alfa-2a)	Hepatitis-C	F. Hoffmann-La Roche Ltd	Approved
Somavert [®] (pegvisomant)	Acromegaly	Pfizer Inc.	Approved
PEG-INTRON [®] (peginterferon alfa-2b)	Hepatitis-C	Merck (through its acquisition of Schering-Plough Corporation)	Approved
Macugen [®] (pegaptanib sodium injection)	Age-related macular degeneration	Valeant Pharmaceuticals International, Inc.	Approved
CIMZIA [®] (certolizumab pegol)	Rheumatoid arthritis	UCB Pharma	Approved *
CIMZIA [®] (certolizumab pegol)	Crohn's disease	UCB Pharma	Approved *
CIMZIA [®] (certolizumab pegol)	Psoriasis/Ankylosing Spondylitis	UCB Pharma	Approved *
MIRCERA [®] (C.E.R.A.) (Continuous Erythropoietin Receptor Activator)	Anemia associated with chronic kidney disease in patients on dialysis and patients not on dialysis	F. Hoffmann-La Roche Ltd	Approved **
MOVANTIK [™] (naloxegol tablets)	Opioid-induced constipation in adult patients with chronic non-cancer pain	AstraZeneca AB	Approved in U.S.
MOVENTIG [®] (brand name for MOVANTIK [™] in Europe)	Opioid-induced constipation in adult patients who have an inadequate response to laxatives	AstraZeneca AB	Approved in EU
ADYNOVATE [™] (previously referred to as BAX 855, PEGylated rFVIII)	Hemophilia A	Baxalta	Approved in U.S.; Phase 3 ongoing in EU
SEMPRANA [®]	Migraine	Allergan, Inc.	Filed for approval in U.S.
FOVISTA [®]	Neovascular age-related macular degeneration	Ophthotech Corporation	Phase 3
Cipro Dry Powder Inhaler (Cipro DPI)	Cystic fibrosis lung infections	Bayer Schering Pharma AG	Phase 3***
Dapirolizumab Pegol	Systemic Lupus Erythematosus	UCB Pharma (Biogen)	Phase 2
PEGPH20	Pancreatic and Non-Small Cell Lung Cancer	Halozyme Therapeutics, Inc.	Phase 1 and 2
Longer-acting blood clotting proteins	Hemophilia	Baxalta	Research/Preclinical

(1) Status definitions are:

Approved — regulatory approval to market and sell product obtained in one or more of the U.S., EU or other countries.

Filed — an application for approval and marketing has been filed with the applicable government health authority.

Phase 3 or Pivotal — product in large-scale clinical trials conducted to obtain regulatory approval to market and sell the drug (these trials are typically initiated following encouraging Phase 2 trial results).

Phase 2 — a drug candidate in clinical trials to establish dosing and efficacy in patients.

Phase I — a drug candidate in clinical trials, typically in healthy subjects, to test safety.

Research/Preclinical — a drug candidate is being studied in research by way of in vitro studies and/or animal studies

* In February 2012, we sold our rights to receive royalties on future worldwide net sales of CIMZIA[®] effective as of January 1, 2012.

** Amgen Inc. prevailed in a patent lawsuit against F. Hoffmann-La Roche Ltd (Roche) and as a result of this legal ruling Roche was prevented from marketing MIRCERA[®] in the U.S. until July 2014. In February 2012, we sold our rights to receive royalties on future worldwide net sales of MIRCERA[®] effective as of January 1, 2012 until the agreement with Roche is terminated or expires.

*** This drug candidate was developed using our proprietary pulmonary delivery technology that was transferred by us to Novartis in an asset sale transaction that closed on December 31, 2008. As part of the transaction, Novartis assumed our rights and obligations for Cipro DPI (formerly known as Cipro Inhale) under our agreements with Bayer Schering Pharma AG; however, we maintained the rights to receive royalties on commercial sales of Cipro DPI if the drug candidate is approved.

With respect to all of our collaboration and license agreements with third parties, please refer to Item 1A, Risk Factors, including without limitation, “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.”

Overview of Selected Nektar Proprietary Drug Development Programs and Significant Partnered Drug Development Programs

MOVANTIK[™] and MOVANTIK[™] Fixed-Dose Combination Products (previously referred to as naloxegol, NKTR-118 and NKTR-119), License Agreement with AstraZeneca AB

In September 2009, we entered into a global license agreement with AstraZeneca AB pursuant to which we granted AstraZeneca a worldwide, exclusive, perpetual, royalty-bearing license under our patents and other intellectual property to develop, market and sell MOVANTIK[™] and MOVANTIK[™] fixed-dose combination products. MOVANTIK[™] was developed using our oral small molecule polymer conjugate technology and we advanced this drug through the completion of Phase 2 clinical studies prior to licensing it to AstraZeneca. MOVANTIK[™] is an orally-available peripherally-acting mu-opioid antagonist being investigated for the treatment of opioid-induced constipation (OIC), which is a common side effect of prescription opioid medications. Opioids attach to specific proteins called opioid receptors. When the opioids attach to certain opioid receptors in the gastrointestinal tract, constipation may occur. OIC is a result of decreased fluid absorption and lower gastrointestinal motility due to opioid receptor binding in the gastrointestinal tract.

On September 16, 2014, the FDA approved MOVANTIK[™] as the first once-daily oral peripherally-acting mu-opioid receptor antagonist (PAMORA) medication for the treatment of OIC in adult patients with chronic, non-cancer pain. On December 9, 2014, the European Commission, or EC, granted Marketing Authorisation to MOVENTIG[®] (the naloxegol brand name in the European Union, or EU) as the first once-daily oral PAMORA to be approved in the EU for the treatment of OIC in adult patients who have had an inadequate response to laxative(s). The EC’s approval applies to all 28 EU member countries plus Iceland and Norway. On January 23, 2015, the Drug Enforcement Administration published the final rule in the Federal Register, effective immediately on the date it was published, removing naloxegol and its salts from the schedules of the Controlled Substances Act. AstraZeneca launched the commercial sales of MOVANTIK[™] in the United States in March 2015 and MOVENTIG[®] in Germany, the first EU member country, in August 2015. Under the terms of our license agreement, AstraZeneca made an initial license payment of \$125.0 million to us and has responsibility for all activities and bears all costs associated with research, development and commercialization for MOVANTIK[™] and MOVANTIK[™] fixed-dose combination products. We received milestone payments of \$70.0 million and \$25.0 million upon the acceptance of regulatory approval applications of MOVANTIK[™] by the FDA and European Medicines Agency (EMA), respectively, in 2013. We received an additional milestone payment of \$35.0 million upon the FDA’s approval of MOVANTIK[™] in 2014 and a total of \$140.0 million upon commercial launches in 2015, including \$100.0 million for MOVANTIK[™] in the U.S. and \$40.0 million for MOVENTIG[®] in Germany. We are also entitled to up to \$375.0 million in sales milestones for MOVANTIK[™] if the program achieves certain annual commercial sales levels. For the MOVANTIK[™] fixed-dose combination products, we are also eligible to receive significant development milestones as well as significant sales milestone payments if the program achieves certain annual commercial sales levels. For both MOVANTIK[™] and the fixed-dose combination products, we are also entitled to significant double-digit royalty payments starting at 20% of net sales in the U.S. and 18% of net sales in the EU and rest of world, varying by country of sale and level of annual net sales. Our right to receive royalties (subject to certain adjustments) in any particular country will expire upon the later of (a) a specified period of time after the first commercial sale of the product in that country or (b) the expiration of patent rights in that particular country. AstraZeneca has agreed to use commercially reasonable efforts to develop one MOVANTIK[™] fixed-dose combination product and has the right to develop multiple products which combine MOVANTIK[™] with opioids.

There are a number of patents relevant to Movantik™, some of which are listed in the FDA's "Orange Book." The "Orange Book" currently lists six patents for Movantik™. Four patents (i.e., U.S. Patent Nos. 7,056,500, 7,662,365, 7,786,133 and 9,012,469) are "composition of matter patents" -- one of which has a patent expiry extending into 2032. In addition, two patents (i.e., U.S. Patent Nos. 8,067,431 and 8,617,530) are directed to methods of treatment.

ADYNOVATE™ (previously referred to as BAX 855, PEGylated rFVIII)

ADYNOVATE™ is an extended half-life recombinant factor VIII (rFVIII) treatment for Hemophilia A based on ADVATE® [Antihemophilic Factor (Recombinant)]. In December 2014, Baxalta announced that it filed a biologic license application with the FDA for ADYNOVATE™. This regulatory submission was based on positive results from a prospective, global, multi-center, open-label, two-arm Phase 3 study of ADYNOVATE™ (previously referred to as BAX 855) in 137 previously treated patients. Baxalta reported that the results demonstrated that ADYNOVATE™ met its primary endpoint in the control and prevention of bleeding episodes and routine prophylaxis for patients who were 12 years or older. In November 2015, ADYNOVATE™ was approved by the FDA for use in adults and adolescents, aged 12 years and older, who have Hemophilia A. On November 30, 2015, Baxalta announced that it had initiated sales of ADYNOVATE™ in the U.S. ADYNOVATE™ is currently under regulatory review in Japan, Canada and Switzerland.

Hemophilia A, also called factor VIII (FVIII) deficiency or classic hemophilia, is a genetic disorder caused by missing or defective factor VIII, a clotting protein. According to the US Centers for Disease Control and Prevention, hemophilia occurs in approximately 1 in 5,000 live births. A 2010 Datamonitor report calculates that there are approximately 78,000 patients reported to have Hemophilia A worldwide. In 2014, according to the Evaluate Group, sales of FVIII replacement products exceeded \$6 billion globally.

There are a number of patents relevant to Adynovate™. Among other patents, U.S. Patent Nos. 7,199,223 and 8,247,536 provide "composition of matter" coverage through February 26, 2024, for this important drug (although extensions of patent term may be available under various regulatory mechanisms). Additional patents owned by Nektar Therapeutics provide further layers of patent coverage for Adynovate™.

NKTR-181 (mu-opioid analgesic molecule for chronic pain)

NKTR-181 is an orally-available novel mu-opioid analgesic molecule in development as a long-acting analgesic to treat chronic pain. NKTR-181 is designed with the objective to address the abuse liability and serious central nervous system (CNS) side effects associated with current opioid therapies. NKTR-181 was created using Nektar's proprietary polymer conjugate technology, which provides it with a long-acting profile and slows its entry into the CNS. NKTR-181's abuse deterrent properties are inherent to its novel molecular structure and do not rely on a formulation approach to prevent its conversion into a more abusable form of an opioid. In May 2012, the FDA granted Fast Track designation for the NKTR-181 development program.

In June 2012, we initiated a Phase 2 clinical study to evaluate the efficacy, safety and tolerability of NKTR-181 in patients with moderate to severe chronic pain from osteoarthritis of the knee. The Phase 2 clinical study utilized a double-blind, placebo-controlled, randomized withdrawal, enriched enrollment study design. The study enrolled 295 opioid-naïve patients with osteoarthritis of the knee who were not getting adequate pain relief from their current non-opioid pain medication. Patients who qualified during the baseline period entered a titration phase, during which they were titrated on NKTR-181 tablets administered orally twice-daily until a dose was reached that provided a reduction of at least 20% in the patient's pain score as compared to the patient's own baseline. Patients that achieved this level of analgesia were then randomized on a 1:1 basis to either continue to receive their analgesic dose of NKTR-181 or to receive placebo for up to 25 days. The primary endpoint of the study was the average change in a patient's pain score from baseline to the end of the double-blind, randomized treatment period.

In the first half of 2013, we conducted a human abuse liability study, or HAL study, for NKTR-181. In this study, NKTR-181 had highly statistically significant lower "drug liking" scores and reduced "feeling high" scores as compared to oxycodone at all doses tested ($p < 0.0001$). On June 19, 2013, we presented data from the HAL study at the 2013 Annual Meeting of The College on Problems of Drug Dependence in San Diego, California.

On September 26, 2013, we announced results from this Phase 2 efficacy study. Of the 295 patients that entered the study, only 9 patients (representing 3% of the patient population) were unable to achieve meaningful pain relief with NKTR-181. A total of 213 patients achieved an average 40% reduction in pain and entered the randomized phase of the study. NKTR-181 performed as expected as an opioid analgesic throughout the study with patients continuing to show a reduction in pain scores throughout the randomized phase of the study. However, patients who were randomized to placebo did not show the expected increase in pain scores observed in similar enriched enrollment, randomized withdrawal studies. This unusual lack of a placebo rebound caused the Phase 2 study to miss the primary endpoint in the study.

In October 2014, we engaged in an end-of-Phase 2 meeting for NKTR-181 with the FDA, which included discussions of the design of the Phase 3 clinical study program. In this Phase 3 program for NKTR-181 we plan to include two separate efficacy studies in patients with chronic lower back pain, a long-term safety study, and a human abuse liability study. We enrolled the first patient in this first Phase 3 study in February 2015. In this first efficacy study, we plan to enroll approximately 416 patients 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. As described above, on February 29, 2016 the independent analysis center (IAC) instructed us to increase the sample size by about 200 patients. The primary endpoint is a change in weekly pain score in the double-blind randomized period relative to the baseline pain score and the key secondary endpoints include percentage of responders (>30% reduction in pain score) and patient impression of change.

According to a 2011 report from the National Academy of Sciences, chronic pain conditions, such as osteoarthritis, back pain and cancer pain, affect at least 100 million adults in the U.S. annually and contribute to over \$300 billion a year in lost productivity. Opioids are considered to be the most effective therapeutic option for pain. However, opioids cause significant problems for physicians and patients because of their serious side effects such as respiratory depression and sedation, as well as the risks they pose for addiction, abuse, misuse, and diversion. The FDA has cited prescription opioid analgesics as being at the center of a major public health crisis of addiction, misuse, abuse, overdose and death. According to the American Society of Addiction Medicine 2016 report, there are 1.9 million Americans which have a substance use disorder involving prescription pain relievers. This same report attributes 18,893 overdose deaths in 2015 were related to prescription pain relievers.

NKTR-102 (next generation, long-acting topoisomerase I inhibitor)

We are developing NKTR-102, a next generation topoisomerase I (topo I) inhibitor which was designed using our PEGylation technology. NKTR-102 is a novel macromolecular chemotherapeutic designed to enhance the anti-cancer effects of topo I inhibition while minimizing its toxicities. Unlike irinotecan, which is a first generation topo I inhibitor that exhibits a high initial peak concentration and short half-life, NKTR-102's pro-drug design results in a lower initial peak concentration of active topo I inhibitor in the blood. The large NKTR-102 molecule is inactive when administered. Over time, the body's natural enzymatic processes slowly metabolize the linkers within the molecule, continuously freeing active drug that then can work to stop tumor cell division through topo I inhibition. In preclinical models, NKTR-102 achieved a 300-fold increase in tumor concentration as compared to irinotecan. Because NKTR-102 is a large molecule, based on preclinical studies we believe that it may penetrate the leaky vasculature within the tumor environment more readily than normal vasculature, concentrating and trapping NKTR-102 in tumor tissue. Clinical studies have shown that NKTR-102 has an extended pharmacokinetic profile and remains in circulation throughout the entire chemotherapy cycle, providing sustained exposure to topo I inhibition.

NKTR-102 is currently being evaluated as a single-agent therapy (145 mg/m² every 21 days) in a Phase 3 open-label, randomized, multicenter clinical study in patients with metastatic breast cancer. This Phase 3 clinical study, which we call the BEACON study (BrEAsT Cancer Outcomes with NKTR-102), enrolled approximately 850 patients with metastatic breast cancer who have had prior treatment with anthracycline, taxane and capecitabine in either the adjuvant or metastatic setting. We completed enrollment in the BEACON study in late July 2013. This study randomized patients on a 1:1 basis to receive single-agent NKTR-102 or a single agent chosen from a defined set of physician's choice alternatives. The physician's choice single agents include the following: ixabepilone, vinorelbine, gemcitabine, eribulin, or a taxane. Randomization was stratified by geographic region, prior treatment with eribulin and whether or not the patient had triple negative breast cancer. On March 17, 2015, we announced topline data from the BEACON Phase 3 clinical study for NKTR-102. 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 are currently exploring various future regulatory paths forward for NKTR-102 with the EU and U.S. regulatory authorities. In Europe, we have met with the National Authorities in Sweden (MPA) and the United Kingdom (MHRA) to discuss the BEACON data. We also met with the EMA to discuss filing an MAA. Based on the outcome of these meetings, we believe that there is a path forward to file an MAA for conditional approval of NKTR-102 for patients with advanced breast cancer having brain metastases. In connection with any MAA filing, the EMA has informed us that we would be required to start a confirmatory trial in conjunction with the MAA review. In the United States, we met with the FDA and the Oncology Division indicated that we would not be able to use the BEACON data to support an accelerated approval for an NDA. However, the FDA staff also indicated that positive results from a completed confirmatory trial for the MAA could also support an NDA filing. We are currently evaluating next steps for this program. At this time, we do not plan to advance development of NKTR-102 without a collaboration partner.

According to the American Cancer Society and World Health Organization, more than 1.4 million women worldwide are diagnosed with breast cancer globally every year. The chance of developing invasive breast cancer at some time in a woman's life is a little less than one in eight (12%). In 2016, the American Cancer Society estimates there will be 246,660 new cases of invasive breast cancer diagnosed in the U.S. and about 40,450 women will die from breast cancer.

Anthracyclines and taxanes are among the most active and widely used chemotherapeutic agents for breast cancer, but the increased use of these agents at an early stage of disease often renders tumors resistant to these drugs by the time the disease recurs, thereby reducing the number of treatment options for metastatic disease. There are currently no FDA-approved topoisomerase I inhibitors indicated to treat breast cancer.

We have also conducted clinical studies for NKTR-102 in other solid tumor settings. In 2013, we completed a Phase 2 clinical study for NKTR-102 in approximately 170 patients with platinum-resistant/refractory ovarian cancer. We also initiated a Phase 2 clinical study of NKTR-102 monotherapy versus irinotecan in second-line metastatic colorectal cancer patients with the KRAS mutant gene. The Phase 2 clinical study was designed to enroll 174 patients with metastatic colorectal cancer. In February 2014, we decided to close enrollment in this study after 80 patients were randomized due to challenges in recruiting new patients because the comparator arm of this study, single-agent irinotecan, is not the common standard of care for second line metastatic colorectal therapy in the U.S. or EU.

We also conducted a Phase 1 dose-escalation clinical study which enrolled 26 patients to evaluate NKTR-102 in combination with 5-Fluorouracil (5-FU)/leucovorin in refractory solid tumor cancers. The chemotherapy agent 5-FU is currently used as a part of a combination treatment regimen for colorectal cancer in combination with irinotecan, which is also known as the FOLFIRI regimen. On January 18, 2014, we presented data from this study at the 2014 Gastrointestinal Cancers Symposium in San Francisco, California. In addition to the clinical study of NKTR-102 being conducted by us, we have also provided support for four investigator-initiated Phase 2 studies being conducted for NKTR-102. On August 7, 2012, we announced a Phase 2 investigator-initiated clinical study of NKTR-102 in patients with bevacizumab (Avastin)-resistant high-grade glioma being conducted at the Stanford Cancer Institute. In May 2013, the study completed enrollment of 20 patients with high-grade glioma who had received a median of three prior lines of therapy before enrolling in the study. A separate investigator-initiated clinical study is also being conducted at Stanford to evaluate NKTR-102 in patients with brain metastasis from primary lung cancer. On February 5, 2013, we announced a Phase 2 investigator-initiated clinical study of NKTR-102 in patients with metastatic and recurrent non-small cell lung cancer being conducted at the Abramson Cancer Center of the University of Pennsylvania. On October 24, 2013, we announced a Phase 2 investigator-initiated clinical study of NKTR-102 in patients with relapsed or refractory small-cell lung cancer at the Roswell Park Cancer Institute.

BAY41-6551 (Amikacin Inhale, formerly NKTR-061), Agreement with Bayer Healthcare LLC

In August 2007, we entered into a co-development, license and co-promotion agreement with Bayer Healthcare LLC (Bayer) to develop a specially-formulated Amikacin (BAY41-6551, Amikacin Inhale, formerly called NKTR-061) for the treatment of gram-negative pneumonias. Under the terms of the agreement, Bayer is responsible for most future clinical development and commercialization costs, all activities to support worldwide regulatory filings, approvals and related activities, further development of formulated Amikacin and final product packaging for Amikacin Inhale. We are responsible for all future development, manufacturing and supply of the nebulizer device for clinical and commercial use. We have engaged third party contract manufacturers to perform our device manufacturing activities for this program. We are entitled to up to \$50.0 million in development milestone payments as well as sales milestone payments upon achievement of certain annual sales targets. We are also entitled to royalties based on annual worldwide net sales of Amikacin Inhale. In the U.S., our royalty on annual net sales is a flat 30% and outside of the U.S. our royalty on annual net sales is an escalating royalty equal to an approximate average of 22%. Our right to receive these royalties in any particular country will expire upon the later of ten years after the first commercial sale of the product in that country or the expiration of certain patent rights in that particular country, subject to certain exceptions. We share a portion of these royalties with the Research Foundation of the State University of New York under a license agreement. The agreement expires in relation to a particular country upon the expiration of all royalty and payment obligations between the parties related to such country. Subject to termination fee payment obligations in certain circumstances, Bayer also has the right to terminate the agreement for convenience. In addition, the agreement may also be terminated by either party for certain product safety concerns, the product's failure to meet certain minimum commercial profile requirements or uncured material breaches by the other party.

Gram-negative pneumonias are often the result of complications of other patient conditions or surgeries. Gram-negative pneumonias carry a mortality risk that can exceed 50% in mechanically-ventilated patients and accounts for a substantial proportion of the pneumonias in intensive care units today. Amikacin Inhale is designed to be an adjunctive therapy to the current antibiotic therapies administered intravenously as standard of care. The aerosol generator within the nebulizer for Amikacin Inhale delivers a fine aerosol of the antimicrobial agent directly to the site of infection in the lungs. This nebulizer device containing amikacin can be integrated with conventional mechanical ventilators or used as a hand-held "off-vent" device for patients no longer requiring breathing assistance.

In April 2013, Bayer initiated enrollment in a global Phase 3 clinical study, which it calls INHALE, to evaluate the efficacy and safety of Amikacin Inhale versus aerosolized placebo in the treatment of intubated and mechanically ventilated patients with Gram-

negative pneumonia receiving standard of care intravenous antibiotics. The global INHALE development program is comprised of two prospective, randomized, double-blind, placebo-controlled, large multi-center global programs involving centers in North America, South America, Europe, Japan, Australia and Asia. The INHALE development program is being conducted by Bayer under a Special Protocol Assessment agreement with the FDA that is intended to support the submission of an NDA if the INHALE clinical studies are successful. In November 2014, the FDA granted qualified infectious disease product (QIDP) designation to Amikacin Inhale. Antimicrobial drugs designed to treat serious and life-threatening infections, designated as QIDP, are eligible for fast-track designation, priority review by FDA and a five-year extension of market exclusivity.

NKTR-214 (cytokine immunostimulatory therapy)

NKTR-214 is a CD122-biased immune-stimulatory cytokine designed for the treatment of solid tumors. NKTR-214 is designed to preferentially activate the IL-2 beta sub-receptors and gamma sub-units of the IL-2 receptor in order to proliferate 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). This receptor selectivity is intended to increase efficacy and improve safety over existing immunostimulatory cytokine drugs.

In June 2015, we and The University of Texas MD Anderson Cancer Center announced a research collaboration that includes a Phase 1/2 clinical study to evaluate NKTR-214 in a variety of tumor types as a monotherapy and in combination with other therapies, including PD-1 pathway inhibitors. In December 2015, we announced that dosing had commenced in the Phase 1/2 clinical study evaluating the safety, tolerability and efficacy of NKTR-214 in patients with advanced solid tumors, including melanoma, renal cell carcinoma and non-small cell lung cancer. As part of the Phase 1/2 clinical study program, we will also evaluate NKTR-214 in combination with a checkpoint inhibitor.

On February 1, 2016, we announced positive preclinical data was published in a manuscript in *Clinical Cancer Research* for NKTR-214. Nektar scientists conducted a series of studies using preclinical models of breast tumors (EMT6) and colon tumors (CT26) to assess the safety and efficacy of both single agent and combination dosing of NKTR-214 with checkpoint inhibitors, either an anti-PD-1 therapy or an anti-CTLA-4 therapy. The studies also compared NKTR-214 single agent and combination dosing regimens with single agent and combination dosing regimens of anti-PD-1 and anti-CTLA-4 therapies. In both the breast and colon tumor models, the combination dosing regimens of NKTR-214 therapy with anti-PD-1 therapy or anti-CTLA-4 therapy resulted in significant tumor growth inhibition as well as complete regression of tumors in some animals. In the aggressive EMT6 breast tumor model where activity with single-agent anti-PD-1 therapy or single-agent anti-CTLA-4 therapy was not observed, combination of NKTR-214 plus either anti-PD-1 or anti-CTLA-4 demonstrated substantial efficacy. The combination of NKTR-214 plus anti-PD-1 or NKTR-214 plus anti-CTLA-4 produced complete tumor regressions in 40% and 70% of the animals, respectively. NKTR-214 was also very well-tolerated when co-administered with either antibody in these preclinical studies.

NKTR-171 (neuropathic pain)

NKTR-171 is a novel, orally-available sodium channel blocker and is being developed as a treatment for neuropathic pain. NKTR-171 is a new molecular entity that is designed to treat neuropathic pain by blocking hyperactive neuronal sodium channels associated with damaged nerves in the peripheral nervous system. In January 2014, a single-ascending dose Phase 1 clinical study of NKTR-171 was completed. This study assessed the pharmacokinetics, tolerability, and safety of NKTR-171 in healthy subjects. In January 2015, a multiple-ascending dose Phase 1 clinical study was initiated to assess its pharmacokinetics, tolerability, and safety of NKTR-171. Although the results of these studies showed NKTR-171 was well-tolerated, as a result of pipeline prioritization, at this time we do not plan to advance NKTR-171 into any further clinical studies.

Overview of Select Technology Licensing Collaborations and Programs

We have a number of product candidates in clinical development and approved products in collaboration with our partners that use our technology or involve rights over which we have patents or other proprietary intellectual property. In a typical collaboration involving our PEGylation technology, we license our proprietary intellectual property related to our PEGylation technology or proprietary conjugated drug molecules in exchange for upfront payments, development milestone payments and royalties from sales of the resulting commercial product as well as sales milestones. In certain cases, we also manufacture and supply our proprietary PEGylation materials to our partners.

ADYNOVATE™ (previously referred to as BAX 855) and Long-Acting Therapies for Hemophilia A, Agreement with Subsidiaries of Baxalta Incorporated

In September 2005, we entered into an exclusive research, development, license, manufacturing and supply agreement with certain subsidiaries of Baxalta, formerly Baxter before the separation of Baxalta from Baxter in July 2015, to develop products with an extended half-life for the treatment and prophylaxis of Hemophilia A patients using our proprietary PEGylation technology. The first product in this collaboration, ADYNOVATE™ (previously referred to as BAX 855), is a longer-acting (PEGylated) form of a full-length recombinant factor VIII (rFVIII) protein. ADYNOVATE™ is a full-length PEGylated longer-acting recombinant factor VIII (rFVIII) that was developed to increase the half-life of ADVATE® (Antihemophilic Factor (Recombinant) Plasma/Albumin-Free Method). We are entitled to up to \$55.0 million in total development and sales milestone payments, as well as royalties on net sales varying by product and country of sale. The royalties start in the mid-single digits for net sales of ADYNOVATE™ up to \$1.2 billion and then in the low teens for net sales exceeding \$1.2 billion. Our right to receive these royalties in any particular country will expire upon the later of ten years after the first commercial sale of the product in that country or the expiration of patent rights in certain designated countries or in that particular country.

In 2012, Baxalta completed a Phase 1 clinical study for ADYNOVATE™ that was a prospective, open-label study assessing the safety, tolerability and pharmacokinetics of ADYNOVATE™ in 19 previously treated patients age 18 years or older with severe Hemophilia A. In January 2013, Baxalta announced the top level results from this Phase 1 clinical study. This study demonstrated that the half-life (measuring the duration of activity of the drug in the body) of ADYNOVATE™ was approximately 1.5-fold higher compared to ADVATE®. A longer half-life was achieved in all patients in the study using ADYNOVATE™, no patients developed inhibitors to either base molecule, ADYNOVATE™ or PEG, and no patients had allergic reactions. Eleven adverse events were reported in eight patients across both treatment arms, but none was serious, treatment-related or resulted in withdrawal from the study. Baxalta commenced patient enrollment in a Phase 3 clinical study of ADYNOVATE™ in the U.S. in February 2013 and completed enrollment in November 2013. The Phase 3 clinical study, a multi-center, open-label study called PROLONG-ATE, enrolled 146 previously treated adult patients with severe Hemophilia A in order to assess the efficacy, safety and pharmacokinetics of ADYNOVATE™ for prophylaxis and on-demand treatment of bleeding. In August 2014, Baxalta announced positive top-line results from the PROLONG-ATE clinical study which met the primary endpoint for the control and prevention of bleeding, routine prophylaxis and perioperative management for patients who were 12 years or older. In December 2014, Baxalta announced that it filed a biologic license application with the FDA for ADYNOVATE™. In November 2015, ADYNOVATE™ was approved by the FDA for use in adults and adolescents, aged 12 years and older, who have Hemophilia A. On November 30, 2015, Baxalta announced that it had initiated sales of ADYNOVATE™ in the U.S.

In December 2015, Baxalta announced positive study results from its prospective, uncontrolled, open-label, multi-center Phase 3 study designed to assess the safety and immunogenicity of ADYNOVATE™. The study enrolled 73 previously-treated patients (PTPs) with severe Hemophilia A younger than 12 years of age and assessed the treatment's hemostatic efficacy in prophylaxis and treatment of bleeding episodes. All participants received prophylactic ADYNOVATE™ treatment (median 1.9 infusions per week) and were followed for six months. ADYNOVATE™ met its primary endpoint in the study, as no patients developed inhibitory antibodies to ADYNOVATE™. In addition, no treatment-related serious adverse events were reported. With the study results, Baxalta announced that it plans to file for marketing authorization in Europe and aims to file for a pediatric indication in the U.S. in early 2016. ADYNOVATE™ is currently under regulatory review in Japan, Canada and Switzerland.

Hemophilia A, also called factor VIII (FVIII) deficiency or classic hemophilia, is a genetic disorder caused by missing or defective factor VIII, a clotting protein. According to the US Centers for Disease Control and Prevention, hemophilia occurs in approximately one in 5,000 live births. There are about 20,000 people with hemophilia in the US. All races and ethnic groups are affected. Hemophilia A is four times as common as Hemophilia B while more than half of patients with Hemophilia A have the severe form of hemophilia. In 2014, according to the Evaluate Group, sales of FVIII replacement products exceeded \$6 billion globally.

Cipro DPI (formerly known as Cipro Inhale), Agreement with Bayer Schering Pharma AG Assigned to Novartis as of December 31, 2008

We were a party to a collaborative research, development and commercialization agreement with Bayer Schering Pharma AG (Bayer), related to the development of an inhaled powder formulation of ciprofloxacin delivered by way of a dry powder inhaler, Cipro DPI (formerly known as Cipro Inhale) for the treatment of chronic lung infections caused by *Pseudomonas aeruginosa* in cystic fibrosis patients. On December 31, 2008, we assigned the agreement to Novartis Pharma AG in connection with the completion of the pulmonary asset sale transaction. However, we retained our economic interest in the future potential net sales royalties if Cipro DPI is approved by health authorities and is successfully commercialized by Bayer. Cipro DPI has completed Phase 2 clinical development for the treatment of chronic lung infections. In August 2012, Bayer initiated a Phase 3 clinical development program which it calls RESPIRE for Cipro DPI in patients with non-cystic fibrosis bronchiectasis. In patients with bronchiectasis, the bronchial tubes are enlarged, allowing mucus to pool and making the area prone to infection. In the two placebo-controlled trials, RESPIRE-1 and RESPIRE-2, Bayer plans to enroll up to 600 patients and to evaluate Cipro DPI as a chronic, intermittent therapy over a period of 48

weeks. In November 2014, the FDA granted qualified infectious disease product (QIDP) designation to Cipro DPI. Antimicrobial drugs designed to treat serious and life-threatening infections, designated as QIDP, are eligible for fast-track designation, priority review by FDA and a five-year extension of market exclusivity.

FOVISTA® (Anti-PDGF Therapy), Agreement with Ophthotech Corporation

In September 2006, we entered into a license, manufacturing and supply agreement with (OSI) Eyetech, Inc. (Eyetech) under which we granted Eyetech a worldwide, exclusive license to certain of our proprietary PEGylation technology to develop, manufacture and commercialize particular products that use our proprietary PEGylation reagent linked with the active ingredient in Fovista®. In July 2007, as a result of a divestiture agreement between Eyetech and Ophthotech Corporation (Ophthotech), Ophthotech acquired from Eyetech certain technology rights and other assets owned or controlled by Eyetech relating to particular anti-platelet-derived growth factor aptamers, or anti-PDGFs, including Fovista®. As a result of this transaction, Ophthotech assumed the license, manufacturing and supply agreement between Eyetech and us. Fovista® is an anti-PDGF agent administered in combination with anti-vascular endothelial growth factor (anti-VEGF) therapy for the treatment of neovascular age-related macular degeneration (or wet AMD). On May 19, 2014, Ophthotech entered into a Licensing and Commercialization Agreement with Novartis Pharma AG to develop and commercialize Fovista® and related combination products in all countries outside of the U.S. Under our agreement with Ophthotech, we received a \$19.75 million payment in June 2014 in connection with this licensing agreement. We are entitled to up to \$9.5 million in total development and sales milestone payments, low- to mid- single-digit royalties on net sales that vary by sales levels and are subject to reduction in the absence of patent coverage, and additional consideration if Ophthotech grants certain third-party commercialization rights to Fovista®. Our right to receive royalties in any particular country will expire upon the later of ten years after first commercial sale of the product or expiration of patent rights in the particular country. We are the exclusive supplier for all of Ophthotech's clinical and future commercial requirements of our proprietary PEGylation materials used in the manufacture of Fovista®.

In June 2012, Ophthotech announced completion of a prospective, randomized, controlled Phase 2b clinical study of 449 patients with wet AMD comparing Fovista®, administered in combination with Lucentis® (ranibizumab injection) anti-VEGF therapy with Lucentis® monotherapy. Fovista® met the pre-specified primary efficacy endpoint of mean vision gain. Patients receiving the combination of Fovista® (1.5 mg) and Lucentis® gained a mean of 10.6 letters of vision at 24 weeks on the Early Treatment Diabetic Retinopathy Study standardized eye chart, compared to 6.5 letters for patients receiving Lucentis monotherapy (p=0.019), representing a statistically significant 62% additional benefit. In September 2013, Ophthotech announced the initiation of patient enrollment in the first of three planned pivotal Phase 3 clinical studies of Fovista® in combination with anti-VEGF therapy for the treatment of newly diagnosed patients with wet AMD. These three studies plan to enroll a total of approximately 1,866 patients to evaluate the efficacy and safety of Fovista®.

PEGPH20, Agreement with Halozyme Therapeutics, Inc.

In December 2006, we entered into a license agreement with Halozyme Therapeutics, Inc. (Halozyme), under which we granted Halozyme a worldwide, limited exclusive license to certain of our proprietary PEGylation technology to develop, manufacture and commercialize particular products that use our proprietary PEGylation materials linked only with certain qualifying hyaluronidase protein molecules including PEGPH20. According to Halozyme, certain cancers, including pancreatic, breast, colon and prostate, have been shown to accumulate high levels of hyaluronan (HA). Halozyme's FDA-approved, HYLENEX® recombinant human hyaluronidase, rHuPH20, is administered subcutaneously and temporarily and reversibly degrades HA to facilitate the absorption and dispersion of other injected drugs or fluids and for subcutaneous fluid administration. However, rHuPH20 acts only locally at the injection site, is rapidly inactivated in the body, and does not survive in the blood. PEGPH20 is an investigational PEGylated form of rHuPH20, under development by Halozyme to increase the half-life of the compound in the blood and allow for intravenous administration. Halozyme is currently evaluating PEGPH20 in a Phase 2 multicenter, randomized clinical trial evaluating PEGPH20 as a first-line therapy for patients with stage IV metastatic pancreatic cancer. Halozyme is also evaluating PEGPH20 in an on-going Phase 1b/2 multi-center, randomized clinical trial evaluating PEGPH20 as a second-line therapy for patients with locally advanced or metastatic non-small cell lung cancer. On October 2, 2014, the FDA granted Orphan Drug designation for PEGPH20 for the treatment of pancreatic cancer. We are entitled to future development milestones and royalties on net sales subject to reduction in the absence of patent coverage. Our right to receive royalties in any particular country will expire upon the later of twelve years after first commercial sale of the product or expiration of patent rights in the particular country. We also manufacture and supply Halozyme with clinical and future commercial supply of our proprietary PEGylation materials used in the manufacture of PEGPH20.

SEMPRANA®, Agreement with MAP Pharmaceuticals, Inc. (a wholly-owned subsidiary of Allergan, Inc.)

In June 2004, we entered into a license agreement with MAP Pharmaceuticals, Inc. (MAP), which includes a worldwide, exclusive license, to certain of our patents and other intellectual property rights to develop and commercialize a formulation of dihydroergotamine (DHE) for administration to patients via the pulmonary or nasal delivery route, which resulted in the development of SEMPRANA®, formerly known as LEVADEX®. In 2006, we amended and restated this agreement. Under the terms of the

agreement, we have the right to receive certain milestone payments based on development criteria that are solely the responsibility of MAP and royalties based on net sales of SEMPRANA[®]. Our right to receive royalties for the net sales of SEMPRANA[®] under the license agreement in any particular country will expire upon the later of (i) 10 years after first commercial sale in that country, (ii) the date upon which the licensed know-how becomes known to the general public, and (iii) expiration of certain patent claims, each on a country-by-country basis. Either party may terminate the agreement upon a material, uncured default of the other party.

SEMPRANA[®] is a self-administered formulation of DHE using an inhaler device that is currently under review by the FDA. On May 26, 2011, MAP submitted an NDA to the FDA for SEMPRANA[®]. In March of 2012, the FDA issued a complete response letter to MAP identifying issues relating to chemistry, manufacturing and controls deficiencies of the product at a contracted third party manufacturer. On April 17, 2013, the FDA issued a second complete response letter identifying issues related to a supplier that provided the canister filling unit for SEMPRANA[®]. In June 2014, Allergan announced that it had received a third complete response letter from the FDA related to specifications around content uniformity on the improved canister filling process and on standards for device actuation. Allergan has responded to the FDA's latest complete response letter and has stated that it continues to work with the FDA to resolve outstanding CMC issues.

On January 28, 2011, MAP entered into a Collaboration Agreement with Allergan, Inc. pursuant to which Allergan received a co-exclusive license to market and promote SEMPRANA[®] to neurologists and pain specialists in the U.S. Under this arrangement, Allergan paid MAP an upfront payment of \$60 million and MAP was also entitled to receive up to an additional \$97 million in the form of regulatory milestones, which includes milestones for acceptance of filing of the SEMPRANA[®] NDA and first commercial sale associated with the initial acute migraine indication. On March 1, 2013, Allergan, Inc. completed a merger and acquisition transaction with MAP pursuant to which MAP became a wholly-owned subsidiary of Allergan. On January 23, 2015, we filed a breach of contract action against Allergan and MAP in California Superior Court in San Mateo County seeking monetary damages related to MAP's failure to pay us a certain specified percentage of \$80 million in upfront and milestone payments received to date from Allergan under the 2011 Collaboration Agreement which we believe we were entitled to receive under the terms of our license agreement with MAP.

Dapirolizumab Pegol

In 2010, we entered into a license, manufacturing and supply agreement with UCB Pharma S.A., under which we granted UCB a worldwide, exclusive license to certain of our proprietary PEGylation technology to develop, manufacture and commercialize an anti-CD40L PEGylated Fab being developed by UCB and their partner Biogen Idec, for the treatment of autoimmune disorders, including systemic lupus erythematosus (SLE). In 2014, UCB and Biogen completed a Phase 1b randomized, double-blind, placebo-controlled clinical study in approximately 24 patients with SLE. Data from the study was published in September 2015 at the Annual American College of Rheumatology Meeting and showed that multiple administrations of dapirolizumab pegol given over 12 weeks were well-tolerated and the safety profile supported further development of the compound. Exploratory analyses from the same study showed greater improvement in clinical measures of disease activity in the dapirolizumab pegol group versus placebo. Based on the results of this clinical study, Biogen and UCB announced that they planned to initiate a Phase 2 clinical study in 2016 in patients with SLE.

Overview of Select Licensing Partnerships for Approved Products

Neulasta[®], Agreement with Amgen, Inc.

In July 1995, we entered into a non-exclusive supply and license agreement (the 1995 Agreement) with Amgen, Inc., pursuant to which we licensed our proprietary PEGylation technology to be used in the development and manufacture of Neulasta[®]. Neulasta[®] selectively stimulates the production of neutrophils that are depleted by cytotoxic chemotherapy, a condition called neutropenia that makes it more difficult for the body to fight infections. On October 29, 2010, we amended and restated the 1995 Agreement by entering into a supply, dedicated suite and manufacturing guarantee agreement (the 2010 Agreement) and an amended and restated license agreement with Amgen Inc. and Amgen Manufacturing, Limited (together referred to as Amgen). Under the terms of the 2010 Agreement, we guarantee the manufacture and supply of our proprietary PEGylation materials (Polymer Materials) to Amgen in an existing manufacturing suite to be used exclusively for the manufacture of Polymer Materials for Amgen in our manufacturing facility in Huntsville, Alabama. This supply arrangement is on a non-exclusive basis (other than the use of the manufacturing suite and certain equipment) whereby we are free to manufacture and supply the Polymer Materials to any other third party and Amgen is free to procure the Polymer Materials from any other third party. Under the terms of the 2010 Agreement, we received a \$50.0 million upfront payment in return for guaranteeing supply of certain quantities of Polymer Materials to Amgen and the Additional Rights described below, and Amgen will pay manufacturing fees calculated based on fixed and variable components applicable to the Polymer Materials ordered by Amgen and delivered by us. Amgen has no minimum purchase commitments. If quantities of the Polymer Materials ordered by Amgen exceed specified quantities (with each specified quantity representing a small portion of the quantity that we historically supplied to Amgen), significant additional payments become payable to us in return for guaranteeing supply of additional quantities of the Polymer Materials.

The term of the 2010 Agreement runs through October 29, 2020. In the event we become subject to a bankruptcy or insolvency proceeding, we cease to own or control the manufacturing facility in Huntsville, Alabama, we fail to manufacture and supply the Polymer Materials or certain other events occur, Amgen or its designated third party will have the right to elect, among certain other options, to take title to the dedicated equipment and access the manufacturing facility to operate the manufacturing suite solely for the purpose of manufacturing the Polymer Materials (Additional Rights). Amgen may terminate the 2010 Agreement for convenience or due to an uncured material default by us. Either party may terminate the 2010 Agreement in the event of insolvency or bankruptcy of the other party.

PEGASYS[®], Agreement with F. Hoffmann-La Roche Ltd

In February 1997, we entered into a license, manufacturing and supply agreement with F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc. (Roche), under which we granted Roche a worldwide, exclusive license to use certain intellectual property related to our PEGylation materials to manufacture and commercialize a certain class of products, of which PEGASYS[®] is the only product currently commercialized. PEGASYS[®] is approved in the U.S., EU and other countries for the treatment of Hepatitis C and is designed to help the patient's immune system fight the Hepatitis C virus. As a result of Roche exercising a license extension option in December 2009, beginning in 2010 Roche has the right to manufacture all of its requirements for our proprietary PEGylation materials for PEGASYS[®] and we supply raw materials or perform additional manufacturing, if any, only on a back-up basis. In connection with Roche's exercise of the license extension option in December 2009, we received a payment of \$31.0 million. 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 approximately \$18.6 million. The agreement expires on the expiration of our last relevant patent containing a valid claim. As of December 31, 2015, we no longer have any continuing manufacturing or supply obligations under this PEGASYS[®] agreement.

Somavert[®], Agreement with Pfizer, Inc.

In January 2000, we entered into a license, manufacturing and supply agreement with Sensus Drug Development Corporation (subsequently acquired by Pharmacia Corp. in 2001 and then acquired by Pfizer, Inc. in 2003), for the PEGylation of Somavert[®] (pegvisomant), a human growth hormone receptor antagonist for the treatment of acromegaly. We currently manufacture our proprietary PEGylation reagent for Pfizer, Inc. on a price per gram basis. The agreement expires on the later of ten years from the grant of first marketing authorization in the designated territory, which occurred in March 2003, or the expiration of our last relevant patent containing a valid claim. In addition, Pfizer, Inc. may terminate the agreement if marketing authorization is withdrawn or marketing is no longer feasible due to certain circumstances, and either party may terminate for cause if certain conditions are met.

PEG-Intron[®], Agreement with Merck (through its acquisition of Schering-Plough Corporation)

In February 2000, we entered into a manufacturing and supply agreement with Schering-Plough Corporation (Schering) for the manufacture and supply of our proprietary PEGylation materials to be used by Schering in production of a PEGylated recombinant human interferon-alpha (PEG-Intron). PEG-Intron is a treatment for patients with Hepatitis C. Schering was acquired by, and became a wholly-owned subsidiary of, Merck & Co., Inc. We currently manufacture our proprietary PEGylation materials for Schering on a price per gram basis. In December 2010, the parties amended the manufacturing and supply agreement to provide for a transition plan to an alternative manufacturer and extension of the term through the successful manufacturing transition or December 31, 2018 at the latest. The amended agreement provided for a one-time payment and milestone payments as well as increased pricing for any future manufacturing performed by us.

Macugen[®], Agreement with Valeant Pharmaceuticals International, Inc.

In 2002, we entered into a license, manufacturing and supply agreement with Eyetech, Inc. (subsequently acquired by Valeant Pharmaceuticals International, Inc. or Valeant), pursuant to which we license certain intellectual property related to our proprietary PEGylation technology for the development and commercialization of Macugen[®], a PEGylated anti-vascular endothelial growth factor aptamer currently approved in the U.S. and EU for age-related macular degeneration. We currently manufacture our proprietary PEGylation materials for Valeant on a price per gram basis. Under the terms of the agreement, we will receive royalties on net product sales in any particular country for the longer of ten years from the date of the first commercial sale of the product in that country or the duration of patent coverage. We share a portion of the payments received under this agreement with Enzon Pharmaceuticals, Inc. The agreement expires upon the expiration of our last relevant patent containing a valid claim. In addition, Valeant may terminate the agreement if marketing authorization is withdrawn or marketing is no longer feasible due to certain circumstances, and either party may terminate for cause if certain conditions are met.

***CIMZIA*® , Agreement with UCB Pharma**

In December 2000, we entered into a license, manufacturing and supply agreement covering our proprietary PEGylation materials for use in CIMZIA® (certolizumab pegol) with Celltech Chiroscience Ltd., which was acquired by UCB Pharma (UCB) in 2004. Under the terms of the agreement, UCB is responsible for all clinical development, regulatory, and commercialization expenses. We also manufacture and supply UCB with our proprietary PEGylation reagent used in the manufacture of CIMZIA® on a fixed price per gram. We were also entitled to receive royalties on net sales of the CIMZIA® product for the longer of ten years from the first commercial sale of the product anywhere in the world or the expiration of patent rights in a particular country. In February 2012, we sold our rights to receive royalties on future worldwide net sales of CIMZIA® effective as of January 1, 2012 until the agreement with UCB is terminated or expires. This sale is further discussed in Note 7 of Item 8, Financial Statements and Supplementary Data. We share a portion of the payments we receive from UCB with Enzon Pharmaceuticals, Inc. The agreement expires upon the expiration of all of UCB's royalty obligations, provided that the agreement can be extended for successive two year renewal periods upon mutual agreement of the parties. In addition, UCB may terminate the agreement should it cease the development and marketing of CIMZIA® and either party may terminate for cause under certain conditions.

***MIRCERA*® (C.E.R.A.) (Continuous Erythropoietin Receptor Activator), Agreement with F. Hoffmann-La Roche Ltd**

In December 2000, we entered into a license, manufacturing and supply agreement with F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc. (Roche), which was amended and restated in its entirety in December 2005. Pursuant to the agreement, we license our intellectual property related to our proprietary PEGylation materials for the manufacture and commercialization of Roche's MIRCERA® product. MIRCERA® is a novel continuous erythropoietin receptor activator indicated for the treatment of anemia associated with chronic kidney disease in patients on dialysis and patients not on dialysis. As of the end of 2006, we were no longer required to manufacture and supply our proprietary PEGylation materials for MIRCERA® under our original agreement. In February 2012, we entered into a toll-manufacturing agreement with Roche under which we manufactured our proprietary PEGylation material for MIRCERA®. Roche entered into the toll-manufacturing agreement with the objective of establishing us as a secondary back-up source on a non-exclusive basis through December 31, 2016. Under the terms of this agreement, Roche paid us an up-front payment of \$5.0 million plus a total of \$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 successfully completed by the end of January 2013. Roche would also pay us additional consideration for any future orders of the PEGylation materials for MIRCERA® beyond the initial quantities ordered as part of the initial arrangement. 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 by the fourth quarter of 2013, for total consideration of approximately \$18.6 million. Roche may terminate the toll-manufacturing agreement due to an uncured material default by us or for convenience under certain circumstances and subject to certain financial obligations. We were also entitled to receive royalties on net sales of the MIRCERA® product. In February 2012, we sold all of our future rights to receive royalties on future worldwide net sales of MIRCERA® effective as of January 1, 2012. This sale is further discussed in Note 7 of Item 8, Financial Statements and Supplementary Data.

Government Regulation

The research and development, clinical testing, manufacture and marketing of products using our technologies are subject to regulation by the FDA and by comparable regulatory agencies in other countries. These national agencies and other federal, state and local entities regulate, among other things, research and development activities and the testing (in vitro, in animals, and in human clinical trials), manufacture, labeling, storage, recordkeeping, approval, marketing, advertising and promotion of our products.

The approval process required by the FDA before a product using any of our technologies may be marketed in the U.S. depends on whether the chemical composition of the product has previously been approved for use in other dosage forms. If the product is a new chemical entity that has not been previously approved, the process includes the following:

- extensive preclinical laboratory and animal testing;
- submission of an Investigational New Drug application (IND) prior to commencing clinical trials;
- adequate and well-controlled human clinical trials to establish the safety and efficacy of the drug for the intended indication;
- extensive pharmaceutical development for the characterization of the chemistry, manufacturing process and controls for the active ingredient and drug product; and
- submission to the FDA of an NDA for approval of a drug, a Biological License Application (BLA) for approval of a biological product or a Premarket Approval Application (PMA) or Premarket Notification 510(k) for a medical device product (a 510(k)).

If the active chemical ingredient has been previously approved by the FDA, the approval process is similar, except that certain preclinical tests, including those relating to systemic toxicity normally required for the IND and NDA or BLA, and clinical trials, may not be necessary if the company has a right of reference to existing preclinical or clinical data under section 505(j) of the Federal Food, Drug, and Cosmetic Act (FDCA) or is eligible for approval under Section 505(b)(2) of the FDCA or the biosimilars provisions of the Public Health Services Act.

Preclinical tests include laboratory evaluation of product chemistry and animal studies to assess the safety and efficacy of the product and its chosen formulation. Preclinical safety tests must be conducted by laboratories that comply with FDA good laboratory practices (GLP) regulations. The results of the preclinical tests for drugs, biological products and combination products subject to the primary jurisdiction of the FDA's Center for Drug Evaluation and Research (CDER) or Center for Biologics Evaluation and Research (CBER) are submitted to the FDA as part of the IND and are reviewed by the FDA before clinical trials can begin. Clinical trials may begin 30 days after receipt of the IND by the FDA, unless the FDA raises objections or requires clarification within that period. Clinical trials involve the administration of the drug to healthy volunteers or patients under the supervision of a qualified, identified medical investigator according to a protocol submitted in the IND for FDA review. Drug products to be used in clinical trials must be manufactured according to current good manufacturing practices (cGMP). Clinical trials are conducted in accordance with protocols that detail the objectives of the study and the parameters to be used to monitor participant safety and product efficacy as well as other criteria to be evaluated in the study. Each protocol is submitted to the FDA in the IND.

Apart from the IND process described above, each clinical study must be reviewed by an independent Institutional Review Board (IRB) and the IRB must be kept current with respect to the status of the clinical study. The IRB considers, among other things, ethical factors, the potential risks to subjects participating in the trial and the possible liability to the institution where the trial is conducted. The IRB also reviews and approves the informed consent form to be signed by the trial participants and any significant changes in the clinical study.

Clinical trials are typically conducted in three sequential phases. Phase 1 involves the initial introduction of the drug into healthy human subjects (in most cases) and the product generally is tested for tolerability, pharmacokinetics, absorption, metabolism and excretion. Phase 2 involves studies in a limited patient population to:

- determine the preliminary efficacy of the product for specific targeted indications;
- determine dosage and regimen of administration; and
- identify possible adverse effects and safety risks.

If Phase 2 trials demonstrate that a product appears to be effective and to have an acceptable safety profile, Phase 3 trials are undertaken to evaluate the further clinical efficacy and safety of the drug and formulation within an expanded patient population at geographically dispersed clinical study sites and in large enough trials to provide statistical proof of efficacy and tolerability. The FDA, the clinical trial sponsor, the investigators or the IRB may suspend clinical trials at any time if any one of them believes that study participants are being subjected to an unacceptable health risk. In some cases, the FDA and the drug sponsor may determine that Phase 2 trials are not needed prior to entering Phase 3 trials.

Following a series of formal meetings and communications between the drug sponsor and the regulatory agencies, the results of product development, preclinical studies and clinical studies are submitted to the FDA as an NDA or BLA for approval of the marketing and commercial shipment of the drug product. The FDA may deny approval if applicable regulatory criteria are not satisfied or may require additional clinical or pharmaceutical testing or requirements. Even if such data are submitted, the FDA may ultimately decide that the NDA or BLA does not satisfy all of the criteria for approval. Additionally, the approved labeling may narrowly limit the conditions of use of the product, including the intended uses, or impose warnings, precautions or contraindications which could significantly limit the potential market for the product. Further, as a condition of approval, the FDA may impose post-market surveillance, or Phase 4, studies or risk evaluation and mitigation strategies. Product approvals, once obtained, may be withdrawn if compliance with regulatory standards is not maintained or if safety concerns arise after the product reaches the market. The FDA may require additional post-marketing clinical testing and pharmacovigilance programs to monitor the effect of drug products that have been commercialized and has the power to prevent or limit future marketing of the product based on the results of such programs. After approval, there are ongoing reporting obligations concerning adverse reactions associated with the product, including expedited reports for serious and unexpected adverse events.

Each manufacturing establishment producing the active pharmaceutical ingredient and finished drug product for the U.S. market must be registered with the FDA and typically is inspected by the FDA prior to NDA or BLA approval of a drug product manufactured by such establishment. Such inspections are also held periodically after the commercialization. Establishments handling controlled substances must also be licensed by the U.S. Drug Enforcement Administration. Manufacturing establishments of U.S. marketed products are subject to inspections by the FDA for compliance with cGMP and other U.S. regulatory requirements.

They are also subject to U.S. federal, state, and local regulations regarding workplace safety, environmental protection and hazardous and controlled substance controls, among others.

For product candidates currently under development utilizing pulmonary technology, the pulmonary inhaler devices are considered to be part of a drug and device combination for deep lung delivery of each specific molecule. The FDA will make a determination as to the most appropriate center and division within the agency that will assume primary responsibility for the review of the applicable applications, which would consist of an IND and an NDA or BLA where CDER or CBER are determined to have primary jurisdiction or an investigational device exemption application and PMA or 510(k) where the Center for Devices and Radiological Health (CDRH) is determined to have primary jurisdiction. In the case of our product candidates, CDER in consultation with CDRH could be involved in the review. The assessment of jurisdiction within the FDA is based upon the primary mode of action of the drug or the location of the specific expertise in one of the centers.

Where CDRH is determined to have primary jurisdiction over a product, 510(k) clearance or PMA approval is required. Medical devices are classified into one of three classes — Class I, Class II, or Class III — depending on the degree of risk associated with each medical device and the extent of control needed to ensure safety and effectiveness. Devices deemed to pose lower risks are placed in either Class I or II, which requires the manufacturer to submit to the FDA a Premarket Notification requesting permission to commercially distribute the device. This process is known as 510(k) clearance. Some low risk devices are exempted from this requirement. Devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a previously cleared 510(k) device are placed in Class III, requiring PMA approval.

In situations where our partners are responsible for clinical and regulatory approval procedures, but we may participate in this process by submitting to the FDA a drug master file developed and maintained by us which contains data concerning the manufacturing processes for the inhaler device, PEGylation materials or drug. For our proprietary products, we prepare and submit an IND and are responsible for additional clinical and regulatory procedures for product candidates being developed under an IND. The clinical and manufacturing, development and regulatory review and approval process generally takes a number of years and requires the expenditure of substantial resources. Our ability to manufacture and market products, whether developed by us or under collaboration agreements, ultimately depends upon the completion of satisfactory clinical trials and success in obtaining marketing approvals from the FDA and equivalent foreign health authorities.

Sales of our products outside the U.S. are subject to local regulatory requirements governing clinical trials and marketing approval for drugs. Such requirements vary widely from country to country.

In the U.S., under the Orphan Drug Act, the FDA may grant orphan drug designation to drugs intended to treat a rare disease or condition, which is generally a disease or condition that affects fewer than 200,000 individuals in the U.S. The company that obtains the first FDA approval for a designated orphan drug for a rare disease receives marketing exclusivity for use of that drug for the designated condition for a period of seven years. In addition, the Orphan Drug Act provides for protocol assistance, tax credits, research grants, and exclusions from user fees for sponsors of orphan products. Once a product receives orphan drug exclusivity, a second product that is considered to be the same drug for the same indication generally may be approved during the exclusivity period only if the second product is shown to be “clinically superior” to the original orphan drug in that it is more effective, safer or otherwise makes a “major contribution to patient care” or the holder of exclusive approval cannot assure the availability of sufficient quantities of the orphan drug to meet the needs of patients with the disease or condition for which the drug was designated. Similar incentives also are available for orphan drugs in the EU.

In the U.S., the FDA may grant Fast Track or Breakthrough Therapy designation to a product candidate, which allows the FDA to expedite the review of new drugs that are intended for serious or life-threatening conditions and that demonstrate the potential to address unmet medical needs. Important features of Fast Track or Breakthrough Therapy designation include a potentially reduced clinical program and close, early communication between the FDA and the sponsor company to improve the efficiency of product development.

Patents and Proprietary Rights

We own more than 215 U.S. and 750 foreign patents and a number of pending patent applications that cover various aspects of our technologies. We have filed patent applications, and plan to file additional patent applications, covering various aspects of our PEGylation and advanced polymer conjugate technologies and our proprietary product candidates. More specifically, our patents and patent applications cover polymer architecture, drug conjugates, formulations, methods of making polymers and polymer conjugates, methods of administering polymer conjugates, and methods of manufacturing polymers and polymer conjugates. Our patent portfolio contains patents and patent applications that encompass our PEGylation and advanced polymer conjugate technology platforms, some of which we acquired in our acquisition of Shearwater Corporation in June 2001. Our patent strategy is to file patent applications on innovations and improvements to cover a significant majority of the major pharmaceutical markets in the world. Generally, patents

have a term of twenty years from the earliest priority date (assuming all maintenance fees are paid). In some instances, patent terms can be increased or decreased, depending on the laws and regulations of the country or jurisdiction that issued the patent.

In January 2002, we entered into a Cross-License and Option Agreement with Enzon Pharmaceuticals, Inc. (Enzon), pursuant to which we and Enzon provided certain licenses to selected portions of each party's PEGylation patent portfolio. In certain cases, we have the option to license certain of Enzon's PEGylation patents for use in our proprietary products or for sublicenses to third parties in each case in exchange for payments to Enzon based on manufacturing profits, revenue share or royalties on net sales if a designated product candidate is approved in one or more markets.

On December 31, 2008, we completed the sale of certain assets related to our pulmonary business, associated technology and intellectual property to Novartis Pharma AG and Novartis Pharmaceuticals Corporation (together referred to as Novartis) for a purchase price of \$115.0 million in cash (Novartis Pulmonary Asset Sale). In connection with the Novartis Pulmonary Asset Sale, as of December 31, 2008, we entered into an exclusive license agreement with Novartis Pharma AG. Pursuant to the exclusive license agreement, Novartis Pharma AG grants back to us an exclusive, irrevocable, perpetual, royalty-free and worldwide license under certain specific patent rights and other related intellectual property rights acquired by Novartis from us in the Novartis Pulmonary Asset Sale, as well as certain improvements or modifications thereto that are made by Novartis. Certain of such patent rights and other related intellectual property rights relate to our development program for inhaled vancomycin or are necessary for us to satisfy certain continuing contractual obligations to third parties, including in connection with development, manufacture, sale, and commercialization activities related to BAY41-6551 partnered with Bayer Healthcare LLC.

We also rely on trade secret protection for our confidential and proprietary information. No assurance can be given that we can meaningfully protect our trade secrets. Others may independently develop substantially equivalent confidential and proprietary information or otherwise gain access to, or disclose, our trade secrets. Please refer to Item 1A, Risk Factors, including but not limited to "We rely on trade secret protection and other unpatented proprietary rights for important proprietary technologies, and any loss of such rights could harm our business, results of operations and financial condition." In certain situations in which we work with drugs covered by one or more patents, our ability to develop and commercialize our technologies may be affected by limitations in our access to these proprietary drugs. Even if we believe we are free to work with a proprietary drug, we cannot guarantee that we will not be accused of, or determined to be, infringing a third party's rights and be prohibited from working with the drug or found liable for damages. Any such restriction on access or liability for damages would have a material adverse effect on our business, results of operations and financial condition.

The patent positions of pharmaceutical and biotechnology companies, such as ours, are uncertain and involve complex legal and factual issues. There can be no assurance that patents that have issued will be held valid and enforceable in a court of law. Even for patents that are held valid and enforceable, the legal process associated with obtaining such a judgment is time consuming and costly. Additionally, issued patents can be subject to opposition or other proceedings that can result in the revocation of the patent or maintenance of the patent in amended form (and potentially in a form that renders the patent without commercially relevant or broad coverage). Further, our competitors may be able to circumvent and otherwise design around our patents. Even if a patent is issued and enforceable, because development and commercialization of pharmaceutical products can be subject to substantial delays, patents may expire early and provide only a short period of protection, if any, following the commercialization of products encompassed by our patent. We may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office, which could result in a loss of the patent and/or substantial cost to us. Please refer to Item 1A, Risk Factors, including without limitation, "If any of our pending patent applications do not issue, or are deemed invalid following issuance, we may lose valuable intellectual property protection."

U.S. and foreign patent rights and other proprietary rights exist that are owned by third parties and relate to pharmaceutical compositions and reagents, medical devices and equipment and methods for preparation, packaging and delivery of pharmaceutical compositions. We cannot predict with any certainty which, if any, of these rights will be considered relevant to our technology by authorities in the various jurisdictions where such rights exist, nor can we predict with certainty which, if any, of these rights will or may be asserted against us by third parties. We could incur substantial costs in defending ourselves and our partners against any such claims. Furthermore, parties making such claims may be able to obtain injunctive or other equitable relief, which could effectively block our ability to develop or commercialize some or all of our products in the U.S. and abroad and could result in the award of substantial damages. In the event of a claim of infringement, we or our partners may be required to obtain one or more licenses from third parties. There can be no assurance that we can obtain a license to any technology that we determine we need on reasonable terms, if at all, or that we could develop or otherwise obtain alternative technology. The failure to obtain licenses if needed may have a material adverse effect on our business, results of operations and financial condition. Please refer to Item 1A, Risk Factors, including without limitation, "We may not be able to obtain intellectual property licenses related to the development of our drug candidates on a commercially reasonable basis, if at all."

It is our policy to require our employees and consultants, outside scientific collaborators, sponsored researchers and other advisors who receive confidential information from us to execute confidentiality agreements upon the commencement of employment or consulting relationships with us. These agreements provide that all confidential information developed or made known to the individual during the course of the individual's relationship with us is to be kept confidential and not disclosed to third parties except in specific circumstances. The agreements provide that all inventions conceived by an employee shall be our property. There can be no assurance, however, that these agreements will provide meaningful protection or adequate remedies for our trade secrets in the event of unauthorized use or disclosure of such information.

Customer Concentrations

Our revenue is derived from our collaboration agreements with partners, under which we may receive contract research payments, milestone payments based on clinical progress, regulatory progress or net sales achievements, royalties or product sales revenue. AstraZeneca and UCB represented 57% and 13% of our revenue, respectively, for the year ended December 31, 2015. No other collaboration partner accounted for more than 10% of our total revenue during the year ended December 31, 2015.

Backlog

Pursuant to our collaboration agreements, we manufacture and supply our proprietary PEGylation materials. Inventory is produced and sales are made pursuant to customer purchase orders for delivery. The volume of our proprietary PEGylation materials actually ordered by our customers, as well as shipment schedules, are subject to frequent revisions that reflect changes in both the customers' needs and our manufacturing capacity. In our partnered programs where we provide contract research services, those services are typically provided under a work plan that is subject to frequent revisions that change based on the development needs and status of the program. The backlog at a particular time is affected by a number of factors, including scheduled date of manufacture and delivery and development program status. In light of industry practice and our own experience, we do not believe that backlog as of any particular date is indicative of future results.

Competition

Competition in the pharmaceutical and biotechnology industry is intense and characterized by aggressive research and development and rapidly-evolving science, technology, and standards of medical care throughout the world. We frequently compete with pharmaceutical companies and other institutions with greater financial, research and development, marketing and sales, manufacturing and managerial capabilities. We face competition from these companies not just in product development but also in areas such as recruiting employees, acquiring technologies that might enhance our ability to commercialize products, establishing relationships with certain research and academic institutions, enrolling patients in clinical trials and seeking program partnerships and collaborations with larger pharmaceutical companies.

Science and Technology Competition

We believe that our proprietary and partnered products will compete with others in the market on the basis of one or more of the following parameters: efficacy, safety, ease of use and cost. We face intense science and technology competition from a multitude of technologies seeking to enhance the efficacy, safety and ease of use of approved drugs and new drug molecule candidates. A number of the drug candidates in our pipeline have direct and indirect competition from large pharmaceutical companies and biopharmaceutical companies. With our PEGylation and advanced polymer conjugate technologies, we believe we have competitive advantages relating to factors such as efficacy, safety, ease of use and cost for certain applications and molecules. We constantly monitor scientific and medical developments in order to improve our current technologies, seek licensing opportunities where appropriate, and determine the best applications for our technology platforms.

In the fields of PEGylation and advanced polymer conjugate technologies, our competitors include Biogen Idec Inc., Savient Pharmaceuticals, Inc., Dr. Reddy's Laboratories, Ltd., Mountain View Pharmaceuticals, Inc., SunBio Corporation, NOF Corporation, and Novo Nordisk A/S (assets formerly held by Neose Technologies, Inc.). Several other chemical, biotechnology and pharmaceutical companies may also be developing PEGylation technology, advanced polymer conjugate technology or technologies intended to deliver similar scientific and medical benefits. Some of these companies license intellectual property or PEGylation materials to other companies, while others apply the technology to create their own drug candidates.

Product and Program Specific Competition

MOVANTIK™ (previously referred to as naloxegol and NKTR-118) (orally-available peripheral opioid antagonist)

There are no other once-daily oral drugs that act specifically to block or reverse the action of opioids on receptors in the gastrointestinal tract which are approved specifically for the treatment of opioid-induced constipation (OIC) or opioid bowel dysfunction (OBD) in patients with chronic, non-cancer pain. The only approved oral treatment for opioid-induced constipation in adults with chronic, non-cancer pain is a twice daily oral therapy called AMITIZA® (lubiprostone), which acts by specifically activating CIC-2 chloride channels in the gastrointestinal tract to increase secretions. AMITIZA® is marketed by Sucampo Pharmaceuticals and Takeda. There is also a subcutaneous treatment known as RELISTOR® Subjectaneous Injection (methylnaltrexone bromide) marketed by Valeant Pharmaceuticals, Ltd (formerly Salix) under a license from Progenics Pharmaceuticals, Inc. In 2014, RELISTOR® Subjectaneous Injection was approved by the FDA for adult patients with chronic non-cancer pain. On June 23, 2015, Valeant submitted an NDA to the FDA for Relistor (methylnaltrexone bromide) oral tablets for the treatment of OCI in adult patients with chronic non-cancer pain. Other therapies used to treat OIC and OBD include over-the-counter laxatives and stool softeners, such as docusate sodium, senna, and milk of magnesia. These therapies do not address the underlying cause of constipation as a result of opioid use and are generally viewed as ineffective or only partially effective to treat the symptoms of OIC and OBD.

There are a number of companies developing potential products which are in various stages of clinical development and are being evaluated for the treatment of OIC and OBD in different patient populations. Potential competitors include Merck & Co., Inc., GlaxoSmithKline plc, Ironwood Pharmaceuticals, Inc. in collaboration with Actavis plc, Mundipharma Int. Limited, Theravance, Inc., Develco Pharma, Sucampo Pharmaceuticals, Inc., and Takeda Pharmaceutical Company Limited.

ADYNOVATE™ (previously referred to as BAX 855, PEGylated rFVIII)

On June 6, 2014, the FDA approved Biogen Idec's ELOCTATE™ [Antihemophilic Factor (Recombinant), Fc Fusion Protein] for the control and prevention of bleeding episodes, perioperative (surgical) management and routine prophylaxis in adults and children with Hemophilia A. ELOCTATE™ is intended to be an extended half-life Factor VIII therapy with prolonged circulation in the body with the potential to extend the interval between prophylactic infusions. Prior to its 2014 approval, the fusion protein in ELOCTATE™ was not used outside of the clinical trial setting for Hemophilia A patients. There are other long-acting Factor VIII programs in late-stage development for Hemophilia A patients. Bayer Healthcare and Novo Nordisk have ongoing Phase 3 clinical development programs for longer acting Factor VIII proteins based on pegylation technology approaches. These programs, if developed successfully and approved by health authorities, would be competitors in the longer acting Factor VIII market.

NKTR-181 (mu-opioid analgesic molecule for chronic pain)

There are numerous companies developing pain therapies designed to have less abuse potential primarily through formulation technologies and techniques applied to existing pain therapies. Potential competitors include Acura Pharmaceuticals, Inc., Cara Therapeutics, Inc., Collegium Pharmaceutical, Inc., Egalet Ltd, Elite Pharmaceuticals, Inc., Endo Health Solutions Inc., KemPharm, Inc., Pfizer, Inc., Purdue Pharma L.P., and Teva Pharmaceutical Industries Ltd.

NKTR-102 (next-generation, long acting topoisomerase I inhibitor)

There are a number of chemotherapies and cancer therapies approved today and in various stages of clinical development for breast and ovarian cancers including but not limited to: Abraxane® (paclitaxel protein-bound particles for injectable suspension (albumin bound)), Afinitor® (everolimus), Doxil® (doxorubicin HCl), Ellence® (epirubicin), Gemzar® (gemcitabine), Halaven® (eribulin), Herceptin® (trastuzumab), Hycamtin® (topotecan), Ibrance® (palbociclib), Ixempra® (ixabepilone), Navelbine® (vinorelbine), Paraplatin® (carboplatin), Taxol® (paclitaxel), Xeloda® (capecitabine) and Taxotere® (docetaxel). These therapies are only partially effective in treating breast and ovarian cancer. Major pharmaceutical or biotechnology companies with approved drugs or drugs in development for these cancers include Bristol-Meyers Squibb Company, Eisai, Inc., Roche Holding Group (including its Genentech subsidiary), GlaxoSmithKline plc, Pfizer, Inc., Eli Lilly & Co., Johnson & Johnson, Sanofi Aventis S.A., and many others.

BAY41-6551 (Amikacin Inhale, formerly NKTR-061)

There are currently no approved drugs on the market for adjunctive treatment or prevention of gram-negative pneumonias in mechanically ventilated patients which are also administered via the pulmonary route. The current standard of care includes approved intravenous antibiotics which are partially effective for the treatment of either hospital-acquired pneumonia or ventilator-associated pneumonia in patients on mechanical ventilators. These drugs include drugs that fall into the categories of antipseudomonal cephalosporins, antipseudomonal carbapenems, beta-lactam/beta-lactamase inhibitors, antipseudomonal fluoroquinolones, such as ciprofloxacin or levofloxacin, and aminoglycosides, such as amikacin, gentamycin or tobramycin.

NKTR-214 (immunostimulatory CD122-biased cytokine)

There are numerous companies engaged in developing immunotherapies to be used alone, or in combination, to treat a wide range of oncology indications targeting both solid and liquid tumors. In particular, we expect to compete with therapies with tumor infiltrating lymphocytes, or TILS, chimeric antigen receptor-expressing T cells, or CAR-T, cytokine-based therapies, and checkpoint inhibitors. Potential competitors in the TIL and CAR-T space include Kite Pharma/NCI, Adaptimmune LLC, Celgene Corporation, Juno Therapeutics, and Novartis, Alkermes, Altor, and Armo in the cytokine-based therapies space, and Tesaro, MacroGenics, Merck, BMS, and Roche in the checkpoint inhibitor space.

Research and Development

Our total research and development expenditures can be disaggregated into the following significant types of expenses (in millions):

	Year Ended December 31,		
	2015	2014	2013
Third party and direct materials costs	\$ 89.3	\$ 57.9	\$ 105.6
Personnel, overhead and other costs	77.8	75.6	69.0
Stock-based compensation and depreciation	15.7	14.2	15.4
Research and development expense	<u>\$ 182.8</u>	<u>\$ 147.7</u>	<u>\$ 190.0</u>

Manufacturing and Supply

We have a manufacturing facility located in Huntsville, Alabama that is capable of manufacturing our proprietary PEGylation materials for active pharmaceutical ingredients (APIs). The facility is also used to produce APIs and finished drug products to support the early phases of clinical development of our proprietary drug candidates. The facility and associated equipment are designed and operated to be consistent with all applicable laws and regulations.

As we do not maintain the capability to manufacture APIs (including biologics) nor finished drug products for all of our development programs, we primarily utilize contract manufacturers to manufacture active pharmaceutical ingredients and finished drug product for us. We source drug starting materials for our manufacturing activities from one or more suppliers. For the drug starting materials necessary for our proprietary drug candidate development, we have agreements for the supply of such drug components with drug manufacturers or suppliers that we believe have sufficient capacity to meet our demands. However, from time to time, we source critical raw materials and services from one or a limited number of suppliers and there is a risk that if such supply or services were interrupted, it would materially harm our business. In addition, we typically order raw materials and services on a purchase order basis and do not enter into long-term dedicated capacity or minimum supply arrangements. We also utilize the services of contract manufacturers to manufacture APIs required for later phases of clinical development and eventual commercialization for us under all applicable laws and regulations.

Environment

As a manufacturer of PEG reagents for the U.S. market, we are subject to inspections by the FDA for compliance with cGMP and other U.S. regulatory requirements, including U.S. federal, state and local regulations regarding environmental protection and hazardous and controlled substance controls, among others. Environmental laws and regulations are complex, change frequently and have tended to become more stringent over time. We have incurred, and may continue to incur, significant expenditures to ensure we are in compliance with these laws and regulations. We would be subject to significant penalties for failure to comply with these laws and regulations.

Employees and Consultants

As of December 31, 2015 we had 425 employees, of which 322 employees were engaged in research and development, commercial operations and quality activities and 103 employees were engaged in general administration and business development. Of the 425 employees, 347 were located in the U.S. and 78 were located in India. We have a number of employees who hold advanced degrees, such as Ph.D.s. None of our employees are covered by a collective bargaining agreement, and we have experienced no work stoppages. We believe that we maintain good relations with our employees.

To complement our own expert professional staff, we utilize specialists in regulatory affairs, pharmacovigilance, process engineering, manufacturing, quality assurance, clinical development and business development. These individuals include scientific advisors as well as independent consultants.

Available Information

Our website address is <http://www.nektar.com>. The information in, or that can be accessed through, our website is not part of this annual report on Form 10-K. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports are available, free of charge, on or through our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities Exchange Commission (SEC). The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding our filings at www.sec.gov.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth the names, ages and positions of our executive officers as of February 15, 2016:

Name	Age	Position
Howard W. Robin	63	Director, President and Chief Executive Officer
John Nicholson	64	Senior Vice President and Chief Financial Officer
Ivan P. Gergel, M.D.	55	Senior Vice President, Drug Development and Chief Medical Officer
Stephen K. Doberstein, Ph.D.	57	Senior Vice President and Chief Scientific Officer
Gil M. Labrucherie, J.D.	44	Senior Vice President, General Counsel and Secretary
Maninder Hora, Ph.D	62	Senior Vice President, Pharmaceutical Development and Manufacturing Operations
Jillian B. Thomsen	50	Senior Vice President, Finance and Chief Accounting Officer

Howard W. Robin has served as our President and Chief Executive Officer since January 2007 and has served as a member of our board of directors since February 2007. Mr. Robin served as Chief Executive Officer, President and a director of Sirna Therapeutics, Inc., a biotechnology company, from July 2001 to November 2006 and from January 2001 to June 2001, served as their Chief Operating Officer, President and as a director. From 1991 to 2001, Mr. Robin was Corporate Vice President and General Manager at Berlex Laboratories, Inc. (Berlex), a pharmaceutical products company that is a subsidiary of Schering, AG, and from 1987 to 1991 he served as Vice President of Finance and Business Development and Chief Financial Officer of Berlex. From 1984 to 1987, Mr. Robin was Director of Business Planning and Development at Berlex. He was a Senior Associate with Arthur Andersen & Co. prior to joining Berlex. Mr. Robin serves as a director of the Biotechnology Industry Organization, the world's largest biotechnology industry trade organization, and also serves as a director of BayBio, a non-profit trade association serving the Northern California life sciences community. He received his B.S. in Accounting and Finance from Fairleigh Dickinson University in 1974.

John Nicholson has served as our Senior Vice President and Chief Financial Officer since December 2007. Mr. Nicholson joined the Company as Senior Vice President of Corporate Development and Business Operations in October 2007 and was appointed Senior Vice President and Chief Financial Officer in December 2007. Before joining Nektar, Mr. Nicholson spent 18 years in various executive roles at Schering Berlin, Inc., the U.S. management holding company of Bayer Schering Pharma AG, a pharmaceutical company. From 1997 to September 2007, Mr. Nicholson served as Schering Berlin Inc.'s Vice President of Corporate Development and Treasurer. From 2001 to September 2007, he concurrently served as President of Schering Berlin Insurance Co., and from February 2007 through September 2007, he also concurrently served as President of Bayer Pharma Chemicals and Schering Berlin Capital Corp. Mr. Nicholson holds a B.B.A. from the University of Toledo.

Ivan P. Gergel, M.D. has served as our Senior Vice President, Drug Development and Chief Medical Officer since May 2014. From April 2008 through March 2014, Dr. Gergel served as Executive Vice President, Research & Development and Chief Scientific Officer of Endo Pharmaceuticals, a pharmaceutical company. Prior to joining Endo Pharmaceuticals, he was Senior Vice President of Scientific Affairs and President of the Forest Research Institute of Forest Laboratories Inc. Prior to that, Dr. Gergel served as Vice President and Chief Medical Officer at Forest and Executive Vice President of the Forest Research Institute. He joined Forest in 1998 as Executive Director of Clinical Research following nine years at SmithKline Beecham, and was named Vice President of Clinical Development and Clinical Affairs in 1999. Dr. Gergel is a member of the Board of Directors of Corium International, Inc., a commercial-stage biopharmaceutical company. Dr. Gergel received his M.D. from the Royal Free Medical School of the University of London and an MBA from the Wharton School.

Stephen K. Doberstein, Ph.D. has served as our Senior Vice President and Chief Scientific Officer since January 2010. From October 2008 through December 2009, Dr. Doberstein served as Vice President, Research at Xoma (US) LLC, a publicly traded clinical stage biotechnology company. From July 2004 until August 2008, he served as Vice President, Research at privately held Five Prime Therapeutics, Inc., a clinical stage biotechnology company. From September 2001 until July 2004, Dr. Doberstein was Vice President, Research at privately held Xencor, Inc., a clinical stage biotechnology company. From 1997 to 2000, he held various pharmaceutical research positions at Exelixis, Inc. (Exelixis), a publicly traded clinical stage biotechnology company. Prior to working at Exelixis, Dr. Doberstein was a Howard Hughes Postdoctoral Fellow and a Muscular Dystrophy Association Senior Postdoctoral Fellow at the University of California, Berkeley. Dr. Doberstein received his Ph.D. in Biochemistry, Cell and Molecular Biology from the Johns Hopkins University School of Medicine and received a B.S. in Chemical Engineering from the University of Delaware.

Gil M. Labrucherie has served as our Senior Vice President, General Counsel and Secretary since April 2007, responsible for all aspects of our legal affairs. Mr. Labrucherie served as our Vice President, Corporate Legal from October 2005 through April 2007. From October 2000 to September 2005, Mr. Labrucherie was Vice President of Corporate Development at E2open. While at E2open, Mr. Labrucherie was responsible for global corporate alliances and merger and acquisitions. Prior to E2open, he was the Senior Director of Corporate Development at AltaVista Company, an Internet search company, where he was responsible for strategic partnerships and mergers and acquisitions. Mr. Labrucherie serves on the General Counsel Committee of the Biotechnology Industry Organization, the world's largest biotechnology industry trade organization. Mr. Labrucherie began his career as an associate in the corporate practice of the law firm of Wilson Sonsini Goodrich & Rosati, P.C. Mr. Labrucherie received his J.D. from the Berkeley Law School and a B.A. from the University of California Davis.

Maninder Hora, Ph.D. has served as our Senior Vice President, Pharmaceutical Development and Manufacturing Operations since August 2010. From July 2006 to July 2010, he held various executive positions most recently as Vice President, Product and Quality Operations at Facet Biotech Corporation (now Abbvie Biotherapeutics), a clinical stage biotechnology company, which was acquired in 2010 by Abbvie Biotherapeutics (formerly Abbot). From 1986 to 2006, Dr. Hora held positions of increasing responsibility with Chiron Corporation (acquired in 2005 by Novartis), a pharmaceutical company, serving most recently at Chiron as Vice President of Process and Product Development. Dr. Hora has also held positions at Wyeth Pharmaceuticals and GlaxoSmithKline plc prior to joining Chiron. Dr. Hora served as a key member of various teams that successfully registered ten drugs or vaccines in the U.S. and Europe during his professional career. Dr. Hora completed his Ph.D. in Bioengineering from the Indian Institute of Technology, Delhi, India, and was a Fulbright Scholar at the University of Washington, and received his B.S. in chemistry from the University of Jabalpur.

Jillian B. Thomsen has served as our Senior Vice President, Finance and Chief Accounting Officer since February 2010. From March 2006 through March 2008, Ms. Thomsen served as our Vice President Finance and Corporate Controller and from April 2008 through January 2010 she served as our Vice President Finance and Chief Accounting Officer. Before joining Nektar, Ms. Thomsen was Vice President Finance and Deputy Corporate Controller of Calpine Corporation from September 2002 to February 2006. Ms. Thomsen is a certified public accountant and previously was a senior manager at Arthur Andersen LLP, where she worked from 1990 to 2002, and specialized in audits of multinational consumer products, life sciences, manufacturing and energy companies. Ms. Thomsen holds a Masters of Accountancy from the University of Denver and a B.A. in Business Economics from Colorado College.

Item 1A. Risk Factors

We are providing the following cautionary discussion of risk factors, uncertainties and assumptions that we believe are relevant to our business. These are factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results and our forward-looking statements. We note these factors for investors as permitted by Section 21E of the Exchange Act and Section 27A of the Securities Act. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider this section to be a complete discussion of all potential risks or uncertainties that may substantially impact our business. Moreover, we operate in a competitive and rapidly changing environment. New factors emerge from time to time and it is not possible to predict the impact of all of these factors on our business, financial condition or results of operations.

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™ 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:

- 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;
- 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. 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 December 31, 2015, we had cash and investments in marketable securities valued at approximately \$308.9 million. Also, as of December 31, 2015, we had \$255.8 million in debt, including \$250.0 million in principal of senior secured notes and \$5.8 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 MOVANTIK™ (or MOVENTIG®, the naloxegol brand name in the EU) by AstraZeneca and ADYNOVATE™ by Baxalta, respectively;
- 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;
- our general and administrative expenses, capital expenditures and other uses of cash; and
- disputes concerning patents, proprietary rights, or license and collaboration agreements that negatively impact our receipt of milestone payments or royalties or require us to make significant payments arising from licenses, settlements, adverse judgments or ongoing royalties.

A significant multi-year capital commitment is required to advance our drug candidates through the various stages of research and development in order to generate sufficient data to enable high value collaboration partnerships with significant upfront payments or to successfully achieve regulatory approval. In the event we do not enter into any new collaboration partnerships with significant upfront payments and we choose to continue our later stage research and development programs, we may need to pursue financing alternatives, including dilutive equity-based financings, such as an offering of convertible debt or common stock, which would dilute the percentage ownership of our current common stockholders and could significantly lower the market value of our common stock. If sufficient capital is not available to us or is not available on commercially reasonable terms, it could require us to delay or reduce one or more of our research and development programs. If we are unable to sufficiently advance our research and development programs, it could substantially impair the value of such programs and result in a material adverse effect on our business, financial condition and results of operations.

While we have conducted numerous experiments using laboratory and home-based chemistry techniques that have not been able to convert NKTR-181 into a rapid-acting and more abusable opioid, there is a risk that a technique could be discovered in the future to convert NKTR-181 into a rapid-acting and more abusable opioid, which would significantly diminish the value of this drug candidate.

An important objective of our NKTR-181 drug development program is to create a unique opioid molecule that does not rapidly enter a patient's central nervous system and therefore has the potential to be less susceptible to abuse than alternative opioid therapies. To date, we have conducted numerous experiments using laboratory and home-based chemistry techniques that have been unable to convert NKTR-181 into a rapidly-acting, more abusable form of opioid. In the future, an alternative chemistry technique, process or method of administration, or combination thereof, may be discovered to enable the conversion of NKTR-181 into a more abusable opioid, which could significantly and negatively impact the commercial potential or diminish the value of NKTR-181.

The commercial potential of a drug candidate in development is difficult to predict. If the market size for a new drug is significantly smaller than we anticipate, it could significantly and negatively impact our revenue, results of operations and financial condition.

It is very difficult to estimate the commercial potential of product candidates due to important factors such as safety and efficacy compared to other available treatments, including potential generic drug alternatives with similar efficacy profiles, changing standards of care, third party payer reimbursement standards, patient and physician preferences, drug scheduling status, the availability of competitive alternatives that may emerge either during the long drug development process or after commercial introduction, and the availability of generic versions of our product candidates following approval by regulatory authorities based on the expiration of regulatory exclusivity or our inability to prevent generic versions from coming to market by asserting our patents. If due to one or more of these risks the market potential for a drug candidate is lower than we anticipated, it could significantly and negatively impact the commercial terms of any collaboration partnership potential for such drug candidate or, if we have already entered into a collaboration for such drug candidate, the revenue potential from royalty and milestone payments could be significantly diminished and this would negatively impact our business, financial condition and results of operations. We also depend on our relationships with other companies for sales and marketing performance and the commercialization of product candidates. Poor performance by these companies, or disputes with these companies, could negatively impact our revenue and financial condition.

If we are unable to establish and maintain collaboration partnerships on attractive commercial terms, our business, results of operations and financial condition could suffer.

We intend to continue to seek partnerships with pharmaceutical and biotechnology partners to fund a portion of our research and development capital requirements. The timing of new collaboration partnerships is difficult to predict due to availability of clinical data, the outcomes from our clinical studies, the number of potential partners that need to complete due diligence and approval processes, the definitive agreement negotiation process and numerous other unpredictable factors that can delay, impede or prevent significant transactions. If we are unable to find suitable partners or negotiate collaboration arrangements with favorable commercial terms with respect to our existing and future drug candidates or the licensing of our intellectual property, or if any arrangements we negotiate, or have negotiated, are terminated, it could have a material adverse effect on our business, financial condition and results of operations.

Preliminary and interim data from our clinical studies that we announce or publish from time to time are subject to audit and verification procedures that could result in material changes in the final data and may change as more patient data become available.

From time to time, we publish preliminary or interim data from our clinical studies. Preliminary data remain subject to audit confirmation and verification procedures that may result in the final data being materially different from the preliminary data we previously published. Interim data are also subject to the risk that one or more of the clinical outcomes may materially change as

patient enrollment continues and more patient data become available. As a result, preliminary and interim data should be viewed with caution until the final data are available. Material adverse changes in the final data could significantly harm our business prospects.

Delays in clinical studies are common and have many causes, and any significant delay in clinical studies being conducted by us or our partners could result in delay in regulatory approvals and jeopardize the ability to proceed to commercialization.

We or our partners may experience delays in clinical trials of drug candidates. We currently have ongoing clinical studies for NKTR-181 in patients with chronic lower back pain and initiated a Phase 1/2 clinical study for NKTR-214 in December 2015. In addition, our collaboration partners have several ongoing Phase 3 clinical programs including Baxalta for ADYNOVATE™ (previously referred to as BAX 855), Bayer for Amikacin Inhale and CIPRO Inhale, and Ophthotech for Fovista®. These and other clinical studies may not begin on time, enroll a sufficient number of patients or be completed on schedule, if at all. Clinical trials for any of our product candidates could be delayed for a variety of reasons, including:

- delays in obtaining regulatory authorization to commence a clinical study;
- delays in reaching agreement with applicable regulatory authorities on a clinical study design;
- imposition of a clinical hold by the FDA or other health authorities, which may occur at any time including after any inspection of clinical trial operations or trial sites;
- suspension or termination of a clinical study by us, our partners, the FDA or foreign regulatory authorities due to adverse side effects of a drug on subjects in the trial;
- delays in recruiting suitable patients to participate in a trial;
- delays in having patients complete participation in a trial or return for post-treatment follow-up;
- clinical sites dropping out of a trial to the detriment of enrollment rates;
- delays in manufacturing and delivery of sufficient supply of clinical trial materials; and
- changes in regulatory authorities policies or guidance applicable to our drug candidates.

If the initiation or completion of any of the planned clinical studies for our drug candidates is delayed for any of the above or other reasons, the regulatory approval process would be delayed and the ability to commercialize and commence sales of these drug candidates could be materially harmed, which could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to obtain intellectual property licenses related to the development of our drug candidates on a commercially reasonable basis, if at all.

Numerous pending and issued U.S. and foreign patent rights and other proprietary rights owned by third parties relate to pharmaceutical compositions, methods of preparation and manufacturing, and methods of use and administration. We cannot predict with any certainty which, if any, patent references will be considered relevant to our or our collaboration partners' technology or drug candidates by authorities in the various jurisdictions where such rights exist, nor can we predict with certainty which, if any, of these rights will or may be asserted against us by third parties. In certain cases, we have existing licenses or cross-licenses with third parties; however, the scope and adequacy of these licenses is very uncertain and can change substantially during long development and commercialization cycles for biotechnology and pharmaceutical products. There can be no assurance that we can obtain a license to any technology that we determine we need on reasonable terms, if at all, or that we could develop or otherwise obtain alternate technology. If we are required to enter into a license with a third party, our potential economic benefit for the products subject to the license will be diminished. If a license is not available on commercially reasonable terms or at all, we may be prevented from developing and commercializing the drug, which could significantly harm our business, results of operations, and financial condition.

If any of our pending patent applications do not issue, or are deemed invalid following issuance, we may lose valuable intellectual property protection.

The patent positions of pharmaceutical and biotechnology companies, such as ours, are uncertain and involve complex legal and factual issues. We own more than 215 U.S. and 750 foreign patents and a number of pending patent applications that cover various aspects of our technologies. There can be no assurance that patents that have issued will be held valid and enforceable in a court of law. Even for patents that are held valid and enforceable, the legal process associated with obtaining such a judgment is time consuming and costly. Additionally, issued patents can be subject to opposition or other proceedings that can result in the revocation of the patent or maintenance of the patent in amended form (and potentially in a form that renders the patent without commercially relevant and/or broad coverage). Further, our competitors may be able to circumvent and otherwise design around our patents. Even if a patent is issued and enforceable, because development and commercialization of pharmaceutical products can be subject to

substantial delays, patents may expire early and provide only a short period of protection, if any, following the commercialization of products encompassed by our patents. We may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office, which could result in a loss of the patent and/or substantial cost to us.

We have filed patent applications, and plan to file additional patent applications, covering various aspects of our PEGylation and advanced polymer conjugate technologies and our proprietary product candidates. There can be no assurance that the patent applications for which we apply would actually issue as patents, or do so with commercially relevant and/or broad coverage. The coverage claimed in a patent application can be significantly reduced before the patent is issued. The scope of our claim coverage can be critical to our ability to enter into licensing transactions with third parties and our right to receive royalties from our collaboration partnerships. Since publication of discoveries in scientific or patent literature often lags behind the date of such discoveries, we cannot be certain that we were the first inventor of inventions covered by our patents or patent applications. In addition, there is no guarantee that we will be the first to file a patent application directed to an invention.

An adverse outcome in any judicial proceeding involving intellectual property, including patents, could subject us to significant liabilities to third parties, require disputed rights to be licensed from or to third parties or require us to cease using the technology in dispute. In those instances where we seek an intellectual property license from another, we may not be able to obtain the license on a commercially reasonable basis, if at all, thereby raising concerns on our ability to freely commercialize our technologies or products.

We are involved in legal proceedings and may incur substantial litigation costs and liabilities that will adversely affect our business, financial condition and results of operations.

From time to time, third parties have asserted, and may in the future assert, that we or our partners infringe their proprietary rights, such as patents and trade secrets, or have otherwise breached our obligations to them. A third party often bases its assertions on a claim that its patents cover our technology platform or drug candidates or that we have misappropriated its confidential or proprietary information. Similar assertions of infringement could be based on future patents that may issue to third parties. In certain of our agreements with our partners, we are obligated to indemnify and hold harmless our collaboration partners from intellectual property infringement, product liability and certain other claims, which could cause us to incur substantial costs and liability if we are called upon to defend ourselves and our partners against any claims. If a third party obtains injunctive or other equitable relief against us or our partners, they could effectively prevent us, or our partners, from developing or commercializing, or deriving revenue from, certain drugs or drug candidates in the U.S. and abroad. Costs associated with litigation, substantial damage claims, indemnification claims or royalties paid for licenses from third parties could have a material adverse effect on our business, financial condition and results of operations.

Third-party claims involving proprietary rights or other matters could also result in substantial settlement payments or substantial damages to be paid by us. For instance, a settlement might require us to enter a license agreement under which we would pay substantial royalties or other compensation to a third party, diminishing our future economic returns from the related drug. In December 2013, we entered into a litigation settlement with the Research Foundation of the State University of New York (SUNY) pursuant to which we agreed to pay \$12.0 million and certain other terms and conditions in exchange for the full release of certain breach of contract claims by SUNY.

In addition, from time to time, we are involved in legal proceedings where we or other third parties are enforcing or seeking intellectual property rights, invalidating or limiting patent rights that have already been allowed or issued, or otherwise asserting proprietary rights through one or more potential legal remedies. For example, we are currently involved in a German litigation proceeding whereby Bayer is seeking co-ownership rights in certain of our patent filings pending at the European Patent Office covering (among other things) PEGylated Factor VIII which we have exclusively licensed to Baxalta. The subject matter of our patent filings in this proceeding relates to Bayer's investigational PEGylated recombinant Factor VIII compound. We believe that Bayer's claim to an ownership interest in these patent filings is without merit and are vigorously defending sole and exclusive ownership rights to this intellectual property. We are also regularly involved in opposition proceedings at the European Patent Office where third parties seek to invalidate or limit the scope of our allowed European patent applications covering (among other things) our drugs and platform technologies. We are also aware of an inter partes review petition that was filed with the U.S. Patent and Trademark Office by Neptune Generics, which is an affiliate of Gerchen Keller Capital. The filing is directed to one of six Orange Book listed patents covering MOVANTIK™. We believe this petition is without merit and AstraZeneca and Nektar will vigorously defend the validity of this patent. The cost to us in initiating or defending any litigation or other proceeding, even if resolved in our favor, could be substantial, and litigation would divert our management's attention. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could delay our research and development efforts or result in financial implications either in terms of seeking license arrangements or payment of damages or royalties.

Our manufacturing operations and those of our contract manufacturers are subject to laws and other governmental regulatory requirements, which, if not met, would have a material adverse effect on our business, results of operations and financial condition.

We and our contract manufacturers are required in certain cases to maintain compliance with current good manufacturing practices (cGMP), including cGMP guidelines applicable to active pharmaceutical ingredients, and with laws and regulations governing manufacture and distribution of controlled substances, and are subject to inspections by the FDA, the Drug Enforcement Administration or comparable agencies in other jurisdictions administering such requirements. We anticipate periodic regulatory inspections of our drug manufacturing facilities and the manufacturing facilities of our contract manufacturers for compliance with applicable regulatory requirements. Any failure to follow and document our or our contract manufacturers' adherence to such cGMP and other laws and governmental regulations or satisfy other manufacturing and product release regulatory requirements may disrupt our ability to meet our manufacturing obligations to our customers, lead to significant delays in the availability of products for commercial use or clinical study, result in the termination or hold on a clinical study or delay or prevent filing or approval of marketing applications for our products. Failure to comply with applicable laws and regulations may also result in sanctions being imposed on us, including fines, injunctions, civil penalties, failure of regulatory authorities to grant marketing approval of our products, delays, suspension or withdrawal of approvals, license revocation, seizures, administrative detention, or recalls of products, operating restrictions and criminal prosecutions, any of which could harm our business. Regulatory inspections could result in costly manufacturing changes or facility or capital equipment upgrades to satisfy the FDA that our manufacturing and quality control procedures are in substantial compliance with cGMP. Manufacturing delays, for us or our contract manufacturers, pending resolution of regulatory deficiencies or suspensions could have a material adverse effect on our business, results of operations and financial condition.

If we or our contract manufacturers are not able to manufacture drugs or drug substances in sufficient quantities that meet applicable quality standards, it could delay clinical studies, result in reduced sales or constitute a breach of our contractual obligations, any of which could significantly harm our business, financial condition and results of operations.

If we or our contract manufacturers are not able to manufacture and supply sufficient drug quantities meeting applicable quality standards required to support large clinical studies or commercial manufacturing in a timely manner, it could delay our or our collaboration partners' clinical studies or result in a breach of our contractual obligations, which could in turn reduce the potential commercial sales of our or our collaboration partners' products. As a result, we could incur substantial costs and damages and any product sales or royalty revenue that we would otherwise be entitled to receive could be reduced, delayed or eliminated. In some cases, we rely on contract manufacturing organizations to manufacture and supply drug product for our clinical studies and those of our collaboration partners. Pharmaceutical manufacturing of drugs and devices involves significant risks and uncertainties related to the demonstration of adequate stability, sufficient purification of the drug substance and drug product, the identification and elimination of impurities, optimal formulations, process and analytical methods validations, device performance and challenges in controlling for all of these variables. We have faced and may in the future face significant difficulties, delays and unexpected expenses as we validate third party contract manufacturers required for drug and device supply to support our clinical studies and the clinical studies and products of our collaboration partners. Failure by us or our contract manufacturers to supply drug product or devices in sufficient quantities that meet all applicable quality requirements could result in supply shortages for our clinical studies or the clinical studies and commercial activities of our collaboration partners. Such failures could significantly and materially delay clinical trials and regulatory submissions or result in reduced sales, any of which could significantly harm our business prospects, results of operations and financial condition.

Building and validating large scale clinical or commercial-scale manufacturing facilities and processes, recruiting and training qualified personnel and obtaining necessary regulatory approvals is complex, expensive and time consuming. In the past we have encountered challenges in scaling up manufacturing to meet the requirements of large scale clinical trials without making modifications to the drug formulation, which may cause significant delays in clinical development. We experienced repeated significant delays in starting the Phase 3 clinical development program for Amikacin Inhale as we sought to finalize and validate the device design with a demonstrated capability to be manufactured at commercial scale. Drug/device combination products are particularly complex, expensive and time-consuming to develop due to the number of variables involved in the final product design, including ease of patient and doctor use, maintenance of clinical efficacy, reliability and cost of manufacturing, regulatory approval requirements and standards and other important factors. There continues to be substantial and unpredictable risk and uncertainty related to manufacturing and supply until such time as the commercial supply chain is validated and proven.

Our revenue is exclusively derived from our collaboration agreements, which can result in significant fluctuation in our revenue from period to period, and our past revenue is therefore not necessarily indicative of our future revenue.

Our revenue is exclusively derived from our collaboration agreements, from which we receive upfront fees, contract research payments, milestone and other contingent payments based on clinical progress, regulatory progress or net sales achievements, royalties and manufacturing revenue. Significant variations in the timing of receipt of cash payments and our recognition of revenue can result from significant payments based on the execution of new collaboration agreements, the timing of clinical outcomes, regulatory approval, commercial launch or the achievement of certain annual sales thresholds. The amount of our revenue derived from collaboration agreements in any given period will depend on a number of unpredictable factors, including our ability to find and maintain suitable collaboration partners, the timing of the negotiation and conclusion of collaboration agreements with such partners, whether and when we or our collaboration partners achieve clinical, regulatory and sales milestones, the timing of regulatory approvals in one or more major markets, reimbursement levels by private and government payers, and the market introduction of new drugs or generic versions of the approved drug, as well as other factors. Our past revenue generated from collaboration agreements is not necessarily indicative of our future revenue. If any of our existing or future collaboration partners fails to develop, obtain regulatory approval for, manufacture or ultimately commercialize any product candidate under our collaboration agreement, our business, financial condition, and results of operations could be materially and adversely affected.

If we are unable either to create sales, marketing and distribution capabilities or to enter into agreements with third parties to perform these functions, we will be unable to commercialize our product candidates successfully.

We currently have no sales, marketing or distribution capabilities. To commercialize any of our drugs that receive regulatory approval for commercialization, we must either develop internal sales, marketing and distribution capabilities, which would be expensive and time consuming, or enter into collaboration arrangements with third parties to perform these services. If we decide to market our products directly, we must commit significant financial and managerial resources to develop a marketing and sales force with technical expertise and with supporting distribution, administration and compliance capabilities. Factors that may inhibit our efforts to commercialize our products directly or indirectly with our partners include:

- our inability to recruit and retain adequate numbers of effective sales and marketing personnel;
- the inability of sales personnel to obtain access to or persuade adequate numbers of physicians to use or prescribe our products;
- the lack of complementary products or multiple product pricing arrangements may put us at a competitive disadvantage relative to companies with more extensive product lines; and
- unforeseen costs and expenses associated with creating and sustaining an independent sales and marketing organization.

If we, or our partners through our collaborations, are not successful in recruiting sales and marketing personnel or in building a sales and marketing infrastructure, we will have difficulty commercializing our products, which would adversely affect our business, results of operations and financial condition.

To the extent we rely on other pharmaceutical or biotechnology companies with established sales, marketing and distribution systems to market our products, we will need to establish and maintain partnership arrangements, and we may not be able to enter into these arrangements on acceptable terms or at all. To the extent that we enter into co-promotion or other arrangements, any revenue we receive will depend upon the efforts of third parties, which may not be successful and over which we have little or no control—important examples of this risk include MOVANTIK™ partnered with AstraZeneca and ADYNOVATE™ (previously referred to as BAX 855) partnered with Baxalta. In the event that we market our products without a partner, we would be required to build a sales and marketing organization and infrastructure, which would require a significant investment, and we may not be successful in building this organization and infrastructure in a timely or efficient manner.

We purchase some of the starting material for drugs and drug candidates from a single source or a limited number of suppliers, and the partial or complete loss of one of these suppliers could cause production delays, clinical trial delays, substantial loss of revenue and contract liability to third parties.

We often face very limited supply of a critical raw material that can only be obtained from a single, or a limited number of, suppliers, which could cause production delays, clinical trial delays, substantial lost revenue opportunities or contract liabilities to third parties. For example, there are only a limited number of qualified suppliers, and in some cases single source suppliers, for the raw materials included in our PEGylation and advanced polymer conjugate drug formulations. Any interruption in supply or failure to procure such raw materials on commercially feasible terms could harm our business by delaying our clinical trials, impeding commercialization of approved drugs or increasing our costs.

We rely on trade secret protection and other unpatented proprietary rights for important proprietary technologies, and any loss of such rights could harm our business, results of operations and financial condition.

We rely on trade secret protection for our confidential and proprietary information. No assurance can be given that others will not independently develop substantially equivalent confidential and proprietary information or otherwise gain access to our trade secrets or disclose such technology, or that we can meaningfully protect our trade secrets. In addition, unpatented proprietary rights, including trade secrets and know-how, can be difficult to protect and may lose their value if they are independently developed by a third party or if their secrecy is lost. Any loss of trade secret protection or other unpatented proprietary rights could harm our business, results of operations and financial condition.

We expect to continue to incur substantial losses and negative cash flow from operations and may not achieve or sustain profitability in the future.

For the year ended December 31, 2015, we reported a net loss of \$81.2 million. If and when we achieve profitability depends upon a number of factors, including the timing and recognition of milestone and other contingent payments and royalties received, the timing of revenue under our collaboration agreements, the amount of investments we make in our proprietary product candidates and the regulatory approval and market success of our product candidates. We may not be able to achieve and sustain profitability.

Other factors that will affect whether we achieve and sustain profitability include our ability, alone or together with our partners, to:

- develop drugs utilizing our technologies, either independently or in collaboration with other pharmaceutical or biotech companies;
- effectively estimate and manage clinical development costs, particularly the cost of the clinical studies for NKTR-181 and NKTR-214;
- receive necessary regulatory and marketing approvals;
- maintain or expand manufacturing at necessary levels;
- achieve market acceptance of our partnered products;
- receive royalties on products that have been approved, marketed or submitted for marketing approval with regulatory authorities; and
- maintain sufficient funds to finance our activities.

If government and private insurance programs do not provide payment or reimbursement for our partnered products or proprietary products, those products will not be widely accepted, which would have a negative impact on our business, results of operations and financial condition.

In both domestic and foreign markets, sales of our partnered and proprietary products that have received regulatory approval will depend in part on market acceptance among physicians and patients, pricing approvals by government authorities and the availability of payment or reimbursement from third-party payers, such as government health administration authorities, managed care providers, private health insurers and other organizations. Such third-party payers are increasingly challenging the price and cost effectiveness of medical products and services. Therefore, significant uncertainty exists as to the pricing approvals for, and the payment or reimbursement status of, newly approved healthcare products. Moreover, legislation and regulations affecting the pricing of pharmaceuticals may change before regulatory agencies approve our proposed products for marketing and could further limit pricing approvals for, and reimbursement of, our products from government authorities and third-party payers. A government or third-party payer decision not to approve pricing for, or provide adequate coverage and reimbursements of, our products would limit market acceptance of such products.

We depend on third parties to conduct the clinical trials for our proprietary product candidates and any failure of those parties to fulfill their obligations could harm our development and commercialization plans.

We depend on independent clinical investigators, contract research organizations and other third-party service providers to conduct clinical trials for our proprietary product candidates. We rely heavily on these parties for successful execution of our clinical trials. Though we are ultimately responsible for the results of their activities, many aspects of their activities are beyond our control. For example, we are responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan and protocols for the trials, but the independent clinical investigators may prioritize other projects over ours or communicate issues regarding our products to us in an untimely manner. Third parties may not complete activities on schedule or may not conduct our clinical trials in accordance with regulatory requirements or our stated protocols. The early termination of any of our clinical trial arrangements, the failure of third parties to comply with the regulations and requirements governing clinical trials or the failure of third parties to properly conduct our clinical trials could hinder or delay the development, approval and commercialization of our product candidates and would adversely affect our business, results of operations and financial condition.

Significant competition for our polymer conjugate chemistry technology platforms and our partnered and proprietary products and product candidates could make our technologies, products or product candidates obsolete or uncompetitive, which would negatively impact our business, results of operations and financial condition.

Our PEGylation and advanced polymer conjugate chemistry platforms and our partnered and proprietary products and product candidates compete with various pharmaceutical and biotechnology companies. Competitors of our PEGylation and polymer conjugate chemistry technologies include Biogen Inc., Savient Pharmaceuticals, Inc., Dr. Reddy's Laboratories Ltd., SunBio Corporation, Mountain View Pharmaceuticals, Inc., Novo Nordisk A/S (formerly assets held by Neose Technologies, Inc.), and NOF Corporation. Several other chemical, biotechnology and pharmaceutical companies may also be developing PEGylation technologies or technologies that have similar impact on target drug molecules. Some of these companies license or provide the technology to other companies, while others are developing the technology for internal use.

There are many competitors for our proprietary product candidates currently in development. For Amikacin Inhale, the current standard of care includes several approved intravenous antibiotics for the treatment of either hospital-acquired pneumonia or ventilator-associated pneumonia in patients on mechanical ventilators. For MOVANTIK™, there are currently several alternative therapies used to address opioid-induced constipation (OIC) and opioid-induced bowel dysfunction (OBD), including Relistor® (methylnaltrexone bromide) Subcutaneous Injection, oral Amitizia (lubiprostone), and oral and rectal over-the-counter laxatives and stool softeners such as docusate sodium, senna and milk of magnesia. In addition, there are a number of companies developing potential products which are in various stages of clinical development and are being evaluated for the treatment of OIC and OBD in different patient populations, including Merck & Co., Inc., Progenics Pharmaceuticals, Inc. in collaboration with Salix Pharmaceuticals, Ltd., Mundipharma Int. Limited, Sucampo Pharmaceuticals, Inc., Develco Pharma GmbH, Alkermes plc, GlaxoSmithKline plc, Theravance, Inc., and Takeda Pharmaceutical Company Limited. For ADYNOVATE™, on June 6, 2014, the FDA approved Biogen Idec's ELOCTATE™ for the control and prevention of bleeding episodes, perioperative (surgical) management and routine prophylaxis in adults and children with Hemophilia A, and Bayer Healthcare and Novo Nordisk have ongoing Phase 3 clinical development programs for longer acting Factor VIII proteins based on pegylation technology approaches. For NKTR-181, there are numerous companies developing pain therapies designed to have less abuse potential primarily through formulation technologies and techniques applied to existing pain therapies. For NKTR-102 there are a number of chemotherapies and cancer therapies approved today and in various stages of clinical development for breast cancer, including, but not limited to: Abraxane® (paclitaxel protein-bound particles for injectable suspension (albumin bound)), Xeloda® (capecitabine), Afinitor® (everolimus), Doxil® (doxorubicin HCl), Ellence® (epirubicin), Gemzar® (gemcitabine), Halaven® (eribulin), Herceptin® (trastuzumab), Hycamtin® (topotecan), Ibrance® (palbociclib), Ixempra® (ixabepilone), Navelbine® (vinorelbine), Iniparib, Paraplatin® (carboplatin), Taxol® (paclitaxel) and Taxotere® (docetaxel). Major pharmaceutical or biotechnology companies with approved drugs or drugs in development for breast cancers include, but are not limited to, Bristol-Meyers Squibb Company, Eli Lilly & Co., Roche, GlaxoSmithKline plc, Johnson and Johnson, Pfizer Inc., Eisai Inc., and Sanofi Aventis S.A. There are numerous companies engaged in developing immunotherapies to be used alone, or in combination, to treat a wide range of oncology indications targeting both solid and liquid tumors. In particular, we expect to compete with therapies with tumor infiltrating lymphocytes, or TILS, chimeric antigen receptor-expressing T cells, or CAR-T, cytokine-based therapies, and checkpoint inhibitors. Potential competitors in the TIL and CAR-T space include Kite Pharma/NCI, Adaptimmune LLC, Celgene Corporation, Juno Therapeutics, and Novartis, Alkermes, Altor, and Armo in the cytokine-based therapies space, and Tesaro, MacroGenics, Merck, BMS, and Roche in the checkpoint inhibitor space.

There can be no assurance that we or our partners will successfully develop, obtain regulatory approvals for and commercialize next-generation or new products that will successfully compete with those of our competitors. Many of our competitors have greater financial, research and development, marketing and sales, manufacturing and managerial capabilities. We face competition from these companies not just in product development but also in areas such as recruiting employees, acquiring technologies that might enhance our ability to commercialize products, establishing relationships with certain research and academic institutions, enrolling patients in clinical trials and seeking program partnerships and collaborations with larger pharmaceutical companies. As a result, our competitors

may succeed in developing competing technologies, obtaining regulatory approval or gaining market acceptance for products before we do. These developments could make our products or technologies uncompetitive or obsolete.

If product liability lawsuits are brought against us, we may incur substantial liabilities.

The manufacture, clinical testing, marketing and sale of medical products involve inherent product liability risks. If product liability costs exceed our product liability insurance coverage, we may incur substantial liabilities that could have a severe negative impact on our financial position. Whether or not we are ultimately successful in any product liability litigation, such litigation would consume substantial amounts of our financial and managerial resources and might result in adverse publicity, all of which would impair our business. Additionally, we may not be able to maintain our clinical trial insurance or product liability insurance at an acceptable cost, if at all, and this insurance may not provide adequate coverage against potential claims or losses.

Our future depends on the proper management of our current and future business operations and their associated expenses.

Our business strategy requires us to manage our business to provide for the continued development and potential commercialization of our proprietary and partnered drug candidates. Our strategy also calls for us to undertake increased research and development activities and to manage an increasing number of relationships with partners and other third parties, while simultaneously managing the capital necessary to support this strategy. If we make a decision to bear a majority or all of the clinical development costs of NKTR-102 this will substantially increase our future capital requirements. If we are unable to manage effectively our current operations and any growth we may experience, our business, financial condition and results of operations may be adversely affected. If we are unable to effectively manage our expenses, we may find it necessary to reduce our personnel-related costs through reductions in our workforce, which could harm our operations, employee morale and impair our ability to retain and recruit talent. Furthermore, if adequate funds are not available, we may be required to obtain funds through arrangements with partners or other sources that may require us to relinquish rights to certain of our technologies, products or future economic rights that we would not otherwise relinquish or require us to enter into other financing arrangements on unfavorable terms.

We are dependent on our management team and key technical personnel, and the loss of any key manager or employee may impair our ability to develop our products effectively and may harm our business, operating results and financial condition.

Our success largely depends on the continued services of our executive officers and other key personnel. The loss of one or more members of our management team or other key employees could seriously harm our business, operating results and financial condition. The relationships that our key managers have cultivated within our industry make us particularly dependent upon their continued employment with us. We are also dependent on the continued services of our technical personnel because of the highly technical nature of our products and the regulatory approval process. Because our executive officers and key employees are not obligated to provide us with continued services, they could terminate their employment with us at any time without penalty. We do not have any post-employment noncompetition agreements with any of our employees and do not maintain key person life insurance policies on any of our executive officers or key employees.

Because competition for highly qualified technical personnel is intense, we may not be able to attract and retain the personnel we need to support our operations and growth.

We must attract and retain experts in the areas of clinical testing, manufacturing, research, regulatory and finance, and may need to attract and retain marketing and distribution experts and develop additional expertise in our existing personnel. We face intense competition from other biopharmaceutical companies, research and academic institutions and other organizations for qualified personnel. Many of the organizations with which we compete for qualified personnel have greater resources than we have. Because competition for skilled personnel in our industry is intense, companies such as ours sometimes experience high attrition rates with regard to their skilled employees. Further, in making employment decisions, job candidates often consider the value of the stock options they are to receive in connection with their employment. Our equity incentive plan and employee benefit plans may not be effective in motivating or retaining our employees or attracting new employees, and significant volatility in the price of our stock may adversely affect our ability to attract or retain qualified personnel. If we fail to attract new personnel or to retain and motivate our current personnel, our business and future growth prospects could be severely harmed.

If earthquakes or other catastrophic events strike, our business may be harmed.

Our corporate headquarters, including a substantial portion of our research and development operations, are located in the San Francisco Bay Area, a region known for seismic activity and a potential terrorist target. In addition, we own facilities for the manufacture of products using our PEGylation and advanced polymer conjugate technologies in Huntsville, Alabama and own and lease offices in Hyderabad, India. There are no backup facilities for our manufacturing operations located in Huntsville, Alabama. In the event of an earthquake or other natural disaster, political instability, or terrorist event in any of these locations, our ability to manufacture and supply materials for drug candidates in development and our ability to meet our manufacturing obligations to our customers would be significantly disrupted and our business, results of operations and financial condition would be harmed. Our collaborative partners may also be subject to catastrophic events, such as earthquakes, floods, hurricanes and tornadoes, any of which could harm our business, results of operations and financial condition. We have not undertaken a systematic analysis of the potential consequences to our business, results of operations and financial condition from a major earthquake or other catastrophic event, such as a fire, sustained loss of power, terrorist activity or other disaster, and do not have a recovery plan for such disasters. In addition, our insurance coverage may not be sufficient to compensate us for actual losses from any interruption of our business that may occur.

We have implemented certain anti-takeover measures, which make it more difficult to acquire us, even though such acquisitions may be beneficial to our stockholders.

Provisions of our certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us, even though such acquisitions may be beneficial to our stockholders. These anti-takeover provisions include:

- establishment of a classified board of directors such that not all members of the board may be elected at one time;
- lack of a provision for cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;
- the ability of our board to authorize the issuance of “blank check” preferred stock to increase the number of outstanding shares and thwart a takeover attempt;
- prohibition on stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of stockholders;
- establishment of advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; and
- limitations on who may call a special meeting of stockholders.

Further, provisions of Delaware law relating to business combinations with interested stockholders may discourage, delay or prevent a third party from acquiring us. These provisions may also discourage, delay or prevent a third party from acquiring a large portion of our securities or initiating a tender offer or proxy contest, even if our stockholders might receive a premium for their shares in the acquisition over the then-current market prices. We also have a change of control severance benefit plan, which provides for certain cash severance, stock award acceleration and other benefits in the event our employees are terminated (or, in some cases, resign for specified reasons) following an acquisition. This severance plan could discourage a third party from acquiring us.

The price of our common stock is expected to remain volatile.

Our stock price is volatile. During the year ended December 31, 2015, based on closing prices on The NASDAQ Global Select Market, our stock price ranged from \$9.50 to \$17.41 per share. We expect our stock price to remain volatile. A variety of factors may have a significant effect on the market price of our common stock, including the risks described in this section titled “Risk Factors” and the following:

- announcements of data from, or material developments in, our clinical studies and those of our collaboration partners, including data regarding efficacy and safety, delays in clinical development, regulatory approval or commercial launch;
- announcements by collaboration partners as to their plans or expectations related to drug candidates and approved drugs in which we have a substantial economic interest;
- announcements regarding terminations or disputes under our collaboration agreements;
- fluctuations in our results of operations;
- developments in patent or other proprietary rights, including intellectual property litigation or entering into intellectual property license agreements and the costs associated with those arrangements;

- announcements of technological innovations or new therapeutic products that may compete with our approved products or products under development;
- announcements of changes in governmental regulation affecting us or our competitors;
- litigation brought against us or third parties to whom we have indemnification obligations;
- public concern as to the safety of drug formulations developed by us or others;
- our financing needs and activities; and
- general market conditions.

At times, our stock price has been volatile even in the absence of significant news or developments. The stock prices of biotechnology companies and securities markets generally have been subject to dramatic price swings in recent years.

The indenture governing our 7.75% senior secured notes imposes significant operating and financial restrictions on us and our subsidiaries that may prevent us from pursuing certain business opportunities and restrict our ability to operate our business.

On October 5, 2015, we issued \$250.0 million in aggregate principal amount of 7.75% senior secured notes due October 2020. The indenture governing the senior secured notes contains covenants that restrict our and our subsidiaries' ability to take various actions, including, among other things:

- incur or guarantee additional indebtedness or issue disqualified capital stock or cause certain of our subsidiaries to issue preferred stock;
- pay dividends or distributions, redeem equity interests or subordinated indebtedness or make certain types of investments;
- create or incur liens;
- transfer, sell, lease or otherwise dispose of assets and issue or sell equity interests in certain of our subsidiaries;
- incur restrictions on certain of our subsidiaries' ability to pay dividends or other distributions to the Company or to make intercompany loans, advances or asset transfers;
- enter into transactions with affiliates;
- engage in any business other than businesses which are the same, similar, ancillary or reasonably related to our business as of the date of the indenture; and
- consummate a merger, consolidation, reorganization or business combination, sell, lease, convey or otherwise dispose of all or substantially all of our assets or other change of control transaction.

This indenture also requires us to maintain a minimum cash balance of \$60.0 million. We have certain reporting obligations under the indenture regarding cash position and royalty revenue. The indenture specifies a number of events of default, some of which are subject to applicable grace or cure periods, including, among other things, non-payment defaults, covenant defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency defaults, non-payment of material judgments, loss of any material business license, criminal indictment of the Company, and certain civil forfeiture proceedings involving material assets of the Company. Our ability to comply with these covenants will likely be affected by many factors, including events beyond our control, and we may not satisfy those requirements. Our failure to comply with our obligations could result in an event of default under our other indebtedness and the acceleration of our other indebtedness, in whole or in part, could result in an event of default under the indenture governing the senior secured notes.

The restrictions contained in the indenture governing the senior secured notes could also limit our ability to plan for or react to market conditions, meet capital needs or otherwise restrict our activities or business plans and adversely affect our ability to finance our operations, enter into acquisitions or to engage in other business activities that would be in our interest.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties**California**

We lease a 126,285 square foot facility in the Mission Bay Area of San Francisco, California (Mission Bay Facility), under an operating lease which expires in 2020. The Mission Bay Facility is our corporate headquarters and also includes our research and development operations.

Our lease for approximately 100,000 square feet of the San Carlos Facility is under a capital lease which expires in 2016. We have subleased all of the San Carlos Facility.

Alabama

We currently own four facilities consisting of approximately 165,000 square feet in Huntsville, Alabama, which house laboratories as well as administrative, clinical and commercial manufacturing facilities for our PEGylation and advanced polymer conjugate technology operations as well as manufacturing of APIs for early clinical studies.

In July 2012, we consolidated our U.S.-based research activities into our Mission Bay Facility and ceased use of one of our buildings located in Huntsville that was dedicated to research activities. We are currently seeking a buyer for the land and building.

India

We own a research and development facility consisting of approximately 88,000 square feet, near Hyderabad, India. In addition, we lease approximately 1,600 square feet of office space in Hyderabad, India, under a three-year operating lease that will expire in 2018.

Item 3. Legal Proceedings

From time to time, we are subject to legal proceedings. We are not currently a party to or aware of any proceedings that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Our common stock trades on The NASDAQ Global Select Market under the symbol "NKTR." The table below sets forth the high and low closing sales prices for our common stock as reported on The NASDAQ Global Select Market during the periods indicated.

	High	Low
<i>Year Ended December 31, 2014:</i>		
1st Quarter	\$ 14.96	\$ 11.68
2nd Quarter	14.31	10.53
3rd Quarter	14.48	10.55
4th Quarter	17.05	12.07
<i>Year Ended December 31, 2015:</i>		
1st Quarter	\$ 15.70	\$ 10.91
2nd Quarter	13.84	9.52
3rd Quarter	13.92	9.50
4th Quarter	17.41	9.98

Holders of Record

As of February 19, 2016, there were approximately 198 holders of record of our common stock.

Dividend Policy

We have never declared or paid any cash dividends on our common stock. We currently expect to retain any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends on our common stock in the foreseeable future.

There were no sales of unregistered securities and there were no common stock repurchases made during the year ended December 31, 2015.

Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding our equity compensation plans as of December 31, 2015 is disclosed in Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" of this Annual Report on Form 10-K and is incorporated herein by reference from our proxy statement for our 2016 annual meeting of stockholders to be filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

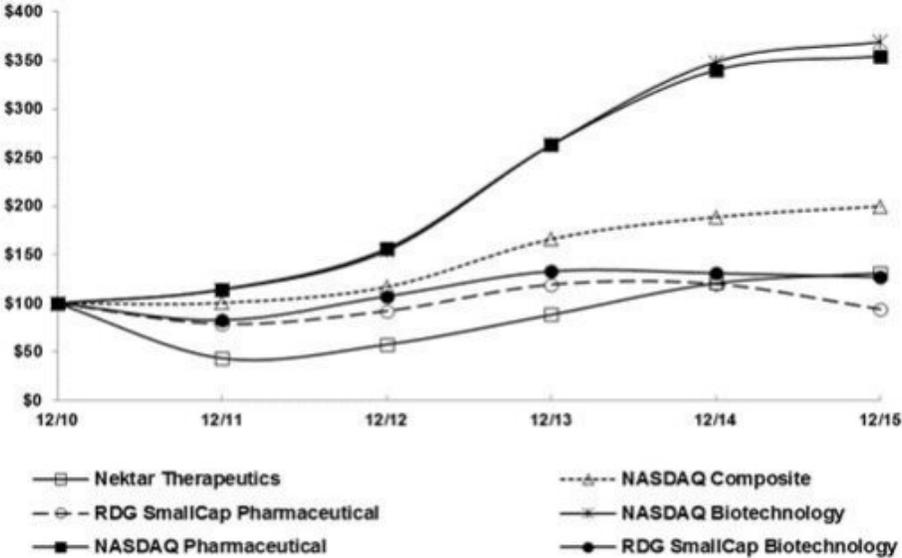
Performance Measurement Comparison

The material in this section is being furnished and shall not be deemed "filed" with the SEC for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall the material in this section be deemed to be incorporated by reference in any registration statement or other document filed with the SEC under the Securities Act or the Exchange Act, except as otherwise expressly stated in such filing.

The following graph compares, for the five year period ended December 31, 2015, the cumulative total stockholder return (change in stock price plus reinvested dividends) of our common stock with (i) the NASDAQ Composite Index, (ii) the NASDAQ Pharmaceutical Index, (iii) the RDG SmallCap Pharmaceutical Index, (iv) the NASDAQ Biotechnology Index and (v) the RDG SmallCap Biotechnology Index. Measurement points are the last trading day of each of our fiscal years ended December 31, 2011, December 31, 2012, December 31, 2013, December 31, 2014 and December 31, 2015. The graph assumes that \$100 was invested on December 31, 2010 in the common stock of the Company, the NASDAQ Composite Index, the Nasdaq Pharmaceutical Index, the RDG SmallCap Pharmaceutical Index, the NASDAQ Biotechnology Index and the RDG SmallCap Biotechnology Index and assumes reinvestment of any dividends. The stock price performance in the graph is not intended to forecast or indicate future stock price performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Nektar Therapeutics, the NASDAQ Composite Index, the RDG SmallCap Pharmaceutical Index, the NASDAQ Biotechnology Index, the NASDAQ Pharmaceutical Index and the RDG SmallCap Biotechnology Index



*\$100 invested on 12/31/10 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

SELECTED CONSOLIDATED FINANCIAL INFORMATION
(In thousands, except per share information)

The selected consolidated financial data set forth below should be read together with the consolidated financial statements and related notes, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and the other information contained herein.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Statements of Operations Data:					
Revenue:					
Product sales	\$ 40,155	\$ 25,152	\$ 44,846	\$ 35,399	\$ 24,864
Royalty revenue	2,967	329	1,148	4,874	10,327
Non cash royalty revenue related to sale of future royalties (1)	22,058	21,937	22,055	10,791	—
License, collaboration and other revenue	165,604	153,289	80,872	30,127	36,289
Total revenue	230,784	200,707	148,921	81,191	71,480
Total operating costs and expenses	260,155	217,192	269,051	222,392	195,417
Loss from operations	(29,371)	(16,485)	(120,130)	(141,201)	(123,937)
Non-cash interest expense on liability related to sale of future royalties (1)	(20,619)	(20,888)	(22,309)	(18,057)	—
Interest income (expense) and other income (expense), net	(16,602)	(17,055)	(17,329)	(12,191)	(9,023)
Loss on extinguishment of debt	(14,079)	—	—	—	—
Provision (benefit) for income taxes	506	(512)	2,245	406	1,018
Net loss	<u>\$ (81,177)</u>	<u>\$ (53,916)</u>	<u>\$ (162,013)</u>	<u>\$ (171,855)</u>	<u>\$ (133,978)</u>
Basic and diluted net loss per share (2)	<u>\$ (0.61)</u>	<u>\$ (0.42)</u>	<u>\$ (1.40)</u>	<u>\$ (1.50)</u>	<u>\$ (1.19)</u>
Weighted average shares outstanding used in computing basic and diluted net loss per share (2)	<u>132,458</u>	<u>126,783</u>	<u>115,732</u>	<u>114,820</u>	<u>112,942</u>
	As of December 31,				
	2015	2014	2013	2012	2011
Balance Sheet Data:					
Cash, cash equivalents and investments in marketable securities	\$ 308,944	\$ 262,824	\$ 262,026	\$ 302,194	\$ 414,936
Working capital	\$ 288,805	\$ 224,153	\$ 159,661	\$ 236,094	\$ 1,174
Total assets	\$ 502,061	\$ 441,621	\$ 434,527	\$ 497,790	\$ 606,550
Deferred revenue	\$ 83,854	\$ 101,384	\$ 106,048	\$ 118,447	\$ 127,831
Convertible subordinated notes	\$ —	\$ —	\$ —	\$ —	\$ 214,955
Senior secured notes, net	\$ 242,115	\$ 125,000	\$ 125,000	\$ 125,000	\$ —
Liability related to the sale of future royalties (1)	\$ 119,032	\$ 120,471	\$ 128,520	\$ 131,266	\$ —
Other long-term liabilities (3)	\$ 10,813	\$ 18,204	\$ 25,775	\$ 20,014	\$ 21,741
Accumulated deficit	\$ (1,867,486)	\$ (1,786,309)	\$ (1,732,393)	\$ (1,570,380)	\$ (1,398,525)
Total stockholders’ equity (deficit)	\$ 6,429	\$ 36,332	\$ (89,903)	\$ 47,018	\$ 197,811

(1) In February 2012, we sold all of our rights to receive future royalty payments on net sales of UCB’s CIMZIA[®] and Roche’s MIRCERA[®]. As described in Note 7 to our 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 starting in the second quarter of 2012, we will continue to record revenue for these royalties.

(2) Basic and diluted net loss per share is based upon the weighted average number of common shares outstanding.

(3) Includes capital lease obligations less current portion

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 I, Item 1A — Risk Factors.”

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

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™ (previously referred to as naloxegol and NKTR-118), 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. MOVANTIK™ was developed using our oral small molecule polymer conjugate technology and we advanced this drug through the completion of Phase 2 clinical studies prior to licensing it to AstraZeneca. On March 31, 2015, AstraZeneca announced that it launched MOVANTIK™ in the United States, as a result of which we received a \$100 million commercial launch milestone on March 31, 2015. In August 2015, we received an additional \$40.0 million payment triggered by the first commercial sale of MOVENTIG® by AstraZeneca in Germany. 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 identify and develop 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 investigational, 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. In December 2015, Baxalta announced positive study results in patients younger than 12 years of age with severe Hemophilia A. With the study results, Baxalta announced that it plans to file for marketing authorization in Europe and aims to file for a pediatric indication in the U.S. in early 2016. ADYNOVATE™ is currently under regulatory review in Japan, Canada and Switzerland. 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 the study continues to enroll patients. 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 about 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 about 200 patients.

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 in order to proliferate 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 is designed to evaluate safety, efficacy, and define the recommended Phase 2 dose of NKTR-214 in approximately 20 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.

NKTR-102 is our next-generation topoisomerase I inhibitor proprietary drug candidate. On March 17, 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 are currently exploring various future regulatory and development paths forward for NKTR-102 with the EU and U.S. regulatory authorities. In Europe, we have met with the National Authorities in Sweden (MPA) and the United Kingdom (MHRA) to discuss the BEACON data. We also met with the EMA to discuss filing an MAA. Based on the outcome of these meetings, we believe that there is a path forward to file an MAA for conditional approval of NKTR-102 for patients with metastatic breast cancer with brain metastases. In connection with any MAA filing, we would be required to start a confirmatory trial in conjunction with the MAA review. In the United States, we met with the FDA and the Oncology Division indicated that we would not be able to use the BEACON data to support an accelerated approval for an NDA. However, the FDA staff also indicated that positive results from a completed confirmatory trial for the MAA could also support an NDA filing. We are currently evaluating next steps and potential designs and costs for a confirmatory trial. At this time, we do not plan to advance development of NKTR-102 without a collaboration partner.

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 December 31, 2015, we estimated that we had at least twelve months of working capital to fund our current business plans. At December 31, 2015, we had approximately \$308.9 million in cash and investments in marketable securities. Also, as of December 31, 2015, we had \$255.8 million in debt, including \$250.0 million in principal of senior secured notes and \$5.8 million of capital lease obligations. As is further described in Note 5 to our Consolidated Financial Statements, on October 5, 2015, we issued \$250.0 million in aggregate principal amount of 7.75% senior secured notes due October 2020. We used a portion of the proceeds from these notes to redeem the \$125.0 million in aggregate principal amount of 12.0% senior secured notes due July 2017 and to make a \$12.5 million redemption payment and to pay \$3.3 million in accrued interest, due upon redemption of the 12% senior secured notes. As a result, we received \$100.3 million in net proceeds in connection with these transactions.

Results of Operations

Years Ended December 31, 2015, 2014, and 2013

Revenue (in thousands, except percentages)

	Year Ended December 31,			Increase/ (Decrease)	Increase/ (Decrease)	Percentage Increase/ (Decrease)	Percentage Increase/ (Decrease)
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013	2015 vs. 2014	2014 vs. 2013
Product sales	\$ 40,155	\$ 25,152	\$ 44,846	\$ 15,003	\$ (19,694)	60%	(44)%
Royalty revenue	2,967	329	1,148	2,638	(819)	> 100%	(71)%
Non cash royalty revenue related to sale of future royalties	22,058	21,937	22,055	121	(118)	< 1%	< (1)%
License, collaboration and other revenue	165,604	153,289	80,872	12,315	72,417	8%	90%
Total revenue	<u>\$ 230,784</u>	<u>\$ 200,707</u>	<u>\$ 148,921</u>	<u>\$ 30,077</u>	<u>\$ 51,786</u>	<u>15%</u>	<u>35%</u>

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 ratable throughout the year.

Product sales increased for the year ended December 31, 2015 compared to the year ended December 31, 2014 as a result of increased product demand primarily from one of our collaboration partners. Product sales decreased for the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily as a result of decreased product demand from a number of our collaboration partners.

We currently expect product sales to increase in 2016 as compared to 2015 due to increased product demand primarily 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 year ended December 31, 2015 compared to the year ended December 31, 2014 due primarily to the launch of commercial sales by AstraZeneca of MOVANTIK™ in March 2015 and MOVENTIG® in the EU in August 2015. Royalty revenue received in cash decreased during the year ended December 31, 2014 compared to the year ended December 31, 2013 due primarily to decreases in the underlying net sales of the applicable products as well as the completion of the royalty term for one product. We expect royalty revenue in 2016 will increase as compared to 2015 due to royalties we expect to receive from net sales of MOVANTIK™, MOVENTIG® and ADYNOVATE™.

In February 2012, we sold all of our rights to receive future royalty payments on CIMZIA® and MIRCERA®. As described in Note 7 to our 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® and MIRCERA® in 2016 to increase 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 year ended December 31, 2015 compared to the year ended December 31, 2014 primarily as a result of the recognition of the \$140.0 million of payments received from AstraZeneca as a result of the U.S. commercial launch of MOVANTIK™ and the EU commercial launch of MOVENTIG®. In addition, in 2015, we recognized a \$10.0 million milestone achieved in November 2015 as a result of the FDA's approval of Baxalta's ADYNOVATE™. During the year-ended December 31, 2014, we recognized \$105.0 million of payments from AstraZeneca as a result of the FDA's approval of MOVANTIK™ in September 2014 and recognized \$9.0 million of milestone payments resulting from the transfer of our manufacturing technology to two of our collaboration partners. In addition, in 2014, we recognized \$8.0 million of milestones received in December 2014 related to positive results from Baxalta's ADYNOVATE™ Phase 3 study. The increase in license, collaboration and other revenue in 2015 is offset by a total of \$10.0 million that we agreed in March 2015 to pay AstraZeneca, including \$5.0 million paid in July 2015 and \$5.0 million to be 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 2015.

License, collaboration and other revenue increased for the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily as a result of the recognition in 2014 of the \$105.0 million of payments from AstraZeneca noted above as a result of the FDA's approval of MOVANTIK™ in September 2014. In 2013, we received and recognized a \$25.0 million payment from AstraZeneca achieved in September 2013 on the acceptance for review by the EMA of the MOVANTIK™ regulatory approval application filed by AstraZeneca as well as the recognition in July 2013 of the remaining \$6.7 million deferred revenue balance related to our agreement with Affymax as a result of the termination of that agreement. In addition, in April 2013, we recognized a \$10.0 million milestone achieved upon the start of the Amikacin Inhale Phase 3 clinical trial by Bayer.

We expect license, collaboration and other revenue in 2016 will decrease significantly compared to 2015 primarily due to the achievement in 2015 of the significant non-recurring payments noted above resulting from AstraZeneca's commercial launch of MOVANTIK™ and MOVENTIG®.

The timing and future success of our drug development programs and those of our collaboration partners are subject to a number of risks and uncertainties. See "Part I, Item 1A — Risk Factors" for discussion of the risks associated with the complex nature of our collaboration agreements.

Revenue by geography (in thousands)

Revenue by geographic area is based on the locations of our partners. The following table sets forth revenue by geographic area:

	Year Ended December 31,		
	2015	2014	2013
United States	\$ 40,400	\$ 32,514	\$ 42,535
Europe	190,384	168,193	106,386
Total revenue	\$ 230,784	\$ 200,707	\$ 148,921

The increase in revenue attributable to European countries for the year ended December 31, 2015 compared to the year ended December 31, 2014 is primarily attributable to increased milestone and other contingent payments from our existing European based collaboration partners, including the recognition of a total of \$140.0 million payments from AstraZeneca in connection with its commercial launches of MOVANTIK™ described above. The increase in revenue attributable to European countries for the year ended December 31, 2014 compared to the year ended December 31, 2013 is also primarily attributable to increased milestone and other contingent payments from our existing European based collaboration partners, including the recognition of a total of \$105.0 million payments from AstraZeneca in connection with the FDA's approval of MOVANTIK™ described above.

Cost of goods sold (in thousands, except percentages)

	Year Ended December 31,			Increase/ (Decrease) 2015 vs. 2014	Increase/ (Decrease) 2014 vs. 2013	Percentage Increase/ (Decrease) 2015 vs. 2014	Percentage Increase/ (Decrease) 2014 vs. 2013
	2015	2014	2013				
Cost of goods sold	\$ 34,102	\$ 28,533	\$ 38,509	\$ 5,569	\$ (9,976)	20%	(26)%
Product gross profit (loss)	6,053	(3,381)	6,337	9,434	(9,718)	>100%	(>100)%
Product gross margin	15%	(13)%	14%				

Cost of goods sold during the year ended December 31, 2015 increased compared to the year ended December 31, 2014 primarily due to the increase in product sales of \$15.0 million in the year ended December 31, 2015 compared to the year ended December 31, 2014. Cost of goods sold decreased during the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily due to the decrease in product sales of \$19.7 million in the year ended December 31, 2014 compared to the year ended December 31, 2013.

The improvement in product gross profit (loss) and product gross margin during the year ended December 31, 2015 compared to the year ended December 31, 2014 is primarily due to a more favorable product mix in 2015 compared to 2014. In particular, the manufacturing arrangement with one of our collaboration partners includes a fixed price for proprietary PEGylation reagent sales, which is less than the fully burdened manufacturing cost for the reagent and we expect this situation to continue in future years. This arrangement was the primary reason for our negative gross profit in 2014. There were fewer shipments to this partner in total and relative to shipments to other customers during the year ended December 31, 2015 compared to the year ended December 31, 2014. In addition to product sales from reagent shipments to this partner, we also receive royalty revenues from this collaboration. In the years ended December 31, 2015 and 2014, the royalty revenue from the collaboration exceeded the related negative gross profit on product sales.

During the year ended December 31, 2013, our gross profit was positive due primarily to the higher level of product sales in 2013 as well as a more favorable product mix as compared to 2014.

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 currently expect product gross margin to increase in 2016 as compared to 2015 as a result of an anticipated increase in product sales, as well as based on the anticipated product mix.

Research and development expense (in thousands, except percentages)

	Year Ended December 31,			Increase/ (Decrease) 2015 vs. 2014	Increase/ (Decrease) 2014 vs. 2013	Percentage Increase/ (Decrease) 2015 vs. 2014	Percentage Increase/ (Decrease) 2014 vs. 2013
	2015	2014	2013				
Research and development expense	\$ 182,787	\$ 147,734	\$ 190,010	\$ 35,053	\$ (42,276)	24%	(22)%

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 year ended December 31, 2015 compared to the year ended December 31, 2014 primarily due to the initiation of Phase 3 clinical studies for NKTR-181 in the first quarter of 2015.

Research and development expense decreased during the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily due to reduced activities on our Phase 3 BEACON study for NKTR-102 as the study progressed toward completion as well as the completion of our Phase 2 clinical study for NKTR-181 in the third quarter of 2013. In addition, during the year ended December 31, 2013, we recorded a charge of \$11.3 million resulting from the settlement of a dispute with the Research Foundation of the State University of New York related to our collaboration with Bayer to develop Amikacin Inhale.

We utilize our employee and infrastructure resources across multiple development and research programs. The following table shows expenses incurred for clinical and regulatory services, clinical supplies, and preclinical study support provided by third parties as well as direct materials costs for each of our drug candidates. The table also presents other costs and overhead consisting of personnel, facilities and other indirect costs (in thousands):

	Clinical Study Status (1)	Year Ended December 31,		
		2015	2014	2013
NKTR-181 (mu-opioid analgesic molecule for chronic pain)	Phase 3	\$ 45,307	\$ 10,558	\$ 22,955
NKTR-102 (topoisomerase I inhibitor-polymer conjugate)	Phase 3	19,295	21,660	44,669
BAY41-6551 (Amikacin Inhale) (2)	Phase 3	9,947	14,412	26,716
NKTR-214 (cytokine immunostimulatory therapy)	Phase 1/2	8,637	2,427	2,163
NKTR-171 (neuropathic pain)	Phase 1	1,744	4,913	3,635
Other product candidates	Various	4,381	3,906	5,429
Total third party and direct materials costs		89,311	57,876	105,567
Personnel, overhead and other costs		77,752	75,693	68,993
Stock-based compensation and depreciation		15,724	14,165	15,450
Research and development expense		<u>\$ 182,787</u>	<u>\$ 147,734</u>	<u>\$ 190,010</u>

(1) Clinical Study Status definitions are provided in the chart found in Part I, Item 1. Business.

(2) We partnered this program with Bayer Healthcare LLC in August 2007. As part of the Novartis Pulmonary Asset Sale in 2008, we retained an exclusive license to this technology for the development and commercialization of this drug candidate.

We expect research and development expense in 2016 to be consistent with 2015. In particular, in 2016, we are continuing Phase 3 clinical studies for NKTR-181. Over the next two to three years, we expect that the NKTR-181 clinical development program will require a substantial investment. We currently estimate that the total third party and direct material costs over the life of our NKTR-181 Phase 3 program will be approximately \$130.0 million, of which \$40.3 million was incurred through the end of 2015.

In addition to our NKTR-181 development activities, in 2016, we plan to continue to advance the development of NKTR-214, which entered Phase 1/2 clinical development in December 2015. In addition, we plan to continue to make substantial investments to support the clinical and commercial manufacturing preparation and scale-up for the nebulizer devices to supply Bayer for the Amikacin Inhale program. Under our collaboration agreement with Bayer, we are responsible for all clinical and commercial supply of the nebulizer devices for this drug candidate. We do not expect to have any significant future research and development costs associated with MOVANTIK™ or the MOVANTIK™ fixed-dose combination products as AstraZeneca is responsible for all further development and commercialization costs for these drug candidates.

In addition to our drug candidates that we plan to have in clinical development during 2016 and beyond, we believe it is vitally important to continue our substantial investment in a diverse pipeline of new drug candidates to continue to build the value of our drug

candidate pipeline and our business. Our discovery research organization is identifying new drug candidates by applying our PEGylation technology platform to a wide range of molecule classes, including small molecules and large proteins, peptides and antibodies, across multiple therapeutic areas. We plan to continue to advance our most promising early research drug candidates into preclinical development with the objective to advance these early stage research programs to human clinical studies over the next several years.

Our expenditures on current and future preclinical and clinical development programs are subject to numerous uncertainties in timing and cost to completion. In order to advance our drug candidates through clinical development, each drug candidate must be tested in numerous preclinical safety, toxicology and efficacy studies. We then conduct clinical studies for our drug candidates that take several years to complete. The cost and time required to complete clinical trials may vary significantly over the life of a clinical development program as a result of a variety of factors, including but not limited to:

- the number of patients required for a given clinical study design;
- the length of time required to enroll clinical study participants;
- the number and location of sites included in the clinical studies;
- the clinical study designs required by the health authorities (i.e. primary and secondary endpoints as well as the size of the study needed to demonstrate efficacy and safety outcomes);
- the potential for changing standards of care for the target patient population;
- the competition for patient recruitment from competitive drug candidates being studied in the same clinical setting;
- the costs of producing supplies of the product candidates needed for clinical trials and regulatory submissions;
- the safety and efficacy profile of the drug candidate;
- the use of clinical research organizations to assist with the management of the trials; and
- the costs and timing of, and the ability to secure, approvals from government health authorities.

Furthermore, our strategy includes the potential of entering into collaborations with third parties to participate in the development and commercialization of some of our drug candidates such as those collaborations that we have already completed for MOVANTIK™ and Amikacin Inhale. In these situations, the clinical development program and process for a drug candidate and the estimated completion date will largely be under the control of that third party and not under our control. We cannot forecast with any degree of certainty which of our drug candidates will be subject to future collaborations or how such arrangements would affect our development plans or capital requirements.

The risks and uncertainties associated with our research and development projects are discussed more fully in Item 1A — Risk Factors. As a result of the uncertainties discussed above, we are unable to determine with any degree of certainty the duration and completion costs of our research and development projects, anticipated completion dates or when and to what extent we will receive cash inflows from a collaboration arrangement or the commercialization of a drug candidate.

General and administrative expense (in thousands, except percentages)

	Year Ended December 31,			Increase/ (Decrease)	Increase/ (Decrease)	Percentage	Percentage
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013	Increase/ (Decrease) 2015 vs. 2014	Increase/ (Decrease) 2014 vs. 2013
General and administrative expense	\$ 43,266	\$ 40,925	\$ 40,532	\$ 2,341	\$ 393	6%	1%

General and administrative expense includes the cost of administrative staffing, business development, marketing, finance, and legal activities. General and administrative expense increased during the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily due to a \$3.0 million payment obligation related to the settlement of a commercial litigation matter. General and administrative expense was consistent during the years ended December 31, 2014 and 2013. In 2016, we expect general and administrative expenses to decrease marginally compared to 2015.

Interest expense (in thousands except percentages)

	Year Ended December 31,			Increase/ (Decrease) 2015 vs. 2014	Increase/ (Decrease) 2014 vs. 2013	Percentage Increase/ (Decrease) 2015 vs. 2014	Percentage Increase/ (Decrease) 2014 vs. 2013
	2015	2014	2013				
Interest expense	\$ 18,282	\$ 17,869	\$ 18,453	\$ 413	\$ (584)	2%	(3)%
Non-cash interest expense on liability related to sale of future royalties	\$ 20,619	\$ 20,888	\$ 22,309	\$ (269)	\$ (1,421)	(1)%	(6)%

Interest expense for the year ended December 31, 2015 increased marginally compared to the year ended December 31, 2014 primarily due to our secured note financing transaction in October 2015. As is further described in Note 5 to our Consolidated Financial Statements, on October 5, 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 12.0% senior secured notes due July 2017. Interest expense for the year ended December 31, 2014 decreased marginally as compared to the year ended December 31, 2013. We expect interest expense to increase in 2016 compared to 2015 as a result of the increase to our outstanding secured notes principal balance from the October 2015 note transaction, partially offset by the reduction in the interest rate on our notes from 12% to 7.75%.

Non-cash interest expense on the liability related to sale of future royalties for the year ended December 31, 2015 and 2014 decreased marginally as compared to the year ended December 31, 2014 and 2013, respectively, due to the decrease in 2015 and 2014, respectively, of the average balance of the related liability as that liability balance amortizes. On February 24, 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 7 to our 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 will 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 2016 to decrease marginally compared with 2015 as a result of the expected decrease in 2016 of the royalty liability balance.

Loss on Extinguishment of Debt

As a result of the secured note financing transaction in October 2015 discussed above, in the quarter and year ended December 31, 2015, we recognized a \$14.1 million loss on extinguishment of our 12% notes, which consists of a \$11.3 million redemption premium payment, \$1.2 million of incremental interest paid at redemption to the 12% note holders and the write-off of \$1.6 million of unamortized issuance costs on the 12% notes.

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 December 31, 2015, we had approximately \$308.9 million in cash and investments in marketable securities. Also, as of December 31, 2015, we had \$255.8 million in debt, including \$250.0 million in principal of senior secured notes and \$5.8 million of capital lease obligations. As is further described in Note 5 to our Consolidated Financial Statements, on October 5, 2015, we issued \$250.0 million in aggregate principal amount of 7.75% senior secured notes due October 2020. We used a portion of the proceeds from these notes to redeem the \$125.0 million in aggregate principal amount of 12.0% senior secured notes due July 2017 and to make a \$12.5 million redemption payment and pay \$3.3 million in accrued interest, due upon redemption of the 12% senior secured notes. As a result, we received \$100.3 million in net proceeds in connection with these transactions.

As of December 31, 2015, 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 receive royalties from commercial sales of products such as MOVANTIK™ and ADYNOVATE™ 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™, 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 December 31, 2015, the average time to maturity of the investments held in our portfolio was approximately five 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 year ended December 31, 2015 totaled \$73.1 million, which includes \$196.3 million of net operating cash uses as well as \$18.8 million for interest payments on our senior secured notes, partially offset by the receipt of \$142.0 million of milestones and other contingent payments from collaboration agreements. The accounts receivable balance in our Consolidated Balance Sheet as of December 31, 2015 includes a \$10.0 million milestone receivable from Baxalta resulting from the FDA's approval of ADYNOVATE™ as well as \$9.5 million in receivables from product sales, which were subsequently collected in 2016. We expect that cash flows used in operating activities, excluding upfront, milestone and other contingent payments received, if any, will decrease in 2016 compared to 2015 primarily as a result of increased cash receipts from product sales and royalties.

Cash flows used in operating activities for the year ended December 31, 2014 totaled \$142.0 million, which includes \$199.0 million of net operating cash uses as well as \$15.0 million for interest payments on our senior secured notes, partially offset by the receipt of \$72.0 million of milestones and other contingent payments from collaboration agreements. During the year ended December 31, 2014, we recognized as revenue a \$70.0 million payment made to us from AstraZeneca in November 2013.

Cash flows used in operating activities for the year ended December 31, 2013 totaled \$38.5 million, which includes \$158.3 million of net operating cash uses as well as \$15.2 million for interest payments on our senior secured notes, partially offset by the receipt of \$135.0 million for milestones and other contingent payments from collaboration agreements.

Cash flows from investing activities

We paid \$11.2 million, \$10.0 million, and \$4.1 million to purchase property, plant and equipment in the years ended December 31, 2015, 2014, and 2013, respectively. We expect our capital expenditures in 2016 to decrease marginally compared to 2015.

Restricted cash of \$25.0 million was required to be maintained in a separate account until July 1, 2015 under the terms of our 12% senior secured notes due July 2017. This restriction expired on July 1, 2015 and the restricted funds were returned to us.

Cash flows used in financing activities

On October 5, 2015, we issued \$250.0 million in aggregate principal amount of 7.75% senior secured notes due 2020 (“Notes”). The Notes bear interest at a rate of 7.75% per annum payable in cash quarterly in arrears on January 15, April 15, July 15, and October 15 of each year, beginning on October 15, 2015. Interest is calculated based on actual days outstanding over a 360 day year. In connection with the issuance of the Notes, we paid fees and expenses of approximately \$8.9 million, of which \$8.3 million of transaction and facility fees paid to the purchasers of the Notes was capitalized as a debt discount and recorded as a reduction to the note payable liability. An additional \$0.4 million of direct issuance costs was capitalized and recorded in Other Assets in our Consolidated Balance Sheet. On October 5, 2015, we used a portion of the proceeds from the Notes to redeem the \$125.0 million in aggregate principal amount of 12.0% senior secured notes due in 2017. In addition, on October 5, 2015, we paid accrued interest of \$3.3 million and made a \$12.5 million redemption payment, which includes \$1.2 million additional interest paid to the 12% note holders at redemption.

On January 28, 2014, we completed the issuance and sale of 9,775,000 shares of our common stock in a public offering with total proceeds of approximately \$117.2 million after deducting the underwriting commissions and discounts of approximately \$7.5 million. In addition, we incurred approximately \$0.6 million in legal and accounting fees, filing fees, and other costs in connection with this offering.

On February 24, 2012, we sold all of our rights to receive future royalty payments on CIMZIA[®] and MIRCERA[®] in exchange for \$124.0 million. During the years ended December 31, 2014 and 2013, we made payments of \$7.0 million and \$3.0 million, respectively, to the purchaser of these royalties because certain minimum MIRCERA[®] net sales thresholds were not met. The remaining \$119.0 million royalty obligation liability at December 31, 2015 will not be settled in cash.

We received proceeds from issuance of common stock related to our employee option and stock purchase plans of \$32.2 million, \$47.0 million, and \$8.2 million in the years ended December 31, 2015, 2014, and 2013, respectively.

Contractual Obligations (in thousands)

	Payments Due by Period				
	Total	<=1 Yr 2016	2-3 Yrs 2017-2018	4-5 Yrs 2019-2020	2021+
Obligations (1)					
7.75% senior secured notes due October 2020, including interest	\$ 347,682	\$ 19,644	\$ 39,288	\$ 288,750	\$ —
Operating leases (2)	20,912	4,892	10,224	5,796	—
Capital leases and other financing, including interest (3)	10,581	6,351	3,872	358	—
Purchase commitments (4)	5,442	5,442	—	—	—
Litigation settlements, including interest	1,500	1,500	—	—	—
	<u>\$ 386,117</u>	<u>\$ 37,829</u>	<u>\$ 53,384</u>	<u>\$ 294,904</u>	<u>\$ —</u>

- (1) The above table does not include certain commitments and contingencies which are discussed in Note 8 of Item 8. Financial Statements and Supplementary Data.
- (2) In November 2010, we moved into our Mission Bay Facility, which includes our corporate headquarters and a research and development center. Under the terms of the sublease we entered into with Pfizer Inc. on September 30, 2009 for the Mission Bay Facility, we began making non-cancelable lease payments in 2014. The sublease is discussed in Note 6 of Item 8. Financial Statements and Supplementary Data.
- (3) These amounts primarily result from our purchase of manufacturing equipment supporting our Amikacin Inhale program, including our obligation to purchase certain equipment which is further discussed in Note 4 of Item 8. Financial Statements and Supplementary Data. In addition, these amounts include capital lease obligations arising from our office space lease at 201 Industrial Road in San Carlos, California. In November 2010, we ceased use of this space as a result of the relocation of all of our California functions to our Mission Bay Facility. We have subleased all of the San Carlos Facility. This is further discussed in Note 6 of Item 8. Financial Statements and Supplementary Data.
- (4) Substantially all of this amount was subject to open purchase orders as of December 31, 2015 that were issued under existing contracts. This amount does not represent any minimum contract termination liabilities for our existing contracts.

Off Balance Sheet Arrangements

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

Critical Accounting Policies

The preparation and presentation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make judgments, 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 revenues 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, and evaluate our estimates on an ongoing basis. Actual results may differ materially from those estimates under different assumptions or conditions. We have determined that for the periods in this report, the following accounting policies and estimates are critical in understanding our financial condition and the results of our operations.

Revenue Recognition

License, collaboration and other research revenue is recognized based on the facts and circumstances of each contractual agreement and includes amortization of upfront fees. We defer income under contractual agreements when we have further obligations that indicate that a separate earnings process has not been completed. The amount of upfront fees and other payments received under our license and collaboration agreements that are allocated to our continuing obligations are recognized ratably over our expected performance period under each arrangement. Management makes its best estimate of the period over which we expect to fulfill our performance obligations, which may include technology transfer assistance, research and development activities, or manufacturing activities through the completion of clinical development or the termination or expiration of the collaboration agreement. Given the complexities and uncertainties of collaboration arrangements, significant judgment is required by management to determine the duration of the performance period.

As of December 31, 2015, we had \$19.6 million of deferred upfront fees related to two collaboration agreements that include research and development obligations that are being amortized over 11 to 22 years, or an average of approximately 16 years. For our collaboration agreements, our performance obligations may span the life of the agreement. For these, the shortest reasonable period is the end of the development period (estimated to be 4 to 8 years) and the longest period is the contractual life of the agreement, which is generally 10-12 years from the first commercial sale. Given the statistical probability of drug development success in the bio-pharmaceutical industry, drug development programs have only a 5% to 10% probability of reaching commercial success. If we had determined a longer or shorter amortization period was appropriate, our annual upfront fee amortization for these agreements could have been as low as \$2.0 million or as high as \$11.0 million as compared to the approximately \$2.0 million recognized in the year ended December 31, 2015.

As of December 31, 2015, we also had \$58.6 million of deferred upfront fees related to seven license, manufacturing and supply agreements that are being amortized over periods from 3 to 15 years. Our performance obligations for these agreements may include technology transfer assistance and/or back-up manufacturing and supply services for a specified period of time; therefore, the time estimated to complete the performance obligations related to licenses is either specified or is much shorter than the collaboration agreements. We may experience delays in the execution of technology transfer plans, which may result in a longer amortization period for applicable agreements.

Our original estimates are periodically evaluated to determine if circumstances have caused the estimates to change and if so, amortization of revenue is adjusted prospectively.

In addition, at the inception of each new multiple-element arrangement or the material modification of an existing multiple-element arrangement, we allocate arrangement consideration 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 changes would significantly affect the allocation of the total consideration to the different elements of a multiple element arrangement.

Clinical Trial Accruals

We record accruals for the estimated costs of our clinical study 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 portions of the clinical trial or similar conditions. We generally accrue costs associated with the start-up and reporting phases of the clinical studies ratably over the estimated duration of the start-up and reporting phases. We generally accrue costs associated with the treatment phase of clinical studies 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 studies. 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 first identified.

Stock-Based Compensation

We use the Black-Scholes option pricing model for each respective grant to determine the estimated fair value of stock options on the date of grant (grant date fair value) and common stock purchased under our Employee Stock Purchase Plan (ESPP). We expense the estimated fair value of each award, as adjusted by the estimated historical forfeiture rate, ratably over the expected service period of the award. The Black-Scholes option pricing model requires the input of highly subjective assumptions. These variables include, but are not limited to, our stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect fair value estimates, in management's opinion, the existing models may not provide a reliable single measure of the fair value of our employee stock options or common stock purchased under our ESPP. In addition, management continually assesses the assumptions and methodologies used to calculate the estimated fair value of stock-based compensation. Circumstances may change and additional data may become available over time, which could result in changes to the assumptions and methodologies, and which could materially impact our fair value determination, as well as our stock-based compensation expense.

In addition, for awards that vest upon the achievement of performance milestones, we estimate whether the awards will vest and the vesting period based on our evaluation of the probability of achievement of each respective milestone and the related estimated date of achievement.

Non-cash Interest Expense on Liability Related to Sale of Future Royalties

In February 2012, we sold all of our rights to receive future royalty payments from sales of the CIMZIA[®] and MIRCERA[®] drug products marketed by UCB and Roche, respectively. Although we are required to make payments to the purchaser (RPI) only in certain situations, including the event of our breach of a representation, warranty or covenant in the Purchase and Sale Agreement that gives rise to a liability in accordance with the terms and conditions of such agreement, this royalty sale transaction was recorded as a liability (Royalty Obligation) that we will amortize using the interest method over the estimated life of the Purchase and Sale Agreement. As a result, we impute interest on the transaction and record interest expense at the estimated interest rate. Our estimate of the interest rate under the agreement is based on the amount of royalty payments to be received by RPI over the life of the arrangement and payments we are required to make to RPI under the agreement. We will periodically assess the expected royalty payments to RPI from UCB and Roche using a combination of historical results and forecasts from market data sources. 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. There are a number of factors that could materially affect the amount and timing of royalty payments from CIMZIA[®] and MIRCERA[®], most of which are not within our control. Such factors include, but are not limited to, changing standards of care, the introduction of competing products, manufacturing or other delays, biosimilar competition, intellectual property matters, adverse events that result in health authority imposed restrictions on the use of the drug products, significant changes in foreign exchange rates as the royalties remitted to RPI are made in U.S. dollars (USD) while significant portions of the underlying sales of CIMZIA[®] and MIRCERA[®] are made in currencies other than USD, and other events or circumstances that result in reduced royalty payments from CIMZIA[®] and MIRCERA[®], all of which would result in a reduction of non-cash royalty revenue and non-cash interest expense over the life of the Royalty Obligation. Conversely, if sales of CIMZIA[®] and MIRCERA[®] are higher than expected, non-cash royalty revenue and non-cash interest expense would also be greater over the term of the Royalty Obligation. If we had determined that the interest rate used in 2015 should have been one percentage point higher than our current estimate of 17%, the non-cash interest expense recognized in the year ended December 31, 2015 would have increased by \$1.3 million.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (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 April 2015, the 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 and early adoption is permitted. Upon adoption, the new guidance must be applied retrospectively to all periods presented. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate and Market Risk

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, 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 short-term securities and maintain a weighted average maturity of one year or less.

A hypothetical 50 basis point increase in interest rates would result in an approximate \$0.6 million decrease, less than 1%, in the fair value of our available-for-sale securities at December 31, 2015. This potential change is based on sensitivity analyses performed on our investment securities at December 31, 2015. Actual results may differ materially. The same hypothetical 50 basis point increase in interest rates would have resulted in an approximate \$0.5 million decrease, less than 1%, in the fair value of our available-for-sale securities at December 31, 2014.

As of December 31, 2015, we held \$253.4 million of available-for-sale investments, excluding money market funds, with an average time to maturity of six months. To date we have not experienced any liquidity issues with respect to these securities, but should 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, cash equivalents, and investments in marketable securities will be sufficient to meet our anticipated cash needs for at least the next twelve months. Based on our available cash and our expected operating cash requirements, we currently do not intend to sell these securities prior to maturity and it is more likely than not that we will not be required to sell these securities before we recover the amortized cost basis. Accordingly, we believe there are no other-than-temporary impairments on these securities and have not recorded any provisions for impairment.

Foreign Currency Risk

The majority of our revenue, expense, and capital purchasing activities are transacted in U.S. dollars. However, since a portion of our operations consists of research and development activities outside the United States, we have entered into transactions in other currencies, primarily the Indian Rupee, and we therefore are subject to foreign exchange risk.

Our international operations are subject to risks typical of international operations, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. We do not utilize derivative financial instruments to manage our exchange rate risks.

NEKTAR THERAPEUTICS
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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Nektar Therapeutics

We have audited the accompanying consolidated balance sheets of Nektar Therapeutics as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nektar Therapeutics at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Nektar Therapeutics' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Redwood City, California
February 29, 2016

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Nektar Therapeutics

We have audited Nektar Therapeutics' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Nektar Therapeutics' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Nektar Therapeutics maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Nektar Therapeutics as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2015 of Nektar Therapeutics and our report dated February 29, 2016 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Redwood City, California
February 29, 2016

NEKTAR THERAPEUTICS
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value information)

	December 31,	
	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 55,570	\$ 12,365
Short-term investments	253,374	225,459
Accounts receivable, net of allowance of nil at December 31, 2015 and 2014	19,947	3,607
Inventory	11,346	12,952
Restricted cash	—	25,000
Other current assets	9,814	8,817
Total current assets	<u>350,051</u>	<u>288,200</u>
Property, plant and equipment, net	71,336	70,368
Goodwill	76,501	76,501
Other assets	4,173	6,552
Total assets	<u>\$ 502,061</u>	<u>\$ 441,621</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,363	\$ 2,703
Accrued compensation	5,998	5,749
Accrued clinical trial expenses	8,220	7,708
Other accrued expenses	4,156	6,418
Interest payable	4,198	6,917
Capital lease obligations, current portion	4,756	4,512
Deferred revenue, current portion	21,428	24,473
Other current liabilities	10,127	5,567
Total current liabilities	61,246	64,047
Senior secured notes, net	242,115	125,000
Capital lease obligations, less current portion	1,073	4,139
Liability related to the sale of future royalties	119,032	120,471
Deferred revenue, less current portion	62,426	76,911
Other long-term liabilities	9,740	14,721
Total liabilities	495,632	405,289
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 10,000 shares authorized; no shares designated, issued or outstanding at December 31, 2015 or 2014	—	—
Common stock, \$0.0001 par value; 300,000 shares authorized; 135,289 shares and 131,216 shares issued and outstanding at December 31, 2015 and 2014, respectively	13	13
Capital in excess of par value	1,876,072	1,824,195
Accumulated other comprehensive loss	(2,170)	(1,567)
Accumulated deficit	(1,867,486)	(1,786,309)
Total stockholders' equity	<u>6,429</u>	<u>36,332</u>
Total liabilities and stockholders' equity	<u>\$ 502,061</u>	<u>\$ 441,621</u>

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

NEKTAR THERAPEUTICS
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share information)

	Year Ended December 31,		
	2015	2014	2013
Revenue:			
Product sales	\$ 40,155	\$ 25,152	\$ 44,846
Royalty revenue	2,967	329	1,148
Non-cash royalty revenue related to sale of future royalties	22,058	21,937	22,055
License, collaboration and other revenue	165,604	153,289	80,872
Total revenue	230,784	200,707	148,921
Operating costs and expenses:			
Cost of goods sold	34,102	28,533	38,509
Research and development	182,787	147,734	190,010
General and administrative	43,266	40,925	40,532
Total operating costs and expenses	260,155	217,192	269,051
Loss from operations	(29,371)	(16,485)	(120,130)
Non-operating income (expense):			
Interest expense	(18,282)	(17,869)	(18,453)
Non-cash interest expense on liability related to sale of future royalties	(20,619)	(20,888)	(22,309)
Loss on extinguishment of debt	(14,079)	—	—
Interest income and other income (expense), net	1,680	814	1,124
Total non-operating expense, net	(51,300)	(37,943)	(39,638)
Loss before provision (benefit) for income taxes	(80,671)	(54,428)	(159,768)
Provision (benefit) for income taxes	506	(512)	2,245
Net loss	\$ (81,177)	\$ (53,916)	\$ (162,013)
Basic and diluted net loss per share	\$ (0.61)	\$ (0.42)	\$ (1.40)
Weighted average shares outstanding used in computing basic and diluted net loss per share	132,458	126,873	115,732

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

NEKTAR THERAPEUTICS
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Year Ended December 31,		
	2015	2014	2013
Net loss	\$ (81,177)	\$ (53,916)	\$ (162,013)
Other comprehensive income (loss):			
Net unrealized loss on available-for-sale investments	(226)	(95)	(268)
Income tax provision on unrealized gain on available-for-sale investments	—	—	470
Net foreign currency translation loss	(377)	(291)	(1,026)
Other comprehensive loss, net of tax	(603)	(386)	(824)
Comprehensive loss	<u>\$ (81,780)</u>	<u>\$ (54,302)</u>	<u>\$ (162,837)</u>

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

NEKTAR THERAPEUTICS
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands)

	Common Shares	Par Value	Capital in Excess of Par Value	Accumulated Other Comprehensive Income/(Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance at December 31, 2012	115,259	\$ 11	\$ 1,617,744	\$ (357)	\$ (1,570,380)	\$ 47,018
Shares issued under equity compensation plans	1,235	—	8,208	—	—	8,208
Stock-based compensation	—	—	17,708	—	—	17,708
Other comprehensive loss	—	—	—	(824)	—	(824)
Net loss	—	—	—	—	(162,013)	(162,013)
Balance at December 31, 2013	116,494	11	1,643,660	(1,181)	(1,732,393)	(89,903)
Sale of common stock, net of issuance costs of \$617	9,775	1	116,535	—	—	116,536
Shares issued under equity compensation plans	4,947	1	46,983	—	—	46,984
Stock-based compensation	—	—	17,017	—	—	17,017
Other comprehensive loss	—	—	—	(386)	—	(386)
Net loss	—	—	—	—	(53,916)	(53,916)
Balance at December 31, 2014	131,216	13	1,824,195	(1,567)	(1,786,309)	36,332
Shares issued under equity compensation plans	4,073	—	32,208	—	—	32,208
Stock-based compensation	—	—	19,669	—	—	19,669
Other comprehensive loss	—	—	—	(603)	—	(603)
Net loss	—	—	—	—	(81,177)	(81,177)
Balance at December 31, 2015	<u>135,289</u>	<u>\$ 13</u>	<u>\$ 1,876,072</u>	<u>\$ (2,170)</u>	<u>\$ (1,867,486)</u>	<u>\$ 6,429</u>

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

NEKTAR THERAPEUTICS
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net loss	\$ (81,177)	\$ (53,916)	\$ (162,013)
Adjustments to reconcile net loss to net cash used in operating activities:			
Non-cash royalty revenue related to sale of future royalties	(22,058)	(21,937)	(22,055)
Non-cash interest expense on liability related to sale of future royalties	20,619	20,888	22,309
Stock-based compensation	19,669	17,017	17,708
Depreciation and amortization	12,855	12,927	14,275
Loss from redemption premium and incremental interest on 12% senior secured notes	12,500	—	—
Write-off of deferred financing costs on 12% senior secured notes	1,579	—	—
Other non-cash transactions	(2,365)	(560)	664
Changes in assets and liabilities:			
Accounts receivable, net	(16,340)	(1,378)	3,576
Inventory	1,606	500	4,817
Other assets	(825)	(3,294)	6,423
Accounts payable	(412)	(6,359)	6,199
Accrued compensation	249	(8,505)	5,481
Accrued clinical trial expenses	512	(9,197)	(595)
Other accrued expenses	(2,278)	273	(1,915)
Interest payable	(2,719)	—	(166)
Deferred revenue	(17,530)	(4,664)	(12,399)
Liability related to receipt of refundable milestone payment	—	(70,000)	70,000
Other liabilities	3,032	(13,801)	9,164
Net cash used in operating activities	<u>(73,083)</u>	<u>(142,006)</u>	<u>(38,527)</u>
Cash flows from investing activities:			
Purchases of investments	(297,608)	(297,251)	(268,068)
Maturities of investments	226,923	247,995	319,181
Sales of investments	42,544	21,661	2,887
Release of restricted cash	25,000	—	—
Purchases of property, plant and equipment	(11,195)	(9,976)	(4,091)
Net cash (used in) provided by investing activities	<u>(14,336)</u>	<u>(37,571)</u>	<u>49,909</u>
Cash flows from financing activities:			
Payment of capital lease obligations	(5,187)	(3,536)	(2,992)
Proceeds from issuance of 7.75% senior secured notes, net of issuance costs	241,262	—	—
Repayment of 12% senior secured notes	(125,000)	—	—
Payment of redemption premium and incremental interest on 12% senior secured notes	(12,500)	—	—
Repayment of proceeds from sale of future royalties	—	(7,000)	(3,000)
Issuance of common stock, net of issuance costs	—	116,536	—
Proceeds from shares issued under equity compensation plans	32,208	46,984	8,208
Net cash provided by financing activities	<u>130,783</u>	<u>152,984</u>	<u>2,216</u>
Effect of exchange rates on cash and cash equivalents	(159)	(109)	32
Net increase (decrease) in cash and cash equivalents	<u>43,205</u>	<u>(26,702)</u>	<u>13,630</u>
Cash and cash equivalents at beginning of year	12,365	39,067	25,437
Cash and cash equivalents at end of year	<u>\$ 55,570</u>	<u>\$ 12,365</u>	<u>\$ 39,067</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest	<u>\$ 20,225</u>	<u>\$ 17,445</u>	<u>\$ 17,590</u>
Cash paid for income taxes	<u>\$ 860</u>	<u>\$ 964</u>	<u>\$ 1,014</u>
Supplemental schedule of non-cash investing and financing activities:			
Property and equipment acquired through capital leases and other financing	<u>\$ 93</u>	<u>\$ 5,231</u>	<u>\$ 2,000</u>

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

NEKTAR THERAPEUTICS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015

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 December 31, 2015, we had approximately \$308.9 million in cash and investments in marketable securities. Also, as of December 31, 2015, we had \$255.8 million in debt, including \$250.0 million in principal of senior secured notes (as further discussed in Note 5) and \$5.8 million of capital lease obligations (Note 6), of which \$4.8 million is current.

Basis of Presentation, Principles of Consolidation and Use of Estimates

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.

Our 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 income (loss) in the stockholders' equity (deficit) section of the balance sheet. To date, such cumulative translation adjustments have not been significant to our consolidated financial position. Aggregate gross foreign currency transaction gains (losses) recorded in operations for the years ended December 31, 2015, 2014, and 2013 were not significant.

The preparation of consolidated 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 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 identified.

Reclassifications

Certain items previously reported in specific financial statement captions have been reclassified to conform to the current period presentation. Such reclassifications do not materially impact previously reported revenue, operating loss, net loss, total assets, liabilities or stockholders' equity.

Cash, Cash Equivalents, and Investments, and Fair Value of Financial Instruments

We consider all investments in marketable securities with an original maturity of three months or less when purchased to be cash equivalents. Investments in securities with remaining maturities of less than one year, or where our intent is to use the investments to fund current operations or to make them available for current operations, are classified as short-term investments.

Investments are designated as available-for-sale and are carried at fair value, with unrealized gains and losses reported in stockholders' equity (deficit) as accumulated other comprehensive income (loss). The disclosed fair value related to our cash equivalents and 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.

Interest and dividends on securities classified as available-for-sale, as well as amortization of premiums and accretion of discounts to maturity, are included in interest income. Realized gains and losses and declines in value of available-for-sale securities judged to be other-than-temporary, if any, are included in other income (expense). The cost of securities sold is based on the specific identification method.

Our cash, cash equivalents, and short-term investments are exposed to credit risk in the event of default by the third parties that hold or issue such assets. Our cash, cash equivalents, and short-term investments are held by financial institutions that management believes are of high credit quality and our investment policy limits investments to fixed income securities denominated and payable in U.S. dollars such as U.S. government obligations, money market instruments and funds, and corporate bonds and places restrictions on maturities and concentrations by type and issuer.

Accounts Receivable and Significant Customer 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. At December 31, 2015, three different customers represented 50%, 35%, and 10%, respectively, of our accounts receivable. At December 31, 2014, three different customers represented 40%, 31%, and 15%, respectively, of our accounts receivable.

Inventory and Significant Supplier Concentrations

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. Inventory related to our research and development activities is expensed when purchased.

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.

Long-Lived Assets

Property, plant and equipment are stated at cost. Major improvements are capitalized, while maintenance and repairs are expensed when incurred. Manufacturing, laboratory and other equipment are depreciated using the straight-line method generally over estimated useful lives of three to ten years. Leasehold improvements and buildings recorded under capital leases are depreciated using the straight-line method over the shorter of the estimated useful life or the remaining term of the lease.

Goodwill represents the excess of the price paid for another entity over the fair value of the assets acquired and liabilities assumed in a business combination. We are organized in one reporting unit and evaluate the goodwill for the Company as a whole. Goodwill has an indefinite useful life and is not amortized, but instead tested for impairment at least annually in the fourth quarter of each year using an October 1 measurement date.

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 of the asset. In the case of goodwill impairment, 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. In March 2015, we announced that the primary endpoint for our BEACON Phase 3 clinical study for NKTR-102 as a single-agent therapy for women with advanced metastatic breast cancer did not achieve statistical significance. As a result, we performed an impairment analysis for our long-lived assets, including goodwill, as well as our primary long-lived asset group which is related to NK TR-102. Based on this analysis, we concluded that there is no impairment during the year ended December 31, 2015.

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 7, 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.

Shipping and Handling Costs

We recognize costs related to shipping and handling of product to customers in cost of goods sold.

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. .

Stock-Based Compensation

Stock-based compensation arrangements include stock option grants and restricted stock unit (RSU) awards under our equity incentive plans, as well as shares issued under our Employee Stock Purchase Plan (ESPP), through which employees may purchase our common stock at a discount to the market price.

We use the Black-Scholes option pricing model for the respective grant to determine the estimated fair value of the option on the date of grant (grant date fair value) and the estimated fair value of common stock purchased under the ESPP. The Black-Scholes option pricing model requires the input of highly subjective assumptions. These variables include, but are not limited to, our stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models may not provide a reliable single measure of the fair value of our employee stock options or common stock purchased under the ESPP. Management will continue to assess the assumptions and methodologies used to calculate the estimated fair value of stock-based compensation. Circumstances may change and additional data may become available over time, which could result in changes to these assumptions and methodologies, and which could materially impact our fair value determination.

We expense the value of the portion of the option or award that is ultimately expected to vest based on the historical forfeiture rate on a straight line basis over the requisite service periods in our Consolidated Statements of Operations. For awards that vest upon the achievement of performance milestones, we estimate the vesting period based on our evaluation of the probability of achievement of each respective milestone and the related estimated date of achievement. Stock-based compensation expense for purchases under the ESPP is recognized over the respective six-month purchase period. Expense amounts are recorded in cost of goods sold, research and development expense, and general and administrative expense based on the function of the applicable employee. Stock-based compensation charges are non-cash charges and as such have no impact on our reported cash flows.

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 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 2015, 2014 and 2013, potentially dilutive securities consisted of common shares underlying outstanding stock options and restricted stock unit awards (RSUs). There were weighted average outstanding stock options and RSUs of 21.1 million, 21.9 million and 20.7 million during the years ended December 31, 2015, 2014 and 2013, respectively.

Income Taxes

We account for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax reporting bases of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Realization of deferred tax assets is dependent upon future earnings, the timing and amount of which are uncertain. We record a valuation allowance against deferred tax assets to reduce their carrying value to an amount that is more likely than not to be realized. When we establish or reduce the valuation allowance related to the deferred tax assets, our provision for income taxes will increase or decrease, respectively, in the period such determination is made.

We utilize a two-step approach to recognize and measure uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon tax authority examination, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

Comprehensive loss

Comprehensive loss is the change in stockholders' equity (deficit) from transactions and other events and circumstances other than those resulting from investments by stockholders and distributions to stockholders. Our other comprehensive income (loss) is comprised of net loss, gains and losses from the foreign currency translation of the assets and liabilities of our India and UK subsidiaries, and unrealized gains and losses on investments in available-for-sale securities.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (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 April 2015, the 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 and early adoption is permitted. Upon adoption, the new guidance must be applied retrospectively to all periods presented. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

Note 2 — Cash and Investments in Marketable Securities

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

	Estimated Fair Value at	
	December 31, 2015	December 31, 2014
Cash and cash equivalents	\$ 55,570	\$ 12,365
Short-term investments	253,374	225,459
Restricted cash	—	25,000
Total cash and investments in marketable securities	<u>\$ 308,944</u>	<u>\$ 262,824</u>

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 December 31, 2015 and 2014, all of our investments had maturities of one year or less.

Gross unrealized gains and losses were not significant at either December 31, 2015 or 2014. During the years ended December 31, 2015, 2014 and 2013, we sold available-for-sale securities totaling \$42.5 million, \$21.7 million, and \$2.9 million, respectively, and realized gains and losses were not significant in any of those periods.

Restricted cash of \$25.0 million was required to be maintained in a separate account until July 1, 2015 under the terms of our 12% senior secured notes due July 2017. This restriction expired on July 1, 2015 and the restricted funds were returned to us. 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):

	Fair Value Hierarchy Level	Estimated Fair Value at	
		December 31, 2015	December 31, 2014
Corporate notes and bonds	2	\$ 181,969	\$ 182,544
Corporate commercial paper	2	61,150	42,915
Obligations of U.S. government agencies	2	7,325	—
Available-for-sale investments		250,444	225,459
Money market funds	1	53,728	11,229
Certificate of deposit	N/A	2,930	—
Cash, including restricted cash	N/A	1,842	26,136
Total cash and investments in marketable securities		<u>\$ 308,944</u>	<u>\$ 262,824</u>

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. During the years ended December 31, 2015, 2014 and 2013 there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

At December 31, 2015 and 2014, we had letter of credit arrangements in favor of a landlord and certain vendors totaling \$2.4 million. These letters of credit are secured by investments of similar amounts.

Note 3 — Inventory

Inventory consists of the following (in thousands):

	December 31,	
	2015	2014
Raw materials	\$ 3,236	\$ 2,200
Work-in-process	6,087	5,187
Finished goods	2,023	5,565
Total inventory	<u>\$ 11,346</u>	<u>\$ 12,952</u>

Note 4 — Property, Plant and Equipment

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

	December 31,	
	2015	2014
Building and leasehold improvements	\$ 77,665	\$ 72,228
Laboratory equipment	27,309	26,975
Manufacturing equipment	35,631	25,212
Furniture, fixtures and other equipment	24,987	23,451
Depreciable property, plant and equipment at cost	165,592	147,866
Less: accumulated depreciation	(102,712)	(93,807)
Depreciable property, plant and equipment, net	62,880	54,059
Construction-in-progress	8,456	16,309
Property, plant and equipment, net	<u>\$ 71,336</u>	<u>\$ 70,368</u>

Building and leasehold improvements include our manufacturing, research and development and administrative facilities and the related improvements to these facilities. Laboratory and manufacturing equipment include assets that support both our manufacturing and research and development efforts. Construction-in-progress includes assets being built to enhance our manufacturing and research and development efforts, including manufacturing equipment supporting our Amikacin Inhale program at third-party contract manufacturing locations in the U.S. and Germany. Under the terms of our arrangement with certain of these contract manufacturers, during the period the equipment is being constructed, we are obligated to pay for their costs incurred to date. As of December 31, 2015 and 2014, we have recorded a total of \$4.3 million and \$7.2 million, respectively, in other current and other long-term liabilities related to our obligation to purchase this equipment, which is recorded in property, plant and equipment. After the assets are placed into service, this liability is recorded as a capital lease liability and will be paid over approximately three years.

Depreciation expense, including depreciation of assets acquired through capital leases, for the years ended December 31, 2015, 2014, and 2013 was \$11.4 million, \$11.7 million, and \$13.0 million, respectively.

Note 5 — Senior Secured Notes

On September 30, 2015, we entered into a purchase agreement with TC Lending, LLC and TAO Fund, LLC for the sale of \$250.0 million in aggregate principal amount of 7.75% senior secured notes due 2020 (the “Notes”). On October 5, 2015, we completed the sale and issuance of the Notes. The Notes are secured by a first-priority lien on substantially all of our assets. The Notes bear interest at a rate of 7.75% per annum payable in cash quarterly in arrears on January 15, April 15, July 15, and October 15 of each year, beginning on October 15, 2015. Interest is calculated based on actual days outstanding over a 360 day year. The Notes will mature on October 5, 2020, at which time the outstanding principal will be due and payable.

In connection with the issuance of the Notes, we paid fees and expenses of \$8.9 million, of which \$8.3 million of transaction and facility fees paid directly to the purchasers of the Notes were capitalized as a debt discount and recorded as a reduction to the senior secured notes, net liability balance in our Consolidated Balance Sheet. An additional \$0.4 million of direct issuance costs was capitalized and recorded in Other Assets in our Consolidated Balance Sheet and \$0.2 million of fees were expensed. These debt discount and issuance costs will be amortized to interest expense over the five year term of the Notes.

On October 5, 2015, we used a portion of the proceeds from the Notes to redeem the \$125.0 million in aggregate principal amount of 12.0% senior secured notes due in 2017 (12% Notes). In addition, on October 5, 2015, we paid \$3.3 million of accrued interest on the 12% Notes and made a \$12.5 million redemption payment, which includes \$1.2 million of additional interest paid to the note holders at redemption. As a result, we received \$100.3 million in net proceeds in connection with these transactions. In addition, as a result of these transactions, in the year ended December 31, 2015, we recognized a \$14.1 million loss on extinguishment of our 12% Notes, which consists of the \$11.3 million redemption premium and \$1.2 million of incremental interest paid to the note holders and the write-off of \$1.6 million of unamortized issuance costs.

The agreement, pursuant to which the Notes were issued, contains customary covenants, including covenants that limit or restrict our ability to incur liens, incur indebtedness, declare or pay dividends, redeem stock, issue preferred stock, make certain investments, merge or consolidate, make dispositions of assets, or enter into certain new businesses or transactions with affiliates, but do not contain covenants related to future financial performance. In particular, the Notes agreement requires us to maintain a minimum cash and investments in marketable securities balance of \$60.0 million during the term of the Notes. The agreement also required that \$50.0 million of the proceeds received from the issuance of the Notes be maintained in a restricted account until all liens securing the 12% Notes were released and all liens were released in November 2015 and the restrictions on this amount were removed. The Notes agreement provides that, beginning on October 5, 2017, we may redeem some or all of the Notes, subject to certain prepayment premiums and conditions. If we experience certain change of control events, the holders of the Notes will have the right to require us to purchase all or a portion of the Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase. In addition, upon certain asset sales, we may be required to offer to use the net proceeds thereof to purchase some of the Notes at 100% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase.

As of December 31, 2015, given that the Notes were recently issued in October 2015 and 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 the Notes is consistent with its fair value.

Note 6 — Leases

Capital Leases

We lease office space at 201 Industrial Road in San Carlos, California under a capital lease arrangement. Under the terms of the lease, rent increases up to 3% annually and the lease termination date is October 5, 2016. As of November 29, 2010, we ceased use of this space as a result of the relocation of our San Carlos operations and corporate headquarters to San Francisco, California. As of April 2013, we had subleased all of the San Carlos facility and our future minimum rental receipts under these subleases total \$2.1 million as of December 31, 2015.

In addition to our San Carlos capital lease, we have purchased certain manufacturing equipment under capital leases. As of December 31, 2015 and 2014, the gross amount of assets recorded under capital leases was \$5.1 million and \$2.7 million, respectively, and the recorded value of these assets, net of depreciation, was \$3.2 million and \$1.2 million, respectively.

Future minimum payments for our capital leases at December 31, 2015 are as follows (in thousands):

Years ending December 31,		
2016	\$	5,135
2017		1,043
2018		72
Total minimum payments required		6,250
Less: amount representing interest		(421)
Present value of future minimum lease payments		5,829
Less: current portion		(4,756)
Capital lease obligation, less current portion	\$	1,073

Operating Lease

On September 30, 2009, we entered into an operating sublease (Sublease) with Pfizer, Inc. for a 126,285 square foot facility located in San Francisco, California (Mission Bay Facility). Under the terms of the Sublease, we began making non-cancelable lease payments in 2014, after the expiration of our free rent period on August 1, 2014. The Sublease term is 114 months, commencing in August 2010 and terminating on January 31, 2020. Monthly base rent will escalate over the term of the sublease at various intervals. In addition, throughout the term of the Sublease, we are responsible for paying certain costs and expenses specified in the Sublease, including insurance costs and a pro rata share of operating expenses and applicable taxes for the Mission Bay Facility.

Our future minimum lease payments for our operating leases at December 31, 2015 are as follows (in thousands):

Years ending December 31,		
2016	\$	4,892
2017		5,037
2018		5,187
2019		5,344
2020		452
Total future minimum lease payments	\$	<u>20,912</u>

We recognize rent expense on a straight-line basis over the lease period. For the years ended December 31, 2015, 2014, and 2013, rent expense for all of our operating leases, which primarily consists of our Mission Bay Facility, was approximately \$3.2 million, \$3.2 million, and \$2.9 million, respectively. As of December 31, 2015 and 2014, we had total deferred rent balances of \$8.5 million and \$8.7 million, respectively, which are recorded in other current and other long-term liabilities in our Consolidated Balance Sheets.

Note 7 — Liability Related to the 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[®], under our license, manufacturing and supply agreement with UCB Pharma (UCB), and (b) MIRCERA[®], 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[®] and MIRCERA[®] 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 and 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.

The following table shows the activity within the liability account during the year ended December 31, 2015 and for the period from the inception of the royalty transaction on February 24, 2012 (inception) to December 31, 2015 (in thousands):

	Year ended December 31, 2015	Period from inception to December 31, 2015
Liability related to the sale of future royalties—beginning balance	\$ 120,471	\$ —
Proceeds from sale of future royalties	—	124,000
Payments from Nektar to RPI	—	(10,000)
Non-cash CIMZIA [®] and MIRCERA [®] royalty revenue	(22,058)	(76,841)
Non-cash interest expense recognized	20,619	81,873
Liability related to the sale of future royalties – ending balance	<u>\$ 119,032</u>	<u>\$ 119,032</u>

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[®] 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.

As a result of this liability accounting, even though the royalties from UCB and Roche are remitted directly to RPI, we will continue to recognize revenue for these royalties. During the years ended December 31, 2015, 2014 and 2013, we recognized \$ 22.1 million, \$21.9 million, and \$22.1 million, respectively, in non-cash royalties from net sales of CIMZIA[®] and MIRCERA[®] and we recorded \$20.6 million, \$20.9 million and \$22.3 million, respectively, of related non-cash interest expense.

As royalties are remitted to RPI from Roche and UCB, the balance of the Royalty Obligation will be effectively repaid over the life of the agreement. In order to determine the amortization of the Royalty Obligation, we are required to estimate the total amount of future royalty payments to be received by RPI and payments we are required to make to RPI as noted above over the life of the agreement. The sum of these amounts less the \$124.0 million proceeds we received will be recorded as interest expense over the life of the Royalty Obligation. Since inception, our estimate of this total interest expense 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 the amount or timing of such payments is materially different than our original estimates, we will prospectively adjust the amortization of the Royalty Obligation. There are a number of factors that could materially affect the amount and timing of royalty payments from CIMZIA[®] and MIRCERA[®], most of which are not within our control. Such factors include, but are not limited to, changing standards of care, the introduction of competing products, manufacturing or other delays, biosimilar competition, intellectual property matters, adverse events that result in governmental health authority imposed restrictions on the use of the drug products, significant changes in foreign exchange rates as the royalties remitted to RPI are made in U.S. dollars (USD) while significant portions of the underlying sales of CIMZIA[®] and MIRCERA[®] are made in currencies other than USD, and other events or circumstances that could result in reduced royalty payments from CIMZIA[®] and MIRCERA[®], all of which would result in a reduction of non-cash royalty revenues and the non-cash interest expense over the life of the Royalty Obligation. Conversely, if sales of CIMZIA[®] and MIRCERA[®] are more than expected, the non-cash royalty revenues and the non-cash interest expense recorded by us would be greater over the term of the Royalty Obligation.

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 8 — Commitments and Contingencies

Royalty Expense

We have third party licenses that require us to pay royalties based on our sales of certain products and/or on our recognition of royalty revenue under certain of our collaboration agreements. Royalty expense, which is reflected in cost of goods sold in our Consolidated Statements of Operations, was approximately \$2.8 million, \$3.4 million, and \$4.1 million for the years ended December 31, 2015, 2014, and 2013, respectively. The overall maximum amount of these obligations is based upon sales of the applicable products by our collaboration partners and cannot be reasonably estimated.

Purchase Commitments

In the normal course of business, we enter into various firm purchase commitments related to contract manufacturing, clinical development and certain other items. As of December 31, 2015, these commitments were approximately \$5.4 million, all of which are expected to be paid in 2016.

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 stated that it currently intends to appeal this dismissal.

Foreign Operations

We operate in a number of foreign countries. As a result, we are subject to numerous local laws and regulations that can result in claims made by foreign government agencies or other third parties that are often difficult to predict even after the application of good faith compliance efforts.

Indemnification Obligations

During the course of our normal operating activities, we have agreed to certain contingent indemnification obligations as further described below. The term of our indemnification obligations is generally perpetual. There is generally no limitation on the potential amount of future payments we could be required to make under these indemnification obligations. To date, we have not incurred significant costs to defend lawsuits or settle claims based on our indemnification obligations. If any of our indemnification obligations is triggered, we may incur substantial liabilities. 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 on our Consolidated Balance Sheets as of December 31, 2015 or 2014.

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.

As part of the sale of our royalty interest in the CIMZIA[®] and MIRCERA[®] products, we and RPI made representations and warranties and entered into certain covenants and ancillary agreements which are supported by indemnity obligations. Additionally, as part of our pulmonary asset sale to Novartis in 2008, we and Novartis made representations and warranties and entered into certain covenants and ancillary agreements which are supported by an indemnity obligation. In the event it is determined that we breached certain of the representations and warranties or covenants and agreements made by us in any such agreements, we could incur substantial indemnification liabilities depending on the timing, nature, and amount of any such claims.

Indemnification of Underwriters and Initial Purchasers of our Securities

In connection with our sale of equity and senior secured debt securities, we have agreed to defend, indemnify and hold harmless our underwriters or initial purchasers, as applicable, as well as certain related parties from and against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

Director and Officer Indemnifications

As permitted under Delaware law, and as set forth in our Certificate of Incorporation and our Bylaws, we indemnify our directors, executive officers, other officers, employees, and other agents for certain events or occurrences that may arise while in such capacity. The maximum potential amount of future payments we could be required to make under this indemnification is unlimited; however, we have insurance policies that may limit our exposure and may enable us to recover a portion of any future amounts paid. Assuming the applicability of coverage, the willingness of the insurer to assume coverage, and subject to certain retention, loss limits and other policy provisions, we believe any obligations under this indemnification would not be material, other than an initial \$1.5 million per incident for merger and acquisition related claims, \$1.0 million per incident for securities related claims and \$0.5 million per incident for non-securities related claims retention deductible per our insurance policy. However, no assurances can be given that the covering insurers will not attempt to dispute the validity, applicability, or amount of coverage without expensive litigation against these insurers, in which case we may incur substantial liabilities as a result of these indemnification obligations.

Note 9 — Stockholders' Equity

Preferred Stock

We have authorized 10,000,000 shares of Preferred Stock with each share having a par value of \$0.0001. As of December 31, 2015 and 2014, no preferred shares are designated, issued or outstanding.

Common Stock

On January 28, 2014, we completed the issuance and sale of 9,775,000 shares of our common stock in a public offering with total proceeds of approximately \$117.2 million after deducting the underwriting commissions and discounts of approximately \$7.5 million. In addition, we incurred approximately \$0.6 million in legal and accounting fees, filing fees, and other costs in connection with this offering.

Equity Compensation Plans

At December 31, 2015, we had 27,744,597 reserved shares of common stock, all of which are reserved for issuance under our equity compensation plans as summarized in the following table (share numbers in thousands):

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options & Vesting of RSUs (a)	Weighted-Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available for Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a) (c)
Equity compensation plans approved by security holders(1)	18,056	\$ 11.33	7,657
Equity compensation plans not approved by security holders	2,032	\$ 10.30	—
Total	20,088	\$ 11.22	7,657

(1) Includes shares of common stock available for future issuance under our ESPP as of December 31, 2015.

2012 Performance Incentive Plan

Our 2012 Performance Incentive Plan (2012 Plan) was adopted by the Board of Directors on April 4, 2012 and was approved by our stockholders on June 28, 2012. On the date of approval, any shares of our common stock that were available for issuance under all other previously existing stock plans (the 2008 Equity Incentive Plan, the 2000 Equity Incentive Plan, and the 2000 Non-Officer Equity Incentive Plan) became available for issuance under the 2012 Plan. In addition, 5,300,000 new shares were made available for award grants under the 2012 Plan. No new awards were granted under any of the previous stock plans after June 28, 2012. Any shares of common stock subject to outstanding awards under the previous stock plans that expire, are cancelled, or otherwise terminate at any time after December 31, 2011 are also available for award grant purposes under the 2012 Plan. On June 16, 2015, our stockholders approved an amendment to the 2012 Plan whereby 7,000,000 additional shares were made available for award grants under the 2012 Plan.

The purpose of the 2012 Plan and our other incentive plans is to attract, motivate, retain, and reward directors, officers, employees, and other eligible persons through the grant of awards and incentives for high levels of individual performance and increasing the value of our business, as well as to further align the interests of award recipients and our stockholders. The 2012 Plan authorizes stock options, stock appreciation rights, restricted stock, performance stock, stock units, stock bonuses, dividend equivalents, other similar rights to purchase or acquire shares, and other forms of awards granted or denominated in our common stock or units of the Company's common stock, as well as cash bonus awards. Directors, officers, or employees, and certain consultants and advisors may receive awards under the 2012 Plan. Pursuant to the 2012 Plan, we granted or issued incentive stock options to officers and non-qualified stock options and RSUs to employees, officers, and non-employee directors. The requisite service period for stock options granted to our employees under the 2012 Plan as well as all other previously existing stock plans is generally four years; the requisite service period for stock options granted to our directors is generally one year. During the year ended December 31, 2015, we granted RSUs to employees, officers and non-employees directors. No RSUs were granted during 2014 or 2013. The requisite service period for RSUs granted under the 2012 Plan is generally three years for employees and one year for directors.

The maximum number of shares of our common stock that may be issued or transferred pursuant to awards under the 2012 Plan is 19,936,433 shares, plus any shares subject to outstanding awards under the previous stock plans that expire, are cancelled, or otherwise terminate for any reason. Generally, shares that are subject to or underlie awards which expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason (except for shares exchanged by a participant or withheld to pay the exercise price of an award granted and related tax withholding obligations) are not paid or delivered under the 2012 Plan will again be available for subsequent awards under the 2012 Plan. Shares issued in respect of any award, other than a stock option or stock appreciation right, granted under the 2012 Plan will be counted against the plan's share limit as 1.5 shares for every one share actually issued in connection with the award.

The 2012 Plan will terminate on April 3, 2022, unless earlier terminated by the Board of Directors. The maximum term of a stock option or stock appreciation right under the 2012 Plan is eight years from the date of grant. The per share exercise price of an option generally may not be less than the fair market value of a share of the Company's common stock on the NASDAQ Global Select Market on the date of grant.

Other Equity Incentive Plans

In addition to the 2012 Plan, we have other equity incentive plans under which options granted remain outstanding but no new options may be granted either as a result of the approval of the 2012 Plan or plan expiration. These plans include: (i) the 2008 Equity Incentive Plan (2008 Plan) which was adopted by the Board of Directors on March 20, 2008 and approved by our stockholders on June 6, 2008; (ii) the 2000 Equity Incentive Plan (2000 Plan) which was adopted by the Board of Directors on April 19, 2000 by amending and restating our 1994 Equity Incentive Plan, and which expired on February 9, 2010; and (iii) the 1998 Non-Officer Equity Incentive Plan which was adopted by our Board of Directors on August 18, 1998, and which was amended and restated in its entirety and renamed the 2000 Non-Officer Equity Incentive Plan on June 6, 2000 (2000 Non-Officer Plan).

Pursuant to the 2008 Plan and the 2000 Plan, we previously granted or issued incentive stock options to employees and officers and non-qualified stock options, rights to acquire restricted stock, restricted stock units, and stock bonuses to employees, officers, non-employee directors, and consultants. Pursuant to the 2000 Non-Officer Plan, we previously granted or issued non-qualified stock options, rights to acquire restricted stock and stock bonuses to employees and consultants who are neither officers nor directors of Nektar. The maximum term of a stock option under all of these plans is eight years.

Employee Stock Purchase Plan

In February 1994, our Board of Directors adopted the Employee Stock Purchase Plan (ESPP) pursuant to section 423(b) of the Internal Revenue Code of 1986. Under the ESPP, 2,500,000 shares of our common stock have been authorized for issuance. The terms of the ESPP provide eligible employees with the opportunity to acquire an ownership interest in Nektar through participation in a program of periodic payroll deductions for the purchase of our common stock. Employees may elect to enroll or re-enroll in the ESPP on a semi-annual basis. Stock is purchased at 85% of the lower of the closing price on the first day of the enrollment period or the last day of the enrollment period.

401(k) Retirement Plan

We sponsor a 401(k) retirement plan whereby eligible employees may elect to contribute up to the lesser of 60% of their annual compensation or the statutorily prescribed annual limit allowable under Internal Revenue Service regulations. The 401(k) plan permits us to make matching contributions on behalf of all participants, up to a maximum of \$3,000 per participant. For the years ended December 31, 2015, 2014, and 2013, we recognized \$0.9 million, \$0.9 million, and \$1.0 million, respectively, of compensation expense in connection with our 401(k) retirement plan.

Change in Control Severance Plan

On December 6, 2006, our Board of Directors approved a Change of Control Severance Benefit Plan (CIC Plan). This CIC Plan has subsequently been amended a number of times by our Board of Directors with the most recent amendment occurring on April 5, 2011. The CIC Plan is designed to make certain benefits available to our eligible employees in the event of a change of control of Nektar and, following such change of control, an employee's employment with us or a successor company is terminated in certain specified circumstances. We adopted the CIC Plan to support the continuity of the business in the context of a change of control transaction. The CIC Plan was not adopted in contemplation of any specific change of control transaction.

Under the CIC Plan, in the event of a change of control of Nektar and a subsequent termination of employment initiated by us or a successor company other than for Cause (as defined in the CIC Plan) or initiated by the employee for a Good Reason Resignation (as defined in the CIC Plan) in each case within twelve months following a change of control transaction, (i) the Chief Executive Officer would be entitled to receive cash severance pay equal to 24 months base salary plus annual target incentive pay, the extension of employee benefits over this severance period and the full acceleration of unvested outstanding equity awards, and (ii) our Senior Vice Presidents and Vice Presidents (including Principal Fellows) would each be entitled to receive cash severance pay equal to twelve months base salary plus annual target incentive pay, the extension of employee benefits over this severance period and the full acceleration of unvested outstanding equity awards. In the event of a change of control of Nektar and a subsequent termination of employment initiated by the Company or a successor company other than for Cause within twelve months following a change of control transaction, all other employees would each be entitled to receive cash severance pay equal to 6 months base salary plus a pro-rata portion of annual target incentive pay, the extension of employee benefits over this severance period and the full acceleration of each such employee's unvested outstanding equity awards. Under the CIC Plan, as amended, non-employee directors would also be entitled to full acceleration of vesting of all outstanding stock awards in the event of a change of control transaction.

Note 10 — 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.

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

Partner	Agreement	Year Ended December 31,		
		2015	2014	2013
AstraZeneca AB	MOVANTIK™ (NKTR-118) and MOVANTIK™ fixed-dose combination program (NKTR-119)	\$ 130,000	\$ 105,001	\$ 25,016
Roche	PEGASYS® and MIRCERA®	12,816	12,845	18,382
Baxalta Incorporated	ADYNOVATE™	10,694	10,258	1,702
Amgen, Inc.	Neulasta®	5,000	5,000	5,035
Bayer Healthcare LLC	BAY41-6551 (Amikacin Inhale)	1,919	4,717	15,293
Affymax, Inc.	OMONTYS®	—	—	7,149
Other		5,175	15,468	8,295
License, collaboration and other revenue		<u>\$ 165,604</u>	<u>\$ 153,289</u>	<u>\$ 80,872</u>

As of December 31, 2015, our collaboration agreements with partners included potential future payments for development milestones totaling approximately \$113.3 million, including amounts from our agreements with Baxalta, Bayer and Ophthotech described below. In addition, we are entitled to receive the contingent development payments related to MOVANTIK™ fixed-dose combination drug development programs and contingent sales milestone and royalty payments related to MOVANTIK™ and the MOVANTIK™ fixed-dose combination drug development programs as described below.

AstraZeneca AB : *MOVANTIK™ (naloxegol oxalate), previously referred to as naloxegol and NKTR-118, and MOVANTIK™ fixed-dose combination program, p 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® 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). As a result of the FDA's approval, on September 16, 2014, we were entitled to a \$35.0 million non-refundable payment from AstraZeneca, which was received in October 2014. In addition, the FDA's approval of MOVANTIK™ extinguished our contingent obligation to repay the \$70.0 million payment made to us by AstraZeneca in November 2013 after the MOVANTIK™ New Drug Application was accepted for review by the FDA. As a result, in September 2014, we fully recognized as revenue this \$70.0 million payment.

On March 31, 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 will be paid in July 2016, is included in other current liabilities in our Consolidated Balance Sheet at December 31, 2015. 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® (the naloxegol brand name in the European Union or EU) in Germany. As of December 31, 2015, we do not have deferred revenue related to this agreement.

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™, the FDA required AstraZeneca to perform a post-marketing, observational epidemiological study comparing MOVANTIK™ 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™ 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. The agreement is terminable by the parties under customary conditions.

This Hemophilia A program includes ADYNOVATE™, 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 included in the accounts receivable balance in our Consolidated Balance Sheet at December 31, 2015 and was received in January 2016. In August 2014, Baxalta announced positive top-line results from its Phase 3 pivotal clinical trial of ADYNOVATE™ (previously referred to as BAX 855) which met the primary endpoint for the control and prevention of bleeding, routine prophylaxis and perioperative management for patients who were 12 years or older. As a result of this Phase 3 clinical trial meeting its primary endpoint, we earned development milestones totaling \$8.0 million in September 2014. In addition, under the terms of this agreement, as of December 31, 2015, 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 December 31, 2015, we do not have significant deferred revenue related to this agreement.

Roche: PEGASYS® and MIRCERA®

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®. As a result of Roche exercising a license extension option in December 2009, Roche has the right to manufacture all of its requirements for our proprietary PEGylation materials for PEGASYS® and we performed additional manufacturing, if any, only on an as-requested basis. In connection with Roche's exercise of the license extension option in December 2009, we received a payment of \$31.0 million. As of December 31, 2015, we no longer have any continuing performance obligations under this PEGASYS® agreement and, therefore, have no deferred revenue related to this agreement.

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®. 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® 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.

We analyzed the milestone payments under the agreement and determined that they did not meet the criteria for revenue recognition under the milestone method as a result of our continuing manufacturing obligations. We identified our back-up manufacturing obligation through December 2016 and the delivery of PEGylation materials specified in the agreement in 2012 and early 2013 as the units of accounting in the arrangement. We made our best estimate of the selling prices for these deliverables and allocated the total \$27.0 million consideration to these items based on the relative selling price method. As of December 31, 2015, we have deferred revenue of approximately \$5.4 million, which we expect to recognize through December 2016, the estimated end of our obligations under this agreement.

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. We determined that these incremental activities should be considered a material modification of the existing PEGASYS® and MIRCERA®-related arrangements described above. As a result, we allocated the \$18.6 million consideration to each of these arrangements and determined the amounts to be recognized or deferred based on the estimated selling prices of the undelivered obligations. As of December 31, 2015, we have deferred revenue of approximately \$2.3 million related to these activities, which we expect to recognize through December 2016, the estimated end of our obligations under the modified arrangements.

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 guarantee the manufacture and supply of our proprietary PEGylation materials (Polymer Materials) to Amgen in an existing manufacturing suite to be used exclusively for the manufacture of Polymer Materials for Amgen (the Manufacturing Suite) in our manufacturing facility in Huntsville, Alabama (the Facility). This supply arrangement is on a non-exclusive basis (other than the use of the Manufacturing Suite and certain equipment) whereby we are free to manufacture and supply the Polymer Materials to any other third party and Amgen is free to procure the Polymer Materials from any other third party. 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 Polymer Materials to Amgen including without limitation the Additional Rights described below and manufacturing fees that are calculated based on fixed and variable components applicable to the Polymer Materials ordered by Amgen and delivered by us. Amgen has no minimum purchase commitments. If quantities of the Polymer Materials ordered by Amgen exceed specified quantities, significant additional payments become payable to us in return for our guaranteeing the supply of additional quantities of the Polymer Materials.

The term of the amended and restated agreement ends on October 29, 2020. In the event we become subject to a bankruptcy or insolvency proceeding, we cease to own or control the Facility, we fail to manufacture and supply or certain other events, Amgen or its designated third party will have the right to elect, among certain other options, to take title to the dedicated equipment and access the Facility to operate the Manufacturing Suite solely for the purpose of manufacturing the Polymer Materials. Amgen may terminate the amended and restated agreement for convenience or due to an uncured material default by us. Our research facility in Huntsville, Alabama that we propose to sell is a different building and location from that of the Facility described here.

As of December 31, 2015, we have deferred revenue of approximately \$24.2 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. Bayer is responsible for most future clinical development and commercialization costs, all activities to support worldwide regulatory filings, approvals and related activities, further development of Amikacin Inhale and final product packaging and distribution. 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 December 31, 2015, we have received an upfront payment of \$40.0 million (which was paid to us in 2007) and milestone payments totaling \$30.0 million, including a \$10.0 million development milestone which was achieved in 2013 as a result of the start of the Phase 3 clinical trial by Bayer. 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 December 31, 2015, we have deferred revenue of approximately \$19.3 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 December 31, 2015, we have deferred revenue of approximately \$18.2 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.

In April 2004, we entered into a license, manufacturing and supply agreement with Affymax, Inc. (Affymax) under which we provided Affymax with a worldwide, non-exclusive license under certain of our proprietary PEGylation technology to develop, manufacture and commercialize OMONTYS® (peginesatide). On February 23, 2013, Affymax and Takeda Pharmaceutical Company Limited announced a voluntary recall of all lots of OMONTYS® drug product as a result of new post-marketing reports regarding serious hypersensitivity reactions, including anaphylaxis, which can be life-threatening or fatal. In July 2013, Affymax terminated the license, manufacturing and supply agreement with Nektar.

We have received milestone and related payments under our agreement with Affymax and, as a result of the termination of our agreement with Affymax and our related performance obligations, we recognized the remaining \$6.7 million of deferred revenue from this agreement in the year ended December 31, 2013.

Other

In addition, as of December 31, 2015, we have a number of collaboration agreements, including with our collaboration partner UCB, under which we are entitled to up to a total of \$46.8 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 December 31, 2015, we have deferred revenue of approximately \$14.5 million related to these other collaboration agreements, which we expect to recognize through 2020, the estimated end of our obligations under those agreements.

During the year ended December 31, 2014, two of our collaboration partners achieved the successful transfer of our commercial manufacturing process in connection with the PEGylation materials used in their products. In connection with our assistance with these manufacturing technology transfers, we received a total of \$9.0 million of milestone payments. We concluded that these payments are substantive milestones and recognized them in their entirety in the year ended December 31, 2014.

Note 11 — Stock-Based Compensation

We issue stock-based awards from our equity incentive plans, which are more fully described in Note 9. Stock-based compensation expense was recognized as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Cost of goods sold	\$ 1,142	\$ 1,161	\$ 1,297
Research and development	9,207	7,528	7,910
General and administrative	9,320	8,328	8,501
Total stock-based compensation	\$ 19,669	\$ 17,017	\$ 17,708

As of December 31, 2015, total unrecognized compensation costs of \$58.5 million related to unvested stock-based compensation arrangements are expected to be recognized as expense over a weighted-average period of 1.9 years.

Black-Scholes Assumptions

The following table lists the Black-Scholes option-pricing model assumptions used to calculate the fair value of employee and director stock options.

	Year Ended December 31,		
	2015	2014	2013
Average risk-free interest rate	1.6%	1.6%	0.9%
Dividend yield	0.0%	0.0%	0.0%
Average volatility factor	50.8%	51.6%	61.2%
Average weighted average expected life	5.3 years	5.2 years	5.2 years

The average risk-free interest rate is based on the U.S. treasury yield curve in effect at the time of grant for periods commensurate with the expected life of the stock-based award. We have never paid dividends, nor do we expect to pay dividends in the foreseeable future; therefore, we used a dividend yield of 0.0%. Our estimate of expected volatility is based on the daily historical trading data of our common stock at the time of grant over a historical period commensurate with the expected life of the stock-based award. For the years ended December 31, 2015, 2014, and 2013, we estimated the weighted-average expected life based on the contractual and vesting terms of the stock options, as well as historical cancellation and exercise data.

Stock-based compensation expense resulting from our ESPP was not material in the years ended December 31, 2015, 2014, and 2013.

Summary of Stock Option Activity

The table below presents a summary of stock option activity under our equity incentive plans (in thousands, except for price per share and contractual life information):

	Number of Shares	Weighted- Average Exercise Price per Share	Weighted- Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value(1)
Outstanding at December 31, 2014	21,995	\$ 10.50		
Options granted	1,746	14.00		
Options exercised	(3,937)	7.89		
Options forfeited & canceled	(1,022)	13.42		
Outstanding at December 31, 2015	18,782	\$ 11.22	4.67	\$ 105,830
Vested and expected to vest at December 31, 2015	18,360	\$ 11.14	4.62	\$ 104,749
Exercisable at December 31, 2015	12,222	\$ 9.89	3.60	\$ 85,074

(1) Aggregate intrinsic value represents the difference between the exercise price of the option and the closing market price of our common stock on December 31, 2015.

The weighted-average grant-date fair value per share of options granted during the years ended December 31, 2015, 2014, and 2013 was \$6.55, \$6.50, and \$4.95, respectively. The total intrinsic value of options exercised during the years ended December 31, 2015, 2014, and 2013 was \$20.5 million, \$25.9 million, and \$4.5 million, respectively. The estimated fair value of options vested during the years ended December 31, 2015, 2014, and 2013 was \$16.8 million, \$15.2 million, and \$14.1 million, respectively.

Summary of RSU Activity

During the year ended December 31, 2015, we granted RSUs to officers, employees and non-employee directors. No RSUs were granted in 2014 or 2013. Certain of the RSUs granted in 2015 vest upon achievement of pre-determined performance milestones, while the rest of the RSUs have a time-based vesting schedule. We expense the grant date fair value of the RSUs expected to vest ratably over the expected service or performance period.

A summary of RSU award activity is as follows (in thousands except for per share amounts):

	Units Issued	Weighted- Average Grant Date Fair Value	Aggregate Intrinsic Value(1)
Balance at December 31, 2014	—		
Granted	1,306	\$ 15.30	
Vested	—		
Forfeited and canceled	—		
Balance at December 31, 2015	1,306		\$ 22,012

(1) Aggregate intrinsic value represents the difference between the grant price of the award and the closing market price of our common stock on December 31, 2015.

Note 12 — Income Taxes

Loss before provision (benefit) for income taxes includes the following components (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Domestic	\$ (81,931)	\$ (56,414)	\$ (161,068)
Foreign	1,260	1,986	1,300
Loss before provision (benefit) for income taxes	<u>\$ (80,671)</u>	<u>\$ (54,428)</u>	<u>\$ (159,768)</u>

Provision for Income Taxes

The provision (benefit) for income taxes consists of the following (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Current:			
Federal	\$ —	\$ —	\$ —
State	(1)	1	1
Foreign	529	(482)	1,838
Total Current	<u>528</u>	<u>(481)</u>	<u>1,839</u>
Deferred:			
Federal	—	—	422
State	—	—	49
Foreign	(22)	(31)	(65)
Total Deferred	<u>(22)</u>	<u>(31)</u>	<u>406</u>
Provision (benefit) for income taxes	<u>\$ 506</u>	<u>\$ (512)</u>	<u>\$ 2,245</u>

The foreign benefit provision in the year ended December 31, 2014 is due to the reduction in taxes related to a favorable determination received from India proceedings.

Income tax provision related to continuing operations differs from the amount computed by applying the statutory income tax rate of 35% to pretax loss as follows (in thousands):

	Year Ended December 31,		
	2015	2014	2013
U.S. federal provision (benefit)			
At statutory rate	\$ (28,235)	\$ (19,050)	\$ (55,919)
State taxes	(1)	1	50
Change in valuation allowance	22,210	11,831	55,042
Non-cash interest expense on liability related to sale of future royalties	7,217	7,311	7,808
Stock-based compensation	674	2,832	271
Foreign tax inclusion	1,773	—	—
Foreign tax differential	(7)	(17)	(20)
Research credits	(4,529)	(2,933)	(6,273)
Other	1,404	(487)	1,286
Provision (benefit) for income taxes	<u>\$ 506</u>	<u>\$ (512)</u>	<u>\$ 2,245</u>

Deferred Tax Assets and Liabilities

Deferred income taxes reflect the net tax effects of loss and credit carryforwards and temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets for federal and state income taxes are as follows (in thousands):

	December 31,	
	2015	2014
Deferred tax assets:		
Net operating loss carryforwards	\$ 447,761	\$ 423,776
Research and other credits	70,258	66,666
Deferred revenue	29,658	29,758
Stock-based compensation	22,832	21,948
Capitalized research expenses	12,440	14,795
Sale of future royalties	12,319	20,153
Reserves and accruals	8,309	8,288
Property, plant and equipment	6,451	8,264
Other	3,158	2,218
Deferred tax assets before valuation allowance	613,186	595,866
Valuation allowance for deferred tax assets	(612,996)	(595,690)
Total deferred tax assets	190	176
Total deferred tax liabilities	—	—
Net deferred tax assets	\$ 190	\$ 176

Realization of our deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Because of our lack of U.S. earnings history, the net U.S. deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by \$17.3 million and \$9.7 million during the years ended December 31, 2015 and 2014, respectively. The valuation allowance includes approximately \$35.6 million of income tax benefit at both December 31, 2015 and December 31, 2014 related to stock-based compensation and exercises prior to the implementation of the accounting guidance for stock-based compensation that will be credited to additional paid in capital when realized.

Undistributed earnings of our foreign subsidiary in India are considered to be permanently reinvested and accordingly, no deferred U.S. income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to U.S. income tax. As of December 31, 2015, U.S. income taxes have not been provided on a cumulative total of \$4.4 million of such earnings. Any incremental tax liability would be insignificant due to foreign tax credits that would be realized upon distribution.

Net Operating Loss and Tax Credit Carryforwards

As of December 31, 2015, we had a net operating loss carryforward for federal income tax purposes of approximately \$1,223.6 million, portions of which will begin to expire in 2018. As of December 31, 2015, we had a total state net operating loss carryforward of approximately \$489.6 million, portions of which will begin to expire in 2016. Utilization of some of the federal and state net operating loss and credit carryforwards are subject to annual limitations due to the “change in ownership” provisions of the Internal Revenue Code of 1986 and similar state provisions.

We have federal research credits of approximately \$45.0 million, which will begin to expire in 2019 and state research credits of approximately \$24.6 million which have no expiration date. We have federal orphan drug credits of \$17.7 million which will begin to expire in 2026. These tax credits are subject to the same limitations discussed above.

Unrecognized tax benefits

We have incurred net operating losses since inception. Our policy is to include interest and penalties related to unrecognized tax benefits, if any, within the provision for income taxes in the consolidated statements of operations. If we are eventually able to recognize our uncertain positions, our effective tax rate may be reduced. We currently have a full valuation allowance against our U.S. net deferred tax asset which would impact the timing of the effective tax rate benefit should any of these uncertain tax positions be favorably settled in the future. Any adjustments to our uncertain tax positions would result in an adjustment of our net operating loss or tax credit carry forwards rather than resulting in a cash outlay. The decrease in the unrecognized tax benefits primarily relates to a recent California Supreme Court decision relating to the calculation of apportionment of income.

We file income tax returns in the U.S., California, Alabama, and India. Because of net operating losses and research credit carryovers, substantially all of our domestic tax years remain open and subject to examination. We are currently under examination in India for the fiscal years ending 2009 through 2015.

We have the following activity relating to unrecognized tax benefits (in thousands):

	December 31,		
	2015	2014	2013
Beginning balance	\$ 27,522	\$ 16,363	\$ 14,067
Tax positions related to current year			
Additions:			
Federal	529	502	477
State	443	6,141	381
Reductions	—	—	—
Tax positions related to prior year			
Additions:			
Federal	—	—	636
State	—	5,258	—
Foreign	—	—	802
Reductions	(11,110)	(742)	—
Settlements	—	—	—
Lapses in statute of limitations	—	—	—
Ending balance	<u>\$ 17,384</u>	<u>\$ 27,522</u>	<u>\$ 16,363</u>

Although it is reasonably possible that certain unrecognized tax benefits may increase or decrease within the next twelve months, we do not anticipate any significant changes to unrecognized tax benefits over the next twelve months. During the years ended December 31, 2015, 2014 and 2013, no significant interest or penalties were recognized relating to unrecognized tax benefits.

Note 13 — Segment Reporting

We operate in one business segment which focuses on applying our technology platforms to improve the performance of established and novel medicines. 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.

Our revenue is derived primarily from clients in the pharmaceutical and biotechnology industries. AstraZeneca and UCB represented 57% and 13% of our revenue, respectively, for the year ended December 31, 2015. Revenue from AstraZeneca, UCB and Roche represented 52%, 16% and 11% of our revenue, respectively, for the year ended December 31, 2014. Revenue from Roche, UCB, AstraZeneca and Bayer represented 28%, 21%, 17% and 10% of our revenue, respectively, for the year ended December 31, 2013.

Revenue by geographic area is based on the locations of our partners. The following table sets forth revenue by geographic area (in thousands):

	Year Ended December 31,		
	2015	2014	2013
United States	\$ 40,400	\$ 32,514	\$ 42,535
Europe	190,384	168,193	106,386
Total revenue	<u>\$ 230,784</u>	<u>\$ 200,707</u>	<u>\$ 148,921</u>

At December 31, 2015, \$54.2 million, or approximately 76%, of the net book value of our property, plant and equipment was located in the United States, \$11.1 million, or approximately 16% was located at contract manufacturers in Germany and the Netherlands, and \$6.0 million, or approximately 8%, was located in India. At December 31, 2014, \$53.3 million, or approximately 76%, of the net book value of our property, plant and equipment was located in the United States, \$10.4 million, or approximately 14% was located at contract manufacturers in Germany and the Netherlands, and \$6.7 million, or approximately 10%, was located in India.

Note 14 — Selected Quarterly Financial Data (Unaudited)

The following table sets forth certain unaudited quarterly financial data. In our opinion, the unaudited information set forth below has been prepared on the same basis as our audited information and includes all adjustments necessary to present fairly the information set forth herein. We have experienced fluctuations in our quarterly results and expect these fluctuations to continue in the future. Due to these and other factors, we believe that quarter-to-quarter comparisons of our operating results will not be meaningful, and you should not rely on our results for any one quarter as an indication of our future performance. Certain items previously reported in specific financial statement captions have been reclassified to conform to the current period presentation. Such reclassifications have not materially impacted previously reported total revenues, operating loss or net loss. All data is in thousands except per share information.

	Fiscal Year Ended December 31, 2015				Fiscal Year Ended December 31, 2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Product sales	\$ 7,974	\$ 10,968	\$ 7,240	\$ 13,973	\$ 5,795	\$ 5,802	\$ 6,096	\$ 7,460
Total revenue	\$ 108,801	\$ 22,661	\$ 59,952	\$ 39,370	\$ 19,771	\$ 28,513	\$ 132,871	\$ 19,551
Cost of goods sold	\$ 8,444	\$ 10,534	\$ 6,760	\$ 8,364	\$ 7,907	\$ 5,108	\$ 9,220	\$ 6,298
Research and development expenses	\$ 47,011	\$ 45,412	\$ 43,229	\$ 47,135	\$ 38,338	\$ 36,702	\$ 34,200	\$ 38,494
Operating income (loss)	\$ 43,043	\$ (43,469)	\$ 419	\$ (29,364)	\$ (36,402)	\$ (22,916)	\$ 80,321	\$ (37,488)
Net income (loss)	\$ 33,820	\$ (52,657)	\$ (8,203)	\$ (54,137)	\$ (46,201)	\$ (32,637)	\$ 70,605	\$ (45,683)
Net income (loss) per share(1)								
Basic	\$ 0.26	\$ (0.40)	\$ (0.06)	\$ (0.40)	\$ (0.37)	\$ (0.26)	\$ 0.55	\$ (0.35)
Diluted	\$ 0.25	\$ (0.40)	\$ (0.06)	\$ (0.40)	\$ (0.37)	\$ (0.26)	\$ 0.53	\$ (0.35)

(1) Quarterly loss per share amounts may not total to the year-to-date loss per share due to rounding.

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

None.

Item 9A. 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 SEC's rules and forms, 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 financial 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 the Chief Executive Officer and the 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, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective. Accordingly, management believes that the financial statements included in this report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making its assessment of internal control over financial reporting, management used the criteria described in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework).

Based on our evaluation under the framework described in *Internal Control — Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2015.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by Ernst & Young, LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

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. There was no change in our internal control over financial reporting during the quarter ended December 31, 2015, which was identified in connection with our management's evaluation required by Exchange Act Rules 13a-15(f) and 15d-15(f) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on the Effectiveness of Controls

Our management, including the 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 error or mistake. 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.

Item 9B. Other Information

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

Information relating to our executive officers required by this item is set forth in Part I — Item 1 of this report under the caption “Executive Officers of the Registrant” and is incorporated herein by reference. The other information required by this Item is incorporated by reference from the definitive proxy statement for our 2016 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A (Proxy Statement) not later than 120 days after the end of the fiscal year covered by this Form 10-K under the captions “Corporate Governance and Board of Directors,” “Proposal 1 — Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance.”

Information regarding our audit committee financial expert will be set forth in the Proxy Statement under the caption “Audit Committee,” which information is incorporated herein by reference.

We have a Code of Business Conduct and Ethics applicable to all employees, including the principal executive officer, principal financial officer and principal accounting officer or controller, or persons performing similar functions. The Code of Business Conduct and Ethics is posted on our website at www.nektar.com. Amendments to, and waivers from, the Code of Business Conduct and Ethics that apply to any of these officers, or persons performing similar functions, and that relate to any element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K will be disclosed at the website address provided above and, to the extent required by applicable regulations, on a current report on Form 8-K.

As permitted by SEC Rule 10b5-1, certain of our executive officers, directors and other employees have or may set up a predefined, structured stock trading program with their broker to sell our stock. The stock trading program allows a broker acting on behalf of the executive officer, director or other employee to trade our stock during blackout periods or while such executive officer, director or other employee may be aware of material, nonpublic information, if the trade is performed according to a pre-existing contract, instruction or plan that was established with the broker when such executive officer, director or employee was not aware of any material, nonpublic information. Our executive officers, directors and other employees may also trade our stock outside of the stock trading programs set up under Rule 10b5-1 subject to our securities trading policy.

Item 11. *Executive Compensation*

The information required by this Item is included in the Proxy Statement and incorporated herein by reference.

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

The information required by this Item is included in the Proxy Statement and incorporated herein by reference.

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

The information required by this Item is included in the Proxy Statement and incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services*

The information required by this Item is included in the Proxy Statement and incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

(1) *Consolidated Financial Statements:*

The following financial statements are filed as part of this Annual Report on Form 10-K under Item 8 “Financial Statements and Supplementary Data.”

	Page
<u>Reports of Independent Registered Public Accounting Firm</u>	61
<u>Consolidated Balance Sheets at December 31, 2015 and 2014</u>	63
<u>Consolidated Statements of Operations for each of the three years in the period ended December 31, 2015</u>	64
<u>Consolidated Statements of Comprehensive Loss for each of the three years in the period ended December 31, 2015</u>	65
<u>Consolidated Statements of Stockholders’ Equity (Deficit) for each of the three years in the period ended December 31, 2015</u>	66
<u>Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2015</u>	67
<u>Notes to Consolidated Financial Statements</u>	68

(2) *Financial Statement Schedules:*

All financial statement schedules have been omitted because they are not applicable, or the information required is presented in our consolidated financial statements and notes thereto under Item 8 of this Annual Report on Form 10-K.

(3) *Exhibits.*

Except as so indicated in Exhibit 32.1, the following exhibits are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K.

Exhibit Number	Description of Documents
2.1(1)	Asset Purchase Agreement, dated October 20, 2008, by and between Nektar Therapeutics, a Delaware corporation, AeroGen, Inc., a Delaware corporation and wholly-owned subsidiary of Nektar Therapeutics, Novartis Pharmaceuticals Corporation, a Delaware corporation, and Novartis Pharma AG, a Swiss corporation.+
3.1(2)	Certificate of Incorporation of Inhale Therapeutic Systems (Delaware), Inc.
3.2(3)	Certificate of Amendment of the Amended Certificate of Incorporation of Inhale Therapeutic Systems, Inc.
3.3(4)	Certificate of Ownership and Merger of Nektar Therapeutics.
3.4(5)	Certificate of Ownership and Merger of Nektar Therapeutics AL, Corporation with and into Nektar Therapeutics.
3.5(6)	Amended and Restated Bylaws of Nektar Therapeutics.
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3, 3.4, and 3.5.
4.2(4)	Specimen Common Stock certificate.
4.3(7)	Indenture dated October 5, 2015 by and between Nektar Therapeutics and Wilmington Trust, National Association, and TC Lending, LLC including the form of 7.75% Senior Secured Note due 2020.
10.1(9)	Employee Stock Purchase Plan, as amended and restated.++
10.2(10)	2000 Non-Officer Equity Incentive Plan, as amended and restated.++
10.3(10)	2000 Equity Incentive Plan, as amended and restated.++
10.4(10)	2008 Equity Incentive Plan, as amended and restated.++
10.5(11)	2012 Performance Incentive Plan.++

Exhibit Number	Description of Documents
10.6(8)	Forms of Stock Option Agreement, Performance Stock Option Agreement, Restricted Stock Unit Agreement and Performance Restricted Stock Unit Agreement under the 2012 Performance Incentive Plan.++
10.7(22)	Amended and Restated Compensation Plan for Non-Employee Directors.++
10.8(12)	401(k) Retirement Plan.++
10.9(10)	Discretionary Incentive Compensation Policy.++
10.10(10)	Amended and Restated Change of Control Severance Benefit Plan.++
10.11(13)	Form of Severance Letter for executive officers of the company.++
10.12(1)	Amended and Restated Letter Agreement, executed effective on December 1, 2008, with Howard W. Robin.++
10.13(1)	Amended and Restated Letter Agreement, executed effective on December 1, 2008, with John Nicholson.++
10.14(14)	Letter Agreement, executed effective on December 10, 2009, with Stephen K. Doberstein, Ph.D.++
10.15(21)	Letter Agreement dated as of May 14, 2014, by and between Nektar Therapeutics and Ivan Gergel, M.D.++
10.16(13)	Amended and Restated Built-to-Suit Lease between Nektar Therapeutics and BMR-201 Industrial Road LLC, dated August 17, 2004, as amended on January 11, 2005 and July 19, 2007.
10.17(16)	Sublease, dated as of September 30, 2009, by and between Pfizer Inc. and Nektar Therapeutics.+
10.18(15)	Settlement Agreement and General Release, dated June 30, 2006, by and between The Board of Trustees of the University of Alabama, The University of Alabama in Huntsville, Nektar Therapeutics AL, Corporation (a wholly-owned subsidiary of Nektar Therapeutics), Nektar Therapeutics and J. Milton Harris.
10.19(14)	Co-Development, License and Co-Promotion Agreement, dated August 1, 2007, between Nektar Therapeutics (and its subsidiaries) and Bayer Healthcare LLC, as amended.+
10.20(1)	Exclusive Research, Development, License and Manufacturing and Supply Agreement, by and among Nektar AL Corporation, Baxter Healthcare SA, and Baxter Healthcare Corporation, dated September 26, 2005, as amended.+
10.21(1)	Exclusive License Agreement, dated December 31, 2008, between Nektar Therapeutics, a Delaware corporation, and Novartis Pharma AG, a Swiss corporation.+
10.22(14)	Supply, Dedicated Suite and Manufacturing Guarantee Agreement, dated October 29, 2010, by and among Nektar Therapeutics, Amgen Inc. and Amgen Manufacturing, Limited.+
10.23(16)	License Agreement by and between AstraZeneca AB and Nektar Therapeutics, dated September 20, 2009.+
10.24(7)	Purchase Agreement dated September 30, 2015 by and among Nektar Therapeutics and TC Lending, LLC and TAO Fund, LLC.
10.25(7)	Pledge and Security Agreement dated October 5, 2015 by and among Nektar Therapeutics and TC Lending, LLC.
10.26(17)	Purchase and Sale Agreement, dated as of February 24, 2012, between Nektar Therapeutics and RPI Finance Trust.+
10.27(18)	Amendment No. 1 to License Agreement dated as of August 8, 2013, by and between Nektar Therapeutics and AstraZeneca AB.+
10.28(20)	Term Loan and Security Agreement dated as of October 7, 2013, by and between Nektar Therapeutics, as borrower, and AstraZeneca AB, as lender and as agent.
21.1(22)	Subsidiaries of Nektar Therapeutics.
23.1(22)	Consent of Independent Registered Public Accounting Firm.
24	Power of Attorney (reference is made to the signature page).
31.1(22)	Certification of Nektar Therapeutics' principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a).
31.2(22)	Certification of Nektar Therapeutics' principal financial officer required by Rule 13a-14(a) or Rule 15d-14(a).
32.1*	Section 1350 Certifications.

Exhibit Number	Description of Documents
101**	The following materials from Nektar Therapeutics' Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Loss, (iv) Consolidated Statements of Stockholders' Equity (Deficit), (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.
+	Confidential treatment with respect to specific portions of this Exhibit has been requested, and such portions are omitted and have been filed separately with the SEC.
++	Management contract or compensatory plan or arrangement.
*	Exhibit 32.1 is being furnished and shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall such exhibit be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act of 1933, as amended, or the Securities Exchange Act, except as otherwise stated in such filing.
**	XBRL information is filed herewith.
(1)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Annual Report on Form 10-K for the year ended December 31, 2008.
(2)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.
(3)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.
(4)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Current Report on Form 8-K, filed on January 23, 2003.
(5)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Annual Report on Form 10-K for the year ended December 31, 2009.
(6)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Current Report on Form 8-K, filed on April 15, 2014.
(7)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Current Report on Form 8-K, filed on October 6, 2015.
(8)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Current Report on Form 8-K, filed on December 17, 2015.
(9)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Current Report on Form 8-K, filed on June 27, 2014.
(10)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Annual Report on Form 10-K for the year ended December 31, 2011.
(11)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Current Report on Form 8-K, filed on June 17, 2015.
(12)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
(13)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.
(14)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Annual Report on Form 10-K for the year ended December 31, 2010.
(15)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
(16)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Quarterly Report on Form 10-Q for the quarter ended September 30, 2009.
(17)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Quarterly Report on Form 10-Q for the quarter ended March 31, 2012.
(18)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Quarterly Report on Form 10-Q for the quarter ended September 30, 2013.
(19)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Annual Report on Form 10-K for the year ended December 31, 2012.
(20)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Annual Report on Form 10-K for the year ended December 31, 2013.
(21)	Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Annual Report on Form 10-K for the year ended December 31, 2014.
(22)	Filed herewith.

SIGNATURES

Pursuant to the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City and County of San Francisco, State of California on February 29, 2016.

By: /s/ JOHN NICHOLSON

John Nicholson
Senior Vice President and Chief Financial Officer

By: /s/ JILLIAN B. THOMSEN

Jillian B. Thomsen
Senior Vice President, Finance and Chief Accounting Officer

POWER OF ATTORNEY

KNOW ALL PERSON BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John Nicholson and Jillian B. Thomsen and each of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratify and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

Signature	Title	Date
/s/ H OWARD W. R OBIN Howard W. Robin	Chief Executive Officer, President and Director (Principal Executive Officer)	February 29, 2016
/s/ J OHN N ICHOLSON John Nicholson	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	February 29, 2016
/s/ J ILLIAN B. T HOMSEN Jillian B. Thomsen	Senior Vice President, Finance and Chief Accounting Officer (Principal Accounting Officer)	February 29, 2016
/s/ R OBERT B. C HESS Robert B. Chess	Director, Chairman of the Board of Directors	February 29, 2016
/s/ R. S COTT G REER R. Scott Greer	Director	February 29, 2016
/s/ J OSEPH J. K RIVULKA Joseph J. Krivulka	Director	February 29, 2016
/s/ C HRISTOPHER A. K UEBLER Christopher A. Kuebler	Director	February 29, 2016
/s/ L UTZ L INGNAU Lutz Lingnau	Director	February 29, 2016
/s/ S USAN W ANG Susan Wang	Director	February 29, 2016
/s/ R OY A. W HITFIELD Roy A. Whitfield	Director	February 29, 2016
/s/ D ENNIS L. W INGER Dennis L. Winger	Director	February 29, 2016

Except as so indicated in Exhibit 32.1, the following exhibits are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K.

Exhibit Number	Description of Documents
2.1(1)	Asset Purchase Agreement, dated October 20, 2008, by and between Nektar Therapeutics, a Delaware corporation, AeroGen, Inc., a Delaware corporation and wholly-owned subsidiary of Nektar Therapeutics, Novartis Pharmaceuticals Corporation, a Delaware corporation, and Novartis Pharma AG, a Swiss corporation.+
3.1(2)	Certificate of Incorporation of Inhale Therapeutic Systems (Delaware), Inc.
3.2(3)	Certificate of Amendment of the Amended Certificate of Incorporation of Inhale Therapeutic Systems, Inc.
3.3(4)	Certificate of Ownership and Merger of Nektar Therapeutics.
3.4(5)	Certificate of Ownership and Merger of Nektar Therapeutics AL, Corporation with and into Nektar Therapeutics.
3.5(6)	Amended and Restated Bylaws of Nektar Therapeutics.
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3, 3.4, and 3.5.
4.2(4)	Specimen Common Stock certificate.
4.3(7)	Indenture dated October 5, 2015 by and between Nektar Therapeutics and Wilmington Trust, National Association, and TC Lending, LLC including the form of 7.75% Senior Secured Note due 2020.
10.1(9)	Employee Stock Purchase Plan, as amended and restated.++
10.2(10)	2000 Non-Officer Equity Incentive Plan, as amended and restated.++
10.3(10)	2000 Equity Incentive Plan, as amended and restated.++
10.4(10)	2008 Equity Incentive Plan, as amended and restated.++
10.5(11)	2012 Performance Incentive Plan.++
10.6(8)	Forms of Stock Option Agreement, Performance Stock Option Agreement, Restricted Stock Unit Agreement and Performance Restricted Stock Unit Agreement under the 2012 Performance Incentive Plan.++
10.7(22)	Amended and Restated Compensation Plan for Non-Employee Directors.++
10.8(12)	401(k) Retirement Plan.++
10.9(10)	Discretionary Incentive Compensation Policy.++
10.10(10)	Amended and Restated Change of Control Severance Benefit Plan.++
10.11(13)	Form of Severance Letter for executive officers of the company.++
10.12(1)	Amended and Restated Letter Agreement, executed effective on December 1, 2008, with Howard W. Robin.++
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10.14(14)	Letter Agreement, executed effective on December 10, 2009, with Stephen K. Doberstein, Ph.D.++
10.15(21)	Letter Agreement dated as of May 14, 2014, by and between Nektar Therapeutics and Ivan Gergel, M.D.++
10.16(13)	Amended and Restated Built-to-Suit Lease between Nektar Therapeutics and BMR-201 Industrial Road LLC, dated August 17, 2004, as amended on January 11, 2005 and July 19, 2007.
10.17(16)	Sublease, dated as of September 30, 2009, by and between Pfizer Inc. and Nektar Therapeutics.+
10.18(15)	Settlement Agreement and General Release, dated June 30, 2006, by and between The Board of Trustees of the University of Alabama, The University of Alabama in Huntsville, Nektar Therapeutics AL, Corporation (a wholly-owned subsidiary of Nektar Therapeutics), Nektar Therapeutics and J. Milton Harris.
10.19(14)	Co-Development, License and Co-Promotion Agreement, dated August 1, 2007, between Nektar Therapeutics (and its subsidiaries) and Bayer Healthcare LLC, as amended.+
10.20(1)	Exclusive Research, Development, License and Manufacturing and Supply Agreement, by and among Nektar AL Corporation, Baxter Healthcare SA, and Baxter Healthcare Corporation, dated September 26, 2005, as amended.+

Exhibit Number	Description of Documents
10.21(1)	Exclusive License Agreement, dated December 31, 2008, between Nektar Therapeutics, a Delaware corporation, and Novartis Pharma AG, a Swiss corporation.+
10.22(14)	Supply, Dedicated Suite and Manufacturing Guarantee Agreement, dated October 29, 2010, by and among Nektar Therapeutics, Amgen Inc. and Amgen Manufacturing, Limited.+
10.23(16)	License Agreement by and between AstraZeneca AB and Nektar Therapeutics, dated September 20, 2009.+
10.24(7)	Purchase Agreement dated September 30, 2015 by and among Nektar Therapeutics and TC Lending, LLC and TAO Fund, LLC.
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21.1(22)	Subsidiaries of Nektar Therapeutics.
23.1(22)	Consent of Independent Registered Public Accounting Firm.
24	Power of Attorney (reference is made to the signature page).
31.1(22)	Certification of Nektar Therapeutics' principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a).
31.2(22)	Certification of Nektar Therapeutics' principal financial officer required by Rule 13a-14(a) or Rule 15d-14(a).
32.1*	Section 1350 Certifications.
101**	The following materials from Nektar Therapeutics' Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Loss, (iv) Consolidated Statements of Stockholders' Equity (Deficit), (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.

+ Confidential treatment with respect to specific portions of this Exhibit has been requested, and such portions are omitted and have been filed separately with the SEC.

++ Management contract or compensatory plan or arrangement.

* Exhibit 32.1 is being furnished and shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall such exhibit be deemed to be incorporated by reference in any registration statement or other document filed under the Securities Act of 1933, as amended, or the Securities Exchange Act, except as otherwise stated in such filing.

** XBRL information is filed herewith.

- (1) Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Annual Report on Form 10-K for the year ended December 31, 2008.
- (2) Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.
- (3) Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.
- (4) Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Current Report on Form 8-K, filed on January 23, 2003.
- (5) Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Annual Report on Form 10-K for the year ended December 31, 2009.
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- (8) Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Current Report on Form 8-K, filed on December 17, 2015.
- (9) Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Current Report on Form 8-K, filed on June 27, 2014.

- (10) Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Annual Report on Form 10-K for the year ended December 31, 2011.
- (11) Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Current Report on Form 8-K, filed on June 17, 2015.
- (12) Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.
- (13) Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.
- (14) Incorporated by reference to the indicated exhibit in Nektar Therapeutics Annual Report on Form 10-K for the year ended December 31, 2010.
- (15) Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.
- (16) Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Quarterly Report on Form 10-Q for the quarter ended September 30, 2009.
- (17) Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Quarterly Report on Form 10-Q for the quarter ended March 31, 2012.
- (18) Incorporated by reference to the indicated exhibit in Nektar Therapeutics' Quarterly Report on Form 10-Q for the quarter ended September 30, 2013.
- (19) Incorporated by reference to the indicated exhibit in Nektar Therapeutics Annual Report on Form 10-K for the year ended December 31, 2012.
- (20) Incorporated by reference to the indicated exhibit in Nektar Therapeutics Annual Report on Form 10-K for the year ended December 31, 2013.
- (21) Incorporated by reference to the indicated exhibit in Nektar Therapeutics Annual Report on Form 10-K for the year ended December 31, 2014.
- (22) Filed herewith.

**AMENDED AND RESTATED
COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS**

This is the Compensation Plan (the “Plan”) for Non-Employee Directors (each a “Non-Employee Director”) of Nektar Therapeutics (the “Company”). This Plan was most recently amended and restated by the Board of Directors on September 15, 2015 and made effective as of January 1, 2016. The terms and conditions of the Plan are described below:

- An annual retainer of \$35,000 for serving on the Board of Directors, payable in equal quarterly installments (the “Annual Retainer”);
- An additional annual retainer of \$50,000 for serving as the Chair or Lead Director of the Board of Directors, payable in equal quarterly installments;
- An annual retainer of \$20,000 for serving as the Chair of the Company’s Audit Committee, payable in equal quarterly installments;
- An annual retainer of \$15,000 for serving as Chair of the Company’s Compensation Committee, payable in equal quarterly installments;
- An annual retainer of \$10,000 for serving as Chair of the Company’s Nominating/Governance Committee, payable in equal quarterly installments;
- An annual retainer of \$5,000 for serving as Chair of any other committee established by the Board of Directors, payable in equal quarterly installments;
- Each Non-Employee Director shall receive \$2,000 for attending each in-person or telephonic board meeting. Each Non-Employee Director shall receive \$1,000 for each in-person board meeting attended via conference telephone.
- Each Non-Employee Director shall receive \$1,750 for attending a each in person or telephonic committee meeting. Each Non-Employee Director shall receive \$875 for each in-person committee meeting attended via conference telephone.
- Each Non-Employee Director shall be reimbursed for customary expenses for attending Board of Director, committee and stockholder meetings;
- Upon initial appointment to the Board of Directors, each Non-Employee Director shall be awarded equity compensation composed of stock options and/or restricted stock units under the Company’s equity incentive plans. This initial appointment equity compensation award will be based on one hundred and fifty percent (150%) of the annual equity compensation grant, as determined annually by the Board of Directors in consultation with its professional advisors. For purposes of the foregoing, the value of stock options will be determined based on the Black-Scholes valuation methodology and the value of restricted stock units will be based on the value of the Company’s common stock on the grant date;
- In September of each year, each Non-Employee Director shall be awarded equity compensation composed of stock options and/or restricted stock units under the Company’s equity incentive plans. This annual equity compensation award will be based on a review of equity compensation for non-employee directors of comparable companies as determined by the Board of Directors in consultation with its professional advisors. For purposes of the foregoing, the value of stock options will be determined based on the Black-Scholes valuation methodology and the value of restricted stock units will be based on the value of the Company’s common stock on the grant date. If any Non-Employee Director is appointed following the annual grant of equity compensation, he or she will also be entitled to a pro-rata portion of the most recent annual grant of equity compensation awarded by the Board of Directors ; and
- Non-Employee Directors are also eligible for discretionary grants of options or restricted stock units under the Company’s equity incentive plans.

Options granted to a Non-Employee Director for their annual service on the Board of Directors shall vest monthly over a period of one year. Restricted stock unit awards granted to a Non-Employee Director for their annual service shall vest

over a period of one year. Options granted to a Non-Employee Director for their initial appointment to the Board of Directors shall vest monthly over a period of three years. Restricted stock unit awards granted to a Non-Employee Director for their initial appointment shall vest on an annual basis over three years. The exercise price of options granted to Non-Employee Directors shall be equal to 100% of the fair market value of the Company's common stock on the grant date. Following completion of a Non-Employee Director's service on the Board of Directors, his or her stock options will remain exercisable for a period of eighteen months. The term of options granted to a Non-Employee Director is eight years. All restricted stock units that are awarded under this Plan may only be delivered to the non-employee director upon either the earlier of (i) the completion of the entire vesting period to which the restricted stock unit award relates, or (ii) the termination of the Non-Employee Director's service, and in no event at any earlier date or upon the election or request of a Non-Employee Director at any other alternative date. In the event of a change of control, the vesting of each option or restricted stock unit award shall accelerate in full as of the closing of such transaction.

Ownership Guidelines

The Board of Directors of the Company believes that Non-Employee Directors should own and hold common stock of the Company to further align their interests and actions with the interests of the Company's stockholders.

Non-Employee Directors of the Company should own shares of Nektar's common stock equivalent to at least three times the value of the Annual Retainer. The minimum stock ownership level should be achieved by each Non-Employee Director by January 1, 2015 or within five years of his or her first appointment to the Board of Directors. Any change in the value of the stock (such as a stock split, stock dividend, recapitalization, etc.) will not affect the amount of stock Non-Employee Directors must hold. Once achieved, ownership of the guideline amount should be maintained as long as the Non-Employee Director retains his or her seat on the Board.

Stock that counts towards satisfaction of these guidelines include:

- Stock purchased on the open market;
- Stock obtained through stock option exercises;
- Stock issued pursuant to the vesting of restricted stock units;
- Stock beneficially owned in a trust, by a spouse and/or children; and
- Other equity vehicles such as deferred stock units that may be implemented from time to time.

These ownership guidelines are non-binding. There may be rare instances where these guidelines would place a severe hardship on a Non-Employee Director. In these cases, the Board will make the final decision as to developing an alternative stock ownership guideline for a Non-Employee Director that reflects the intention of these guidelines and his or her personal circumstances.

Subsidiaries of Nektar Therapeutics*

<u>Name</u>	<u>Jurisdiction of Incorporation or Organization</u>
Nektar Therapeutics UK, Ltd.	United Kingdom
Nektar Therapeutics (India) Pvt. Ltd	India

* Includes subsidiaries that do not fall under the definition of “Significant Subsidiary” as defined under Rule 1-02(w) of Regulation S-X.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 No. 333-193454) of Nektar Therapeutics, and
- (2) Registration Statements (Form S-8 Nos. 333-54078, 333-71936, 333-76638, 333-98321, 333-103040, 333-117975, 333-136498, 333-145259, 333-153106, 333-170371, 333-183193, 333-197781 and 333-206136) pertaining to the amended and restated 2000 Non-Officer Equity Incentive Plan, the 401(k) Retirement Plan, the Employee Stock Purchase Plan, the amended and restated 2000 Equity Incentive Plan, the amended and restated 2008 Equity Incentive Plan, and the 2012 Performance Incentive Plan of Nektar Therapeutics; of our reports dated February 29, 2016, with respect to the consolidated financial statements of Nektar Therapeutics and the effectiveness of internal control over financial reporting of Nektar Therapeutics included in this Annual Report (Form 10-K) of Nektar Therapeutics for the year ended December 31, 2015.

/s/ ERNST & YOUNG LLP
Redwood City, California
February 29, 2016

CERTIFICATIONS

I, Howard W. Robin, certify that:

1. I have reviewed this Annual Report on Form 10-K of Nektar Therapeutics for the year ended December 31, 2015;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2016

/s/ H OWARD W. R OBIN

Howard W. Robin

Chief Executive Officer, President and Director

CERTIFICATIONS

I, John Nicholson, certify that:

1. I have reviewed this Annual Report on Form 10-K of Nektar Therapeutics for the year ended December 31, 2015;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2016

/s/ JOHN NICHOLSON

John Nicholson

Senior Vice President and Chief Financial Officer

SECTION 1350 CERTIFICATIONS*

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. § 1350), Howard W. Robin, Chief Executive Officer, President and Director of Nektar Therapeutics (the "Company"), and John Nicholson, Senior Vice President and Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Annual Report on Form 10-K, for the year ended December 31, 2015, to which this Certification is attached as Exhibit 32.1 (the "Annual Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the period covered by the Annual Report.

Dated: February 29, 2016

/s/ HOWARD W. ROBIN

Howard W. Robin
Chief Executive Officer, President and Director

/s/ JOHN NICHOLSON

John Nicholson
Senior Vice President and Chief Financial Officer

* This certification accompanies the Annual Report on Form 10-K, to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.