

NEKTAR THERAPEUTICS
Form 10-K
February 27, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

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

For the fiscal year ended December 31, 2013

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

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(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 | Name of Each Exchange on Which Registered |
|----------------------------------|--|
| Common Stock, \$0.0001 par value | 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.

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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 28, 2013, as reported on the NASDAQ Global Select Market, was approximately \$1,330,867,461. This calculation excludes approximately 456,759 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 20, 2014, the number of outstanding shares of the registrant's common stock was 126,645,285.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of registrant's definitive Proxy Statement to be filed for its 2014 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.

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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 or 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 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, registered trademarks or service marks of Nektar Therapeutics in the United States 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.

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PART I

Item 1. Business

We are a clinical-stage 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 other 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. 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.

Our most-advanced proprietary drug candidate, naloxegol (formerly known as NKTR-118), is an oral peripherally-acting opioid antagonist, for the treatment of opioid-induced constipation, or OIC, in patients with non-cancer pain, the most common side effect caused by chronic administration of prescription opioid pain medicines. Naloxegol has been specifically designed as a once-daily tablet to block the binding of opioids to the opioid receptors in the gastrointestinal tract while not crossing the blood brain barrier and impacting the analgesic activity of opioids binding to opioid receptors in the brain. In November 2013, we reported that our collaboration partner AstraZeneca PLC announced that the United States Food and Drug Administration, or FDA, accepted the New Drug Application, or NDA, for naloxegol, with a Prescription Drug User Fee Act, or PDUFA, date of September 16, 2014. The NDA filing was based on comprehensive data from a Phase 3 clinical development program comprised of four clinical trials designed to investigate the safety and efficacy of naloxegol for the treatment of OIC. AstraZeneca has also filed marketing applications for naloxegol with health authorities in the European Union (E.U.) and Canada. The FDA is currently planning to hold an advisory committee meeting to review the cardiovascular safety and potential additional safety study requirements for peripheral mu-opioid receptor antagonist class of drugs, including naloxegol. The FDA advisory committee meeting, which had been originally scheduled for March 10-11, 2014, is being rescheduled due to scheduling conflicts.

Our second-most-advanced drug candidate, etirinotecan pegol (also known as NKTR-102), is a next-generation topoisomerase I inhibitor, currently being evaluated in a Phase 3 clinical study as a single-agent therapy for women with metastatic breast cancer. This Phase 3 clinical study, which we call the BEACON study (BrEAsT Cancer Outcomes with NKTR-102), was initiated by us in December 2011 and enrollment completed in July 2013. The BEACON study enrolled approximately 850 women with locally recurrent or metastatic breast cancer who have had prior treatment with anthracycline, taxane and capecitabine in either the adjuvant or metastatic setting. Patients in the BEACON study were randomized on a 1:1 basis to receive either single-agent etirinotecan pegol or a single agent of physician's choice. The primary endpoint of the BEACON study is overall survival, and secondary endpoints include progression-free survival and objective tumor response rate. On January 14, 2014, we announced that the Independent Data Monitoring Committee, or the DMC, created to provide safety oversight for the BEACON study recommended continuation of the Phase 3 BEACON study following an interim data analysis which was performed after reaching 50% of the events needed to achieve the primary endpoint of overall survival. In November 2012, the FDA designated etirinotecan pegol as a Fast Track development program for the treatment of patients with locally recurrent or metastatic breast cancer progressing after treatment with an anthracycline, a taxane, and capecitabine. We have also studied or provided support for ongoing studies being conducted for etirinotecan pegol in bevacizumab (Avastin)-resistant high-grade glioma, colorectal cancer, metastatic and recurrent non-small cell lung cancer, and ovarian cancer.

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Our third most advanced proprietary drug candidate, NKTR-181, is a novel mu-opioid analgesic drug candidate for chronic pain conditions. The molecule has been designed to have a slow rate of entry into the brain, which is expected to reduce the attractiveness of the molecule as a target of abuse and reduce other serious central nervous system-related side effects, such as sedation and respiratory depression, which are commonly associated with standard opioid therapies. Its potential differentiating properties are inherent to the design of the new molecule and, as a new molecular structure, NKTR-181's abuse deterrent property does not rely on a formulation approach, a common method used with opioid drugs to reduce their ease of conversion into abusable forms of an opioid. In May 2012, the FDA designated NKTR-181 as a Fast Track development program for the treatment of moderate to severe chronic pain. In the first half of 2013, we conducted a human abuse liability study, or HAL study, for NKTR-181. On June 19, 2013, we announced results from that HAL study demonstrated that NKTR-181 was rated similar to placebo in drug liking and feeling high scores and 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 September 26, 2013, we announced preliminary topline results from a Phase 2 clinical study of NKTR-181 in patients with moderate to severe chronic pain from osteoarthritis of the knee. In this study, NKTR-181 performed as expected as an opioid analgesic throughout the study. However, patients who were randomized to the placebo arm following a drug titration phase did not show the expected increase in pain scores observed in similar enriched enrollment, randomized withdrawal studies. This lack of a placebo rebound in the maintenance phase of the trial caused the Phase 2 study to miss the primary endpoint, which was the average change in a patient's pain score from baseline to the end of the double-blind, randomized treatment period. In December 2013, we met with the FDA to discuss the results of the Phase 2 clinical study and certain preliminary considerations for the Phase 3 clinical study design. We are currently evaluating the appropriate Phase 3 clinical study design for NKTR-181 and expect to start a Phase 3 clinical study in mid-2014, following the completion of an end-of-Phase 2 meeting with the FDA planned to occur in the first half of 2014.

We also have additional proprietary preclinical and clinical drug candidates being developed for pain relief. On January 14, 2014, we announced that the first subjects were dosed in a Phase 1 clinical study for NKTR-171, a new sodium channel blocker being developed as an oral therapy for the treatment of peripheral neuropathic pain. This single-ascending dose Phase 1 clinical study of NKTR-171 will assess its pharmacokinetics, tolerability, and safety in up to 75 healthy subjects. NKTR-171 is a new molecular entity that is specifically designed to treat neuropathic pain by blocking hyperactive neuronal sodium channels associated with damaged nerves in the peripheral nervous system. NKTR-171 is designed to be a peripherally-restricted molecule, with the aim of not causing central nervous system (CNS) side effects that limit usage of existing therapies. In addition, we are also developing NKTR-192, a novel mu-opioid analgesic molecule with a short-acting profile designed to treat acute pain while addressing the serious CNS-related side effects associated with standard short-acting opioid therapies. In January 2014, we announced that we observed elevated liver enzymes in some patients at the highest dose in a Phase 1 clinical study for NKTR-192. As a result, NKTR-192 will no longer be developed as an oral formulation and has returned to preclinical development where we are exploring its potential as an injectable therapy to treat migraine and acute cancer pain. In addition, we are also advancing other acute pain drug candidates in preclinical development.

We have a significant collaboration with Baxter Healthcare (Baxter), to identify and develop PEGylated drug candidates with the objective of providing new long-acting therapies for hemophilia patients. Under the terms of this collaboration, we are providing our PEGylation technology and expertise and Baxter is responsible for all clinical development. The first drug candidate in this collaboration, BAX 855, is a longer-acting (PEGylated) form of a full-length recombinant factor VIII (rFVIII) protein which has completed Phase 1 clinical development in patients with hemophilia A. In February 2013, Baxter initiated a Phase 3 multi-center, open-label clinical study called PROLONG-ATE in previously treated adult patients with severe hemophilia A to assess the efficacy, safety and pharmacokinetics of BAX 855 for prophylaxis and on-demand treatment of bleeding. On November 13, 2013, Baxter announced that it had completed enrollment of 146 patients in the PROLONG-ATE clinical study.

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We also have a significant 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 liquid aerosol inhalation platform and the NKTR-061 drug candidate and entered into a collaboration agreement with Bayer in August 2007 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 that commenced in April 2013. Bayer is conducting this study under a Special Protocol Assessment process that was agreed to with the FDA in 2011.

We also have a number of license, manufacturing and supply agreements with leading biotechnology and pharmaceutical companies, including Amgen Inc., MAP Pharmaceuticals, Inc., Merck & Co., Inc., Ophthotech Corporation, Pfizer, Inc., F. Hoffmann-La Roche Ltd (Roche), Regado Biosciences, Inc., and UCB Pharma. A total of eight products using our PEGylation technology have received regulatory approval in the U.S. or E.U. 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. 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 PEGASY® (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

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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. Two primary examples of reducing transport across the blood-brain barrier are naloxegol, an orally-available peripherally-acting opioid antagonist that AstraZeneca has filed applications for marketing authorizations, and NKTR-171, a novel peripherally-acting sodium channel blocker that is currently in a Phase 1 clinical study for the treatment of neuropathic pain. An additional example of the application of membrane transport, specifically slowing transport across the blood-brain barrier is NKTR-181, an

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orally-available mu-opioid analgesic molecule that we plan to initiate Phase 3 clinical studies starting in mid-2014, following the completion of an end-of-Phase 2 meeting with the FDA in the first half of 2014.

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

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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, etirinotecan pegol, 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 BAX 855, a longer-acting (PEGylated) form of a full-length recombinant factor VIII (rFVIII) protein, which is currently being evaluated in Phase 3 clinical development in collaboration with Baxter for the treatment of hemophilia A.

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[®] (certoluzimab 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 E.U.

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 approved drugs 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.

Table of Contents**Index to Financial Statements*****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. For example, in December 2010, we decided that we would move etirinotecan pegol (also known as NKTR-102) into Phase 3 clinical development in metastatic breast cancer prior to completing a collaboration partnership for this drug candidate. 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 Drug Candidates in Clinical Development

The following table summarizes our proprietary drug candidates that 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.

| Drug Candidate | Target Indication | Status(1) |
|--|--|---|
| Naloxegol (orally available peripherally-acting mu-opioid receptor antagonist) | Opioid-induced constipation | Filed in U.S., E.U., and Canada (Partnered with AstraZeneca AB) |
| Etirinotecan pegol (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 | Completed Phase 2 |
| Etirinotecan pegol | Platinum-resistant/refractory ovarian cancer | Completed Phase 2 |
| Etirinotecan pegol | Non-small cell lung cancer | ISS Phase 2 |
| Etirinotecan pegol | Bevacizumab-resistant high-grade glioma | ISS Phase 2 |
| Etirinotecan pegol | Small cell lung cancer | ISS Phase 2 |
| Etirinotecan pegol | Second-line metastatic colorectal cancer in patients with the KRAS gene mutation | Phase 2 |

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| Drug Candidate | Target Indication | Status(1) |
|--|---------------------------------------|--|
| Etirinotecan pegol (in combination with 5-Fluorouracil/leucovorin) | Gastrointestinal-related solid tumors | Completed Phase 1 |
| NKTR-171 (orally-available peripherally-acting sodium channel blocker) | Neuropathic pain | Phase 1 |
| Naloxegol fixed-dose combinations (opioid/NKTR-118 combinations) | Chronic pain without constipation | Research/Preclinical (Partnered with AstraZeneca AB) |
| NKTR-192 (mu-opioid analgesic molecule) | Migraine and acute cancer pain | Research/Preclinical |
| NKTR-214 (cytokine immunostimulatory therapy) | Oncology | Research/Preclinical |

(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

ISS Investigator sponsored study for which the Company is providing support.

* 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.

Table of Contents**Index to Financial Statements****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 license our intellectual property and, in some cases, purchase our proprietary PEGylation materials for their drug products. A total of eight 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 | Drug | Status(1) |
|--|--|--|--|
| | Indications | Marketer/Partner | |
| 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** |
| OMONTYS® (peginesatide) | Anemia associated with chronic kidney disease (CKD) in adult patients on dialysis | Affymax, Inc. | Approved (currently withdrawn from market) |
| LEVADEX® | Migraine | Allergan, Inc. | Filed for approval in U.S. |
| BAX 855 (PEGylated rFVIII) | Hemophilia A | Baxter Healthcare | Phase 3 |
| 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*** |
| REG1 Anticoagulation System | Acute coronary syndrome | Regado Biosciences, Inc. | Phase 3 |
| Longer-acting blood clotting proteins | Hemophilia | Baxter Healthcare | Research/Preclinical |

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(1) Status definitions are:

Approved regulatory approval to market and sell product obtained in one or more of the U.S., E.U. 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).

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 is currently 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

Naloxegol and Naloxegol Fixed-Dose Combination Products (formerly NKTR-118 and NKTR-119), License Agreement with AstraZeneca AB

In September 2009, we entered into a global license agreement with AstraZeneca AB (AstraZeneca) 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 naloxegol and naloxegol fixed-dose combination products. Naloxegol 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. Globally, approximately 40-50% (28-35 million) of patients taking opioids for long-term pain develop constipation. It is estimated that approximately 40-50% (11-18 million) of those OIC sufferers achieve the desired treatment outcomes with current options that include over-the-counter and prescription laxatives.

AstraZeneca has completed a Phase 3 clinical development program for naloxegol, which AstraZeneca calls the KODIAC studies. The KODIAC studies (KODIAC-04, KODIAC-05, KODIAC-07 and KODIAC-08) evaluated the efficacy and safety of naloxegol for treating OIC in patients with non-cancer pain. KODIAC-04 and KODIAC-05 were replicate, multicenter- randomized, double-blind, placebo-controlled pivotal trials of 12 weeks duration that evaluated 12.5 mg and 25 mg naloxegol administered once-daily. The primary endpoint in both trials was percentage of OIC responders versus placebo over 12 weeks of treatment. The studies enrolled approximately 630 patients each. KODIAC-07 was a three-month safety extension of KODIAC-04. All three studies were conducted in patients with non-cancer pain and documented OIC, who required daily opioid therapy.

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On November 12, 2012, AstraZeneca reported top-line efficacy and safety results from KODIAC-04, -05 and -07. For both KODIAC-04 and -05, the 25 mg dose of naloxegol demonstrated statistically significant results for the primary endpoint. In KODIAC-04, the 12.5 mg dose of naloxegol demonstrated statistically significant results for the primary endpoint and in KODIAC-05 the 12.5 mg dose did not meet statistical significance for the primary endpoint. The safety analyses also showed no clinically relevant imbalances in serious adverse events (SAEs), including externally adjudicated major cardiovascular events, across the three treatment arms in KODIAC-04, -05 and -07. The most common adverse events (AEs) in the naloxegol treatment arms in both trials were abdominal pain, diarrhea and nausea. In KODIAC-07, the safety extension of KODIAC-04, the occurrence of AEs and SAEs was lower than in KODIAC-04 and -05. All other common AEs were distributed similarly across the three treatment arms. In KODIAC-04 and -05 for either naloxegol dose, compared to placebo, there were no significant differences in change from baseline in mean daily pain scores or mean total daily opioid dose.

KODIAC-08 was an open-label, randomized, 52-week, long-term safety trial of naloxegol versus usual care (UC) in patients with non-cancer related pain and OIC. This trial was designed to evaluate the long-term safety and adverse event profile of naloxegol in patients taking 25 mg of naloxegol once daily, as compared to UC. In the trial, a total of 534 patients received naloxegol once daily for up to 52 weeks, while 270 patients received UC for OIC during the same treatment period. UC was defined as the investigator's choice of an existing laxative treatment regimen for OIC. On February 26, 2013, AstraZeneca announced positive top-line results from KODIAC-08. The trial reported no imbalances in SAEs. In addition, there were a low number of major adverse cardiovascular events, as adjudicated by an independent external committee, and there was no imbalance of these events across naloxegol and UC arms. There were no increases from baseline levels in mean daily pain scores or mean total daily opioid dose in either the naloxegol or the UC arm. Additionally, there were no reports of opioid withdrawal AEs which could be attributed to naloxegol. The most commonly reported AEs occurring more frequently on naloxegol than on UC included abdominal pain, diarrhea, nausea and headache.

AstraZeneca submitted an NDA filing in the U.S. on September 25, 2013 and a Marketing Authorization Application (MAA) filing in the E.U. in August 2013. The PDUFA date for the naloxegol NDA in the US is September 16, 2014. The FDA is currently planning to hold an advisory committee meeting to discuss the cardiovascular safety and potential additional safety study requirements for the peripheral mu-opioid receptor antagonist class of drugs, including naloxegol. The advisory committee meeting, which had been originally scheduled for March 10-11, 2014, is being rescheduled due to scheduling conflicts. Naloxegol is currently considered a Schedule II controlled substance by the U.S. Drug Enforcement Administration (DEA) based on structural relatedness to noroxymorphone. AstraZeneca has conducted the studies necessary to evaluate the abuse potential and dependence-producing properties of naloxegol in support of obtaining decontrol. A petition for the decontrol of naloxegol was submitted to the DEA in March 2012 and subsequently accepted for review. Commercialization and launch in the U.S. will be subject to both FDA approval and DEA schedule determination. Please refer to Item 1A, Risk Factors, including without limitation, 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.

Under the terms of our license agreement, AstraZeneca made an initial license payment to us of \$125.0 million and AstraZeneca has responsibility for all activities and bears all costs associated with research, development and commercialization for naloxegol and naloxegol fixed-dose combination products. For naloxegol, we have received \$70.0 million and \$25.0 million upon the acceptance for review of naloxegol regulatory approval applications filed by AstraZeneca with the FDA and European Medicines Agency (EMA), respectively, in 2013 and are also entitled to up to an additional \$175.0 million upon certain regulatory approval and commercial launch milestones, and \$375.0 million in sales milestones if the product achieves certain annual commercial sales levels.

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If the FDA does not require a future clinical trial or other significant studies to assess the cardiovascular safety (CV Safety Study) of naloxegol prior to an approval decision, AstraZeneca is required to pay us a \$35.0 million milestone. If the FDA does require a CV Safety Study, AstraZeneca may terminate the license agreement with us in its entirety or only with respect to its rights in the United States. If AstraZeneca elects to terminate the license agreement in its entirety due to a CV Safety Study, we would be required to repay them the \$70.0 million payment noted above plus accrued interest at 4.5% compounded annually in four installments in accordance with the following payment schedule: \$10.0 million plus accrued interest on January 15, 2015, \$10.0 million plus accrued interest on January 15, 2016, \$20.0 million plus accrued interest on January 15, 2017 and \$30.0 million plus accrued interest on January 15, 2018. If AstraZeneca elects to terminate the license agreement only with respect to its rights in the U.S., then such repayment amount would be funded through a 50% reduction of non-U.S. royalty amounts otherwise payable to us until the aggregate amount of such royalty reduction equals the total principal amount of \$70.0 million plus accumulated interest at 4.5% compounded annually. If the FDA requires a post-approval cardiovascular safety study as a condition to approval of the naloxegol NDA, then the royalty rate payable to us from net sales of naloxegol in the U.S. by AstraZeneca would be reduced by two percentage points until the aggregate accumulated amount of such royalty payment reduction is equal to a maximum of \$35.0 million.

The remaining \$140.0 million of milestone payments are due upon the commercial launches of naloxegol in the U.S. and in the E.U. For the naloxegol 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 naloxegol and the fixed-dose combination products, we are also entitled to significant double-digit royalty payments, 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 naloxegol fixed-dose combination product and has the right to develop multiple products which combine naloxegol with other opioids.

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

We are developing etirinotecan pegol (also known as NKTR-102), a next generation topoisomerase I (topo I) inhibitor which was designed using our PEGylation technology. Etirinotecan pegol 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, etirinotecan pegol's pro-drug design results in a lower initial peak concentration of active topo I inhibitor in the blood. The large etirinotecan pegol 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, etirinotecan pegol achieved a 300-fold increase in tumor concentration as compared to irinotecan. Because etirinotecan pegol 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 etirinotecan pegol in tumor tissue. Clinical studies have shown that etirinotecan pegol has an extended pharmacokinetic profile and remains in circulation throughout the entire chemotherapy cycle, providing sustained exposure to topo I inhibition.

Etirinotecan pegol 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), was initiated in December 2011. The BEACON study 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 etirinotecan pegol or a single agent chosen from a defined set of physician's choice.

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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 has triple negative breast cancer. The primary endpoint of the BEACON study is overall survival, and secondary endpoints include progression-free survival and objective tumor response rate. Secondary endpoints and objectives also include clinical benefit rate, duration of response, pharmacokinetic data, safety profiles, quality-of-life measurements, and pharmacoeconomic implications. Exploratory objectives of the study include collecting specific biomarker data to correlate with objective tumor response rate, progression-free survival, overall survival and selected toxicities. In November 2012, the FDA designated etirinotecan pegol as a Fast Track development program for the treatment of patients with locally recurrent or metastatic breast cancer progressing after treatment with an anthracycline, a taxane, and capecitabine. On January 14, 2014, we announced that the Independent Data Monitoring Committee, or the DMC, created to provide safety oversight for the BEACON study recommended continuation of the Phase 3 BEACON study following an interim data analysis which was performed after reaching 50% of the events needed to achieve the primary endpoint of overall survival.

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 2014, the American Cancer Society estimates there will be 235,030 new cases of breast cancer in the United States. Metastatic breast cancer refers to cancer that has spread from the breast to distant sites in the body. 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 to treat breast cancer.

Etirinotecan pegol has also completed a Phase 2 clinical study in approximately 170 patients with platinum-resistant/refractory ovarian cancer. The Phase 2 clinical study included two phases. The first phase was an open-label, randomized, study evaluating two treatment schedules of single-agent etirinotecan pegol (145 mg/m² every 14 days or every 21 days). Each schedule originally followed a two-stage Simon design and a total of 71 patients were initially included in the study that was completed in the first half of 2010. The second phase was an expansion of patients in the every 21 day dosing schedule in women with platinum-resistant/refractory ovarian cancer who had previously received Doxil therapy. In September 2013, the FDA advised us that a Phase 3 clinical study would be required in order to support an NDA filing for etirinotecan pegol in ovarian cancer; however the FDA also indicated that a positive interim over-all survival analysis in a Phase 3 clinical study could potentially support an accelerated NDA filing prior to completing a Phase 3 clinical study. In December 2013, we also received scientific advice and protocol assistance from the EMA indicating that a Phase 3 clinical study would be required to support a marketing application for etirinotecan pegol in ovarian cancer. The EMA also indicated that a positive interim over-all survival analysis in a Phase 3 clinical study could potentially support a conditional approval of etirinotecan pegol for ovarian cancer. We do not plan to make a decision on future development for etirinotecan pegol in ovarian cancer until we review the top-line data from the BEACON study.

Ovarian cancer is a significant health problem for women worldwide. According to the American Cancer Society, in 2014, there will be an estimated 21,980 new cases of ovarian cancer diagnosed and an estimated 14,270 deaths from ovarian cancer in the United States. Ovarian cancer is the ninth most common cancer among women, excluding non-melanoma skin cancers. It ranks fifth in cancer deaths among women, accounting for more deaths than any other cancer of the female reproductive system. Historically, less than 40% of women with ovarian cancer are cured. According to the World Health Organization, about 230,000 women globally are diagnosed each year with ovarian cancer.

An etirinotecan pegol Phase 2 clinical study was initiated in June 2008 to evaluate the efficacy and safety of etirinotecan pegol 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

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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 E.U. Based on preliminary data we have collected to date from this study, etirinotecan pegol resulted in numerically improved overall survival, progression-free survival, objective response rate, and duration of response compared to that observed in the irinotecan comparator arm. However, due to the low number of patients enrolled in this study, we do not expect the results from this study to be statistically significant. Further, there are currently patients continuing in the study either on drug or in follow-up. Therefore, the data may change based on future additional data as well as verification and audit procedures that will be performed on the final completed study data. Following the conclusion of the study and completion of data verification and audit procedures, we currently plan to publish the results from this study at a scientific meeting.

We also conducted a Phase 1 dose-escalation clinical study which enrolled 26 patients to evaluate etirinotecan pegol 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. Results from this Phase 1 clinical study include establishing a dose of 75 mg/m² of etirinotecan pegol in combination with a standard dose of 5-FU/leucovorin and demonstrating clinical activity of etirinotecan pegol in combination with a standard dose of 5-FU/leucovorin clinical activity.

Colorectal cancer is the third most commonly diagnosed cancer and the third leading cause of cancer death in the U.S. According to the American Cancer Society, nearly 137,000 new cases of colon and rectal cancer will be diagnosed in the U.S. in 2014, and about 51,000 people will die annually of the disease. Worldwide, over 1.2 million people are diagnosed annually with colorectal cancer and, according to the World Health Organization, there are 690,000 deaths annually from colorectal cancers. Most metastatic colorectal cancer patients have recurrence within two years and require retreatment with chemotherapy regimens.

In addition to the clinical studies being conducted by us, there are also three investigator-initiated Phase 2 studies being conducted for etirinotecan pegol. On August 7, 2012, we announced a Phase 2 investigator-initiated clinical study of etirinotecan pegol 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. On February 5, 2013, we announced a Phase 2 investigator-initiated clinical study of etirinotecan pegol 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 etirinotecan pegol 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 obligations 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. 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

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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 drug candidate 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.

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

NKTR-181 is an orally-available mu-opioid drug candidate 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 is a novel mu-opioid analgesic molecule created using Nektar's proprietary polymer conjugate technology, which provides it with a long-acting profile and slows its entry into the CNS. Its potential differentiating properties are inherent to the design of the new molecule and as a new molecular structure. NKTR-181's abuse deterrent property does 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 2011, we completed two separate Phase 1 clinical studies of NKTR-181. The first study, a single-ascending dose study of NKTR-181 evaluated the pharmacokinetics and pharmacodynamics of a 50-fold range of single oral doses of NKTR-181 in 84 healthy subjects at up to 500 mg dose levels. The second study, a multiple-ascending dose study of NKTR-181 evaluated the pharmacokinetics and pharmacodynamics of four separate dose cohorts of NKTR-181 (100 mg - 400 mg) administered orally twice-daily. The study enrolled a total of 60 healthy subjects over an eight-day treatment period, and included a placebo arm (n=3) for each dose cohort. Measurements in the study included plasma concentrations-time profiles, reductions in pupil diameter, and a cold pressor test, a model of pain used in healthy subjects to measure central analgesic activity. In this multiple dose Phase 1 clinical study, NKTR-181 exhibited a sustained analgesic response. Pupillometry data from the study demonstrated that NKTR-181's centrally-mediated opioid effects are dose-dependent and indicates that the molecule enters the brain slowly, which has the potential to reduce the euphoria and other CNS side effects that are associated with current opioids. NKTR-181 was also well-tolerated at all doses evaluated in both studies.

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

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enrolled 213 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. Secondary endpoints of the study included quality-of-life assessment, sleep and motor activity scoring, as well as tolerability endpoints.

On September 26, 2013, we announced results from this Phase 2 efficacy study. Of the 295 patients that entered the study, only 9 (3%) patients were unable to achieve meaningful pain relief with NKTR-181. During the titration phase, 53 patients (18%) discontinued treatment because of adverse events, most of which are those commonly associated with opioids. A total of 213 patients achieved an average 40% reduction in pain and entered the randomized phase of the study. Following the titration period, patients were randomized 1:1 to either continue to receive their analgesic dose of NKTR-181 or to receive placebo for 21 days. 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, which was based upon the average change in a patient's pain score from pre-randomization baseline to the end of the double-blind, randomized treatment period of the study. In December 2013, we met with the FDA to discuss the results of the Phase 2 clinical study and certain preliminary considerations for the Phase 3 study design. We are currently evaluating the appropriate Phase 3 clinical trial design for NKTR-181 and plan to start a Phase 3 clinical study in mid-2014, following the completion of an end-of-Phase 2 meeting with the FDA planned to occur in the first half of 2014.

In the first half of 2013, we conducted a human abuse liability study, or HAL study, for NKTR-181. The HAL study was a randomized, double-blind, placebo- and active-controlled, 5-way crossover trial, that compared the effects of three doses of NKTR-181 oral solution (100 mg, 200 mg, and 400 mg), to the effects of 40 mg of oxycodone oral solution and placebo. Study participants were 42 healthy adults who were not currently physically opioid-dependent but had used opioids to attain non-medical effects on at least 10 occasions during the past year and at least once in the 12 weeks before the study. The study participants sequentially received the five treatments, administered in a randomized, double-blinded fashion, with each treatment separated by a washout period. The study also utilized a Williams Square cross-over design, which uses a series of randomized sequences for each individual subject. The HAL study compared drug liking between each treatment group (oxycodone 40 mg, placebo, and NKTR-181 100 mg, 200 mg, and 400 mg). On the bipolar VAS scale (0-100), a score of 50 indicates that the subject neither likes nor dislikes the drug. In the study, 40 mg of oxycodone oral solution resulted in a maximum mean drug liking score of 85, indicating a strong liking for the effects of oxycodone. The oxycodone liking score was significantly different from placebo as early as 15 minutes after dosing and peaked at 60 minutes. In the placebo arm, the maximum mean drug liking score was 50, indicating that the subjects neither liked nor disliked the effects. In this study, NKTR-181 was rated similar to placebo in drug liking and feeling high scores and 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.

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,

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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. A 2010 report from the Center for Disease Control and Prevention notes that emergency room visits tied to the abuse of prescription painkillers was at an all-time high at that point, having increased 111 percent over the preceding five-year period.

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. Chronic neuropathic pain arises from nerves injured or damaged by systemic disease, infection, toxins, or physical trauma that are in a continuous state of hyper-excitability, often due to aberrant sodium channel firing. This hyper-excitability results in transmission of abnormal pain signals from the periphery to the central nervous system (CNS). Existing therapies that block sodium channels have been shown to provide effective pain relief but are typically associated with significant unwanted CNS side effects, including dizziness, ataxia and somnolence. NKTR-171 is designed to be a peripherally-restricted molecule which selectively blocks hyper-excitability sodium channels without causing the CNS side effects that limit usage of existing therapies. In January 2014, a single-ascending dose Phase 1 clinical study of NKTR-171 was initiated to assess its pharmacokinetics, tolerability, and safety in up to 75 healthy subjects.

NKTR-192 (mu-opioid analgesic molecule for acute pain)

NKTR-192 is a mu-opioid analgesic molecule in preclinical development that is intended to be a short-acting analgesic to treat acute pain. NKTR-192 is also designed to address the abuse liability and serious CNS side effects associated with current opioid therapies. NKTR-192 is also designed to have slow entry into the CNS. Its differentiating properties are inherent to the design of the new molecule and as a new molecular structure, NKTR-192 does not rely on a formulation approach to prevent its conversion into a more abusable form of an opioid. NKTR-192 entered Phase 1 clinical development in 2012. In January 2014, we announced data from the multiple ascending dose study for an oral formulation of NKTR-192. NKTR-192 demonstrated low CNS side effects and achieved the target profile for the treatment of acute pain. However, at the highest doses tested in the study, there were several subjects who had elevated liver enzymes. As a result of these data, NKTR-192 will no longer be developed as an oral formulation. We are currently exploring an injectable formulation of NKTR-192 in preclinical development for the treatment of migraine and cancer pain.

NKTR-214 (cytokine immunostimulatory therapy)

NKTR-214 is an engineered immunostimulatory cytokine and is being developed for the treatment of solid tumors. NKTR-214 is engineered to selectively activate IL-2 receptors on cytotoxic T cells that kill tumor cells, with relatively low affinity for IL-2 receptors on regulatory T cells that dampen the immune response to tumors. This receptor selectivity is intended to increase efficacy and improve safety over existing immunostimulatory cytokine drugs. The product candidate is currently in Investigational New Drug application (IND)-enabling studies in preparation for clinical studies in cancer patients.

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.

Table of Contents**Index to Financial Statements*****LEVADEX[®], 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 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 LEVADEX[®]. LEVADEX[®] is a self-administered formulation of DHE using an inhaler device. Our right to receive royalties 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. On May 26, 2011, MAP submitted an NDA to the FDA for LEVADEX[®]. In March of 2012, the FDA issued a complete response letter identifying issues relating to chemistry, manufacturing and controls deficiencies at a third party manufacturer that needed to be resolved to the FDA's satisfaction as well as citing the need for additional time to complete review of inhaler usability information. In December 2012, MAP announced that its NDA resubmission for LEVADEX[®] was accepted for filing by the FDA. 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 April 17, 2013, the FDA issued another complete response letter identifying issues related to a supplier that provided the canister filling unit for LEVADEX[®]. Allergan has responded to the FDA's latest complete response letter and has stated that it expects a response from the FDA on the NDA for LEVADEX[®] in the second quarter of 2014.

BAX 855 and Long-Acting Therapies for Hemophilia A, Agreement with Subsidiaries of Baxter International Inc.

In September 2005, we entered into an exclusive research, development, license, manufacturing and supply agreement with Baxter Healthcare SA and Baxter Healthcare Corporation (Baxter) 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, BAX 855, is a longer-acting (PEGylated) form of a full-length recombinant factor VIII (rFVIII) protein. BAX 855 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 \$73.0 million in total development and sales milestone payments, as well as royalties on net sales varying by product and country of sale. 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, Baxter completed a Phase 1 clinical study for BAX 855 that was a prospective, open-label study assessing the safety, tolerability and pharmacokinetics of BAX 855 in 19 previously treated patients age 18 years or older with severe hemophilia A. In January 2013, Baxter 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 BAX 855 was approximately 1.5-fold higher compared to ADVATE. A longer half-life was achieved in all patients in the study using BAX 855, no patients developed inhibitors to either base molecule, BAX 855 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. Baxter commenced patient enrollment in a Phase 3 clinical study of BAX 855 in the U.S. in February 2013 and completed enrollment in November 2013. The Phase 3 clinical study is ongoing and is as a multi-center, open-label study called PROLONG-ATE and enrolled 146 previously treated adult patients with severe hemophilia A in order to assess the efficacy, safety and pharmacokinetics of BAX 855 for prophylaxis and on-demand treatment of bleeding.

Table of Contents**Index to Financial Statements*****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). We are entitled to up to \$7.5 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 of all of Ophthotech's clinical and commercial requirements of our proprietary PEGylation reagent 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 .

REG1 Anticoagulation System (pegnivacogin), Agreement with Regado Biosciences, Inc.

In December 2006, we entered into a license, manufacturing and supply agreement with Regado Biosciences, Inc. (Regado), in which we granted Regado a worldwide, exclusive license to certain of our proprietary PEGylation technology. Regado is using our PEGylation technology to develop the REG1 Anticoagulation System, or REG1, which is a two-component system comprising a Factor IXa inhibitor anticoagulant (pegnivacogin, a single-stranded, nucleic acid aptamer) and its specific active control agent. REG1 is being developed for use in patients suffering from acute coronary syndrome, including those who undergo coronary revascularization procedures, which include percutaneous coronary intervention (PCI) and coronary artery bypass grafting. These procedures put patients at risk for therapy-related bleeding complications. REG1 is designed to increase therapeutic flexibility while reducing side effects and improving outcomes experienced by patients in this setting. We are entitled to up to \$6.5 million in total development and sales milestone payments, mid-single-digit royalties on net sales varying by sales volume and certain additional payments if Regado grants any third parties certain rights to the REG1 product. 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 of all of Regado's clinical and commercial requirements of our proprietary PEGylation reagent used in the manufacture of REG1.

Regado has announced the completion of three Phase 1 and one Phase 2 clinical studies for REG1. In the Phase 2 study, which involved 640 patients, Regado reported that when compared to standard of care heparin, REG1 demonstrated both a rapid and predictable anticoagulant effect, the ability to precisely modulate or eliminate that effect in real time, as well as several important clinical and pharmacoeconomic benefits. In September 2013, Regado announced the enrollment of the first patient in its REGULATE-PCI Phase 3 clinical

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trial that plans to enroll 13,200 patients, described by Regado as a PROBE design (Prospective, Randomized, Open-label, Blinded-Endpoint) superiority study comparing the effects of REG1 to bivalirudin in patients undergoing PCI electively or for the treatment of unstable angina or non-ST elevated myocardial infarction. The primary endpoint of the REGULATE-PCI trial is efficacy compared to bivalirudin based on a composite set of endpoints including death, nonfatal myocardial infarction, nonfatal stroke, and urgent target lesion revascularization through day three. The principal secondary endpoint is safety compared to bivalirudin as measured by major bleeding events through day three.

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.

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 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

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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., E.U. 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. The agreement expires on the later of January 10, 2015 or the expiration of our last relevant patent containing a valid claim. 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.

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 E.U. for age-related macular degeneration. We currently manufacture our proprietary

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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. which ends in 2014. 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 have the right to receive manufacturing revenue on the basis of 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. which ends in 2014. 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. 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 in the last 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.

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OMONTYS® (Peginesatide), Agreement with Affymax, Inc.

In April 2004, we entered into a license, manufacturing and supply agreement with Affymax, Inc. (Affymax), under which we granted Affymax a worldwide, non-exclusive license to certain of our proprietary PEGylation technology to develop, manufacture and commercialize OMONTYS®. OMONTYS® is a synthetic PEGylated peptidic compound that binds to and stimulates the erythropoietin receptor and thus acts as an erythropoietin stimulating agent (ESA). It is the only ESA that is peptide-based and its building blocks (amino acids) are arranged in a different order than erythropoietin (i.e., it has no sequence homology to endogenous erythropoietin). The compound was discovered by Affymax and is being co-developed and marketed by Affymax and Takeda Pharmaceutical Company Limited (Takeda). In March 2012, the FDA approved OMONTYS® for the treatment of dialysis patients with anemia due to chronic kidney disease (CKD). OMONTYS® is the first once-monthly ESA for anemia in CKD for dialysis patients available in the U.S.

On February 23, 2013, Affymax and Takeda announced a voluntary recall of all lots of OMONTYS® drug product to the user level as a result of new post-marketing reports regarding serious hypersensitivity reactions, including anaphylaxis, which can be life-threatening or fatal. The FDA has been notified by Affymax of 19 reports of anaphylaxis with 3 of those cases resulting in death. The reported serious hypersensitivity reactions have occurred within 30 minutes after such administration of OMONTYS®. There have been no reports of such reactions following subsequent dosing, or in patients who have completed their dialysis session. Since launch of the drug, more than 25,000 patients have received OMONTYS® in the post-marketing setting.

Effective as of April 1, 2013, Affymax announced that it had amended its collaboration agreement with Takeda to transfer regulatory, manufacturing, and development responsibilities for OMONTYS® to Takeda. In July 2013, Affymax terminated the license, manufacturing and supply agreement with us.

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 relating to systemic toxicity normally required for the IND and NDA or BLA may not be necessary if the company has a right of reference to

such data under section 505(j) of the Federal

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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

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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 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. 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.

A number of the drugs we are developing are already approved for marketing by the FDA in another form or using another delivery system. We believe that, when working with drugs approved in other forms, the approval process for products using our alternative drug delivery or formulation technologies may involve less risk and require fewer tests than new chemical entities do. However, we expect that our formulations will often use excipients not currently approved for use. Use of these excipients will require additional toxicological testing that may increase the costs of, or length of time needed to, gain regulatory approval. In addition, as they relate to our products, regulatory procedures may change as regulators gain relevant experience, and any such changes may delay or increase the cost of regulatory approvals.

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.

To date, our partners have generally been 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.

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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 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 E.U.

In the U.S., the FDA may grant Fast Track or Breakthrough 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 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 175 U.S. and 500 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.

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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.

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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 manufacturing revenue. Roche, UCB Pharma, AstraZeneca, and Bayer represented 28%, 21%, 17%, and 10% of our revenue, respectively, for the year ended December 31, 2013. No other collaboration partner accounted for more than 10% of our total revenue during the year ended December 31, 2013.

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., Enzon Pharmaceuticals, Inc., 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.

Table of Contents**Index to Financial Statements*****Product and Program Specific Competition******Naloxegol (formerly NKTR-118) (orally-available peripheral opioid antagonist)***

There are no 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 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 methylnaltrexone bromide marketed by Salix Pharmaceuticals, Ltd under a license from Progenics Pharmaceuticals, Inc. Methylnaltrexone bromide is indicated for the treatment of opioid-induced constipation only in patients with advanced illness who are receiving palliative care, when response to laxative therapy has not been sufficient. 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 Progenics Pharmaceuticals, Inc. in collaboration with Salix Pharmaceuticals, Ltd., Cubist Pharmaceuticals, Inc., GlaxoSmithKline plc, Mundipharma Int. Limited, Theravance, Inc., Delveco Pharma, Sucampo Pharmaceuticals, Inc., and Takeda Pharmaceutical Company Limited.

Etirinotecan pegol (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), Ixempra® (ixabepilone), Navelbine® (vinorelbine), Paraplatin® (carboplatin), Taxol® (paclitaxel) 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-Myers 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. There are currently no drugs in Phase 3 development to specifically treat metastatic breast cancer in all receptor types following anthracycline, taxane and capecitabine therapy in either the adjuvant or metastatic setting.

There are also a number of chemotherapies and cancer therapies approved today and in clinical development for the treatment of colorectal cancer. Approved therapies for the treatment of colorectal cancer include Eloxatin® (oxaliplatin), Camptosar® (irinotecan), Avastin® (bevacizumab), Zaltrap® (Ziv-aflibercept), Stivarga® (regorafenib), Erbitux® (cetuximab), Vectibix® (panitumumab), Xeloda® (capecitabine), Aducril® (fluorouracil), and Wellcovorin® (leucovorin). These therapies are only partially effective in treating the disease. There are a number of drugs in various stages of preclinical and clinical development from companies exploring cancer therapies or improved chemotherapeutic agents to potentially treat colorectal cancer. If these drugs are approved, they could be competitive with etirinotecan pegol if it is approved by government health authorities. These include products in development from Bristol-Myers Squibb Company, Pfizer, Inc., GlaxoSmithKline plc, Antigenics, Inc., F. Hoffman-La Roche Ltd, Novartis AG, Cell Therapeutics, Inc., Neopharm Inc., Mediatech Research Ltd, Alchemia Limited, Enzon Pharmaceuticals Inc. and many others.

Table of Contents**Index to Financial Statements*****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.

BAX 855 (PEGylated rFVIII)

There are other long-acting Factor VII programs in late-stage development for hemophilia A patients. Biogen Idec Inc. has completed a Phase 3 development program for ELOCTATE, a recombinant factor VIII Fc fusion protein, which is designed to be longer acting than current treatments available for hemophilia A patients. Biogen Idec Inc. submitted a Biologics License Application to the FDA for marketing approval of ELOCTATE during the first quarter of 2013. In addition, Bayer Healthcare has an ongoing Phase 3 clinical development program for BAY94-9027, a PEGylated Factor VIII molecule, which is also designed to be longer acting than current treatments available for hemophilia A patients. ELOCTATE and BAY94-9027, if approved by health authorities, will be competitive to BAX 855 in the longer-acting Factor VIII market, if BAX 855 successfully completes Phase 3 clinical development and is approved by health authorities.

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., Collegium Pharmaceutical, Inc., Egalet Ltd, Elite Pharmaceuticals, Inc., Endo Health Solutions Inc., KemPharm, Inc., Pfizer, Inc., Purdue Pharma L.P., and Signature Therapeutics, Inc.

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, | | |
|---|--------------------------------|-------------|-------------|
| | 2013 | 2012 | 2011 |
| Third party and direct materials costs | 105.6 | 65.6 | 50.4 |
| Personnel, overhead and other costs | 69.0 | 68.8 | 59.5 |
| Stock-based compensation and depreciation | 15.4 | 14.3 | 16.9 |
| Research and development expense | \$ 190.0 | \$ 148.7 | \$ 126.8 |

Manufacturing and Supply

We have a manufacturing facility located in Huntsville, Alabama that is capable of manufacturing PEGylated derivatives and starting materials for active pharmaceutical ingredients (APIs). The facility is also used to produce APIs 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 finished drug products, we utilize contract manufacturers to manufacture the 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

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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 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, 2013, we had 445 employees, of which 337 employees were engaged in research and development, commercial operations and quality activities and 108 employees were engaged in general administration and business development. Of the 445 employees, 363 were located in the United States and 82 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.

Table of Contents**Index to Financial Statements****EXECUTIVE OFFICERS OF THE REGISTRANT**

The following table sets forth the names, ages and positions of our executive officers as of February 27, 2014:

| Name | Age | Position |
|------------------------------|------------|--|
| Howard W. Robin | 61 | Director, President and Chief Executive Officer |
| John Nicholson | 62 | Senior Vice President and Chief Financial Officer |
| Robert A. Medve, M.D. | 48 | Senior Vice President and Chief Medical Officer |
| Stephen K. Doberstein, Ph.D. | 55 | Senior Vice President and Chief Scientific Officer |
| Gil M. Labrucherie, J.D. | 42 | Senior Vice President, General Counsel and Secretary |
| Maninder Hora, Ph.D | 60 | Senior Vice President, Pharmaceutical Development and Manufacturing Operations |
| Jillian B. Thomsen | 48 | 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.

Robert A. Medve, M.D. has served as our Senior Vice President and Chief Medical Officer since June 2011 and previously served as our Vice President Drug Development and Medical Affairs when he joined Nektar in March 2011 until June 2011. From November 2006 to March 2011, he was Chief Medical and Regulatory Officer at NeurAxon, Inc., a privately held biotechnology company developing drug candidates for the treatment of pain and CNS disorders. From April 2006 to November 2006, Dr. Medve served as Corporate Vice President, Science, Research and Development for Lifetree Clinical Research, and thereafter served in a consulting capacity from time to time. From May 2003 to November 2005, Dr. Medve served as Senior Vice President, Drug Development and Chief Medical and Regulatory Officer for Metaphore Pharmaceuticals, Inc., a biotechnology company developing drug candidates for pain and inflammation. From January 1998 to May 2003, he served in various leadership positions at Johnson & Johnson, a pharmaceutical company, most recently as Executive Director of Pediatric Drug Development. From May 1996 to January 1998, he served in the medical affairs group at Knoll Pharmaceutical Company, a wholly-owned pharmaceutical subsidiary of BASF acquired by Abbott Laboratories in 2001, most recently as Director of Medical Affairs. Prior to joining industry, Dr. Medve served

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as the Director of Pediatric Pain Management and Instructor of Anesthesiology at the State University of New York at Buffalo (SUNY) and also completed a Pain Management Fellowship at SUNY. He completed his residency in anesthesia at Thomas Jefferson University Hospital and served as a surgical intern at Mercy Health Systems Medical Center. Dr. Medve received his M.D. from Jefferson Medical College and received his B.S. in Biology from the Pennsylvania State University.

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. 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 December 2008 to July 2010, he was Vice President, Product and Quality Operations at Facet Biotech Corporation, a clinical stage biotechnology company, which was acquired by Abbott Laboratories in April 2010. From July 2006 to December 2008, Dr. Hora served in various management capacities at PDL Biopharma, Inc., a biopharmaceutical company, most recently as Vice President, Product Operations. From 1986 to 2006, Dr. Hora held positions of increasing responsibility with Chiron Corporation (Chiron and now Novartis), a pharmaceutical company, serving most recently at Chiron as Vice President of Process and Product Development. Dr. Hora served as a key member of various teams that successfully registered eight drugs or vaccines in the U.S. and Europe during his 20-year tenure at Chiron. Dr. Hora has also held positions at Wyeth Pharmaceuticals and GlaxoSmithKline plc prior to joining Chiron. 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.

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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 and highly uncertain processes. It will take us, or our collaborative partners, several years to complete clinical studies. 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 small molecules, including naloxegol, etirinotecan pegol (also known as NKTR-102), NKTR-181, NKTR-192, NKTR-171 and other drug candidates currently in discovery research or preclinical development. 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.

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 U.S. Food and Drug Administration (FDA) and equivalent foreign government health authorities. The time required for obtaining regulatory decisions is uncertain and difficult to predict. The FDA and other U.S. and foreign health 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. Further, health 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.

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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.

If the FDA requires a cardiovascular safety study for naloxegol, it could have a material adverse impact on the naloxegol program and our business prospects and financial condition.

The FDA is exploring whether there is any evidence of potential elevated cardiovascular risk possibly related to the class of mu-opioid antagonist drugs and naloxegol is a mu-opioid antagonist. AstraZeneca completed a 52-week, long-term controlled safety trial of naloxegol as part of the Phase 3 naloxegol development program. The FDA's general safety concern is based on data from other mu-opioid antagonist programs that may indicate increased cardiovascular risk associated with opioid withdrawal or the antagonism of the delta subtype of the opioid receptor, for which the FDA has not yet made a causal connection between these mechanisms and elevated cardiovascular risk. The FDA is currently planning to hold an advisory committee meeting for the purposes of reviewing the cardiovascular safety study requirements for peripheral mu-opioid receptor antagonists including naloxegol. The advisory committee meeting, which had been originally scheduled for March 10-11, 2014, is being rescheduled due to scheduling conflicts.

We amended our license agreement with AstraZeneca to enter into a risk sharing arrangement in the event that pre-approval or post-approval cardiovascular safety studies are required by the FDA for naloxegol. The amendment provides that if the FDA requires a cardiovascular safety study as a condition to approval of naloxegol and, as a result, AstraZeneca terminates its agreement with us in its entirety, we would be required to repay AstraZeneca the \$70.0 million we received upon the FDA's acceptance for review of the naloxegol NDA plus accrued interest at 4.5% compounded annually. If AstraZeneca elects to terminate the agreement only with respect to its license agreement rights in the U.S. due to a pre-approval cardiovascular safety study, then such amount would be paid through a 50% reduction of non-U.S. royalty amounts otherwise payable to us until the aggregate amount of such royalty reduction equals the total principal amount of \$70.0 million plus accumulated interest at 4.5% compounded annually. On the other hand, if the FDA determines a pre-approval cardiovascular safety study of naloxegol is not required, AstraZeneca is obligated to pay us an additional \$35.0 million milestone payment. However, if the FDA requires a post-approval cardiovascular safety study as a condition to regulatory approval, then the royalty rate payable to us from net sales of naloxegol in the U.S. by AstraZeneca would be reduced by two percentage points until the aggregate amount of such royalty payment reduction is equal to a maximum of \$35.0 million.

Even with success in previously completed clinical trials, 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 late stage clinical studies due to factors such as inconclusive efficacy or safety, even after achieving positive results in earlier clinical studies that were satisfactory both to them and to reviewing government health authorities. While etirinotecan pegol, Amikacin Inhale, and BAX 855 have each demonstrated positive results from earlier clinical studies, there is a substantial risk that Phase 3 clinical study outcomes for these drug candidates from larger patient populations will not demonstrate positive efficacy, safety or other clinical outcomes sufficient to support regulatory filings and achieve regulatory approval. Phase 3 clinical study outcomes remain very unpredictable and it is possible that one or more of these Phase 3 clinical studies could fail at any time due to efficacy, safety or other important clinical findings or regulatory requirements. If one or more of these drug candidates fail in Phase 3 clinical studies, it would have a material adverse effect on our business, financial condition and results of operations.

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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 naloxegol, 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 MIRCER[®] 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 third party agreements impacted by these complex transactions, such a breach could result in substantial future liability 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. 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.

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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 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, 2013, we had cash and investments in marketable securities valued at approximately \$262.0 million, of which \$25.0 million was restricted in relation to our 12.0% senior secured notes, and indebtedness of approximately \$160.8 million. The indebtedness includes approximately \$125.0 million in senior secured notes due July 2017, but excludes our long-term liability relating to the sale of future royalties. While this royalty obligation liability will not generally be settled in cash, we expect to be required to make a cash payment of \$7.0 million in 2014, as a certain performance target is not expected to be met. 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 naloxegol that has been licensed to AstraZeneca, Amikacin Inhale that has been licensed to Bayer, and BAX 855 that is being developed by Baxter under an intellectual property license from us;

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 – in particular our Phase 3 BEACON study for etirinotecan pegol and our clinical studies for NKTR-181;

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 outcome of the regulatory review process and commercial success of drug products for which we are entitled to receive royalties (e.g., naloxegol being developed by AstraZeneca);

the number of patients, enrollment criteria, primary and secondary endpoints, and the number of clinical studies required by the government health 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

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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.

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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 in the future a technique could be discovered 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 potential of NKTR-181.

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 to 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 is subject to audit and verification procedures that could result in material changes in the final data and may change as more patient data becomes available.

From time to time, we publish preliminary or interim data from our clinical studies. For example, we have announced preliminary topline data from our Phase 2 clinical study for NKTR-181. Preliminary data remains 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 is also subject to the risk that one or more of the clinical outcomes may materially change as patient enrollment continues and more patient data becomes 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. Etirinotecan pegol in patients with metastatic breast cancer and BAX 855 are currently in Phase 3 clinical studies, and Bayer has initiated Phase 3 clinical development of BAY41-6551 with the first patient enrolled in April 2013. A Phase 2 clinical study for etirinotecan pegol in patients with metastatic colorectal cancer is still open for enrollment. We are currently evaluating the recently announced results from our Phase 2 efficacy clinical study for NKTR-181 and are in the planning stage for a Phase 3 clinical study for NKTR-181 including continuing consultations with leaders in the pain clinical trial field and interactions with the FDA. Because it is unlikely that we will be able to identify a single cause for the NKTR-181 Phase 2 study not meeting its primary efficacy endpoint, there is increased risk in effectively designing a Phase 3 clinical study to demonstrate the efficacy of NKTR-181. These

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and other of our planned clinical studies may not begin on time, have an effective design, enroll a sufficient number of patients or be completed on schedule, if at all. Our clinical trials for any of our product candidates could be delayed for a variety of reasons, including:

delays in obtaining regulatory approval to commence a clinical study;

delays in reaching agreement with applicable health authorities on a clinical study design;

imposition of a clinical hold following an inspection of our clinical trial operations or trial sites by the FDA or other health authorities;

suspension or termination of a clinical study by us, our partners, the FDA or foreign health 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 health authorities policies or guidance applicable to our drug candidates.

If initiation or completion of any of the planned clinical studies are delayed for our drug candidates for any of the above reasons or otherwise, the approval process could 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.

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 successful product candidates following approval by government health 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 would negatively impact 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.

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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

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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 selling 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 175 U.S. and 500 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. The 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,

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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 agree to the payment of a total of \$12 million in future installments and certain other terms and conditions in exchange for the full release of certain breach of contract claims by SUNY. In October 2011, we entered into a settlement related to trade secret and breach of contract litigation where we agreed to make an upfront payment of \$2.7 million and a future contingent payment of \$3.0 million if a certain drug candidate receives FDA approval. In 2006, we entered into a litigation settlement related to an intellectual property dispute with the University of Alabama in Huntsville pursuant to which we paid \$11.0 million and agreed to pay an additional \$10.0 million in equal \$1.0 million installments over ten years ending with the last payment due on July 1, 2016.

In addition, from time to time, we may in the future assert claims against third parties, based on infringement of our proprietary rights or otherwise. Any such claims may not ultimately be successful, and we may incur substantial costs and liabilities in pursuing them.

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, DEA or comparable agencies in other jurisdictions to confirm such compliance. 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 or recalls of products, operating restrictions and criminal prosecutions, any of which could harm our business. The results of these 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 would 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

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timely manner, we risk delaying our clinical studies or those of our collaboration partners, reducing drug sales by our collaboration partners or breaching contractual obligations. As a result, we could incur substantial costs and damages, and reduce or even eliminate product or royalty revenue. 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 derived from our collaboration agreements, from which we receive contract research payments, milestone 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 milestone payments based on the execution of new collaboration agreements, the timing of clinical outcomes, regulatory approval, commercial launch and 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, results of operations and prospectus could be materially and adversely affected.

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If our partners, on which we depend to obtain regulatory approvals for and to commercialize our partnered drug candidates, are not successful, or if such collaborations fail, the development or commercialization of our partnered drug candidates may be delayed or unsuccessful.

When we sign a collaborative development agreement or license agreement to develop a drug candidate with a pharmaceutical or biotechnology company, the pharmaceutical or biotechnology company is generally expected to:

design and conduct large scale clinical studies;

prepare and file documents necessary to obtain government approvals to sell a given drug candidate; and/or

market and sell the drugs when and if they are approved.

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

we may be unable to control whether, and the extent to which, our partners devote sufficient resources to the development programs or commercial marketing and sales efforts;

disputes may arise or escalate in the future with respect to the ownership of rights to technology or intellectual property developed with partners;

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;

contracts with our partners may fail to provide us with significant protection, or to be effectively enforced, in the event one of our partners fails to perform;

partners have considerable discretion in electing whether to pursue the development of any additional product candidates and may pursue alternative technologies or products either on their own or in collaboration with our competitors;

partners with marketing rights may choose to devote fewer resources to the marketing of our partnered products than they do to products of their own development or products in-licensed from other third parties;

the timing and level of resources that our partners dedicate to the development program will affect the timing and amount of revenue we receive;

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 partnerships is highly unpredictable and can have a substantial negative or positive impact on our business. We have entered into collaboration agreements in the past that have been subsequently terminated, such as our collaboration agreement with Pfizer, Inc. for the development and commercialization of inhaled insulin that was terminated by Pfizer, Inc. in November 2007. If other collaboration agreements are suspended or terminated, our ability to commercialize certain other proposed product candidates could also be negatively impacted. If our collaborations fail, our product development or commercialization of product candidates could be delayed or cancelled, which would negatively impact our business, results of operations and financial condition.

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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 products 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 revenues we receive will depend upon the efforts of third parties, which may not be successful and are only partially in our control. 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 opportunity or contract liability 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

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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, 2013, we reported a net loss of \$162.0 million. If and when we achieve profitability depends upon a number of factors, including the timing and recognition of milestone 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 BEACON study and the clinical studies for NKTR-181;

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.

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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

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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 our reliance on results of trials that we have not directly conducted or monitored 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 Idec Inc., Savient Pharmaceuticals, Inc., Dr. Reddy's Laboratories Ltd., Enzon Pharmaceuticals, Inc., 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 several 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 naloxegol, there are currently several alternative therapies used to address opioid-induced constipation (OIC) and opioid-induced bowel dysfunction (OBD), including subcutaneous Relistor® (methylnaltrexone bromide), 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 Cubist Pharmaceuticals, Inc., Progenics Pharmaceuticals, Inc. in collaboration with Salix Pharmaceuticals, Ltd., Mundipharma Int. Limited, Sucampo Pharmaceuticals, Inc., Develco Pharma, Alkermes, Inc., GlaxoSmithKline plc, Theravance, Inc., and Takeda Pharmaceutical Company Limited. For etirinotecan pegol, 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), 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 these 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 approved therapies for the treatment of colorectal cancer, including Eloxatin® (oxaliplatin), Camptosar® (irinotecan), Avastin® (bevacizumab), Zaltrap® (Ziv-afilbercept), Stivarga® (regorafenib), Erbitux® (cetuximab), Vectibix® (panitumumab), Xeloda® (capecitabine), Adrucil® (fluorouracil) and Wellcovorin® (leucovorin). In addition, there are a number of drugs in various stages of preclinical and clinical development from companies exploring cancer therapies or improved chemotherapeutic agents to potentially treat colorectal cancer, including, but not limited to, products in development from Bristol-Myers Squibb Company, Pfizer, Inc., GlaxoSmithKline plc, Antigenics, Inc., F. Hoffmann-La Roche Ltd, Novartis AG, Cell Therapeutics, Inc., Neopharm Inc., Meditech Research Ltd, Alchemia Limited, and Enzon Pharmaceuticals, Inc.

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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. Our decision to bear a majority or all of the clinical development costs of etirinotecan pegol substantially increases 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.

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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.

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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, 2013, based on closing prices on The NASDAQ Global Select Market, our stock price ranged from \$13.96 to \$7.54 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:

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.

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The indenture governing the 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.

The indenture governing the senior secured notes contains covenants that restrict our and our subsidiaries' ability to take various actions, such as:

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;

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incur restrictions on certain of our subsidiaries ability to pay dividends or other distributions to the Company or to make intercompany loans 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 July 11, 2012; and

consummate a merger, consolidation, reorganization or business combination, or sell, assign, transfer, lease or otherwise dispose of all or substantially all of our assets.

In addition, the indenture governing the senior secured notes contains a financial maintenance covenant requiring us to maintain a \$25.0 million segregated cash reserve account until July 1, 2015 to be applied to interest payments on the notes in the event of a default, subject to certain conditions. This indenture also requires us not to permit, thereafter and through the quarter ending June 30, 2017, the aggregate balance of our unrestricted cash and cash equivalents at the end of any two consecutive fiscal quarters to be less than \$25.0 million, subject to certain conditions. 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 debt-related 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 102,283 square foot facility in the Mission Bay Area of San Francisco, California (Mission Bay Facility), under an operating lease which expires in 2020. In November 2010, we moved into the Mission Bay Facility relocating all of our functions from the San Carlos, California facility (San Carlos Facility), including our corporate headquarters and research and development for our PEGylation and advanced polymer conjugate technology operations. In December 2011, we expanded our lease of the Mission Bay Facility to include an additional 24,002 square feet of space, which will expire in 2020, on the same date as the original lease agreement for the Mission Bay Facility.

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.

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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.

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India

We own a research and development facility consisting of approximately 88,000 square feet, near Hyderabad, India. In addition, we lease approximately 504 square feet of office space in Hyderabad, India, under a one-year operating lease that will expire in 2014.

Item 3. *Legal Proceedings*

From time to time, we are subject to legal proceedings, including the proceedings described specifically below. 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.

On November 18, 2009, the Research Foundation of the State University of New York, or SUNY filed an action against us in the United States District Court for the Northern District of New York. SUNY sought to recover amounts it alleged it was owed pursuant to a technology licensing contract between us and SUNY. On December 20, 2013, we entered into a Settlement Agreement and Release (the *Settlement*) with SUNY. Under the terms of the Settlement, SUNY agreed to dismiss the action with prejudice and relinquish all rights it may have had to a portion of future development and regulatory milestone payments payable to us under the Co-Development, License and Co-Promotion Agreement, dated August 1, 2007, between us (and our subsidiaries) and Bayer Healthcare LLC, as amended, related to the inhaled amikacin program in exchange for (i) a \$5 million payment due on April 1, 2014; (ii) a \$5 million payment due on January 1, 2015, (iii) a series of four \$500,000 payments each due on April 1, 2014, January 1, 2015, January 1, 2016, and January 1, 2017, respectively; and (iv) certain other terms and conditions.

Item 4. *Mine Safety Disclosures*

Not applicable.

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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, 2012:</i> | | |
| 1st Quarter | \$ 8.22 | \$ 5.68 |
| 2nd Quarter | 8.14 | 6.41 |
| 3rd Quarter | 10.78 | 7.99 |
| 4th Quarter | 10.83 | 5.99 |
| <i>Year Ended December 31, 2013:</i> | | |
| 1st Quarter | \$ 11.06 | \$ 7.54 |
| 2nd Quarter | 11.70 | 8.83 |
| 3rd Quarter | 13.96 | 10.45 |
| 4th Quarter | 12.56 | 8.96 |

 Holders of Record

As of February 20, 2014, there were approximately 215 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, 2013.

 Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding our equity compensation plans as of December 31, 2013 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 2014 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.

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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, 2013, 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 RGD 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, 2009, December 31, 2010, December 31, 2011, December 31, 2012 and December 31, 2013. The graph assumes that \$100 was invested on December 31, 2008 in the common stock of the Company, the NASDAQ Composite Index, the Nasdaq Pharmaceutical Index, the RGD 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.

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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, | | | | |
|---|-------------------------|---------------------|---------------------|--------------------|---------------------|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Statements of Operations Data: | | | | | |
| Revenue: | | | | | |
| Product sales | \$ 44,846 | \$ 35,399 | \$ 24,864 | \$ 27,412 | \$ 30,116 |
| Royalty revenue | 1,148 | 4,874 | 10,327 | 7,255 | 5,172 |
| Non cash royalty revenue related to sale of future royalties ⁽¹⁾ | 22,055 | 10,791 | | | |
| License, collaboration and other revenue | 80,872 | 30,127 | 36,289 | 124,372 | 36,643 |
| Total revenue | 148,921 | 81,191 | 71,480 | 159,039 | 71,931 |
| Total operating costs and expenses | 269,051 | 222,392 | 195,417 | 187,294 | 167,063 |
| Loss from operations | (120,130) | (141,201) | (123,937) | (28,255) | (95,132) |
| Non-cash interest expense on liability related to sale of future royalties ⁽¹⁾ | (22,309) | (18,057) | | | |
| Interest and other income (expense), net | (17,329) | (12,191) | (9,023) | (8,802) | (7,640) |
| Provision (benefit) for income taxes | 2,245 | 406 | 1,018 | 881 | (253) |
| Net loss | \$ (162,013) | \$ (171,855) | \$ (133,978) | \$ (37,938) | \$ (102,519) |
| Basic and diluted net loss per share ⁽²⁾ | \$ (1.40) | \$ (1.50) | \$ (1.19) | \$ (0.40) | \$ (1.11) |
| Weighted average shares outstanding used in computing basic and diluted net loss per share ⁽²⁾ | 115,732 | 114,820 | 112,942 | 94,079 | 92,772 |

| | As of December 31, | | | | |
|--|--------------------|----------------|----------------|----------------|----------------|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| Balance Sheet Data: | | | | | |
| Cash, cash equivalents and investments | \$ 262,026 | \$ 302,194 | \$ 414,936 | \$ 315,932 | \$ 396,211 |
| Working capital | \$ 159,661 | \$ 236,094 | \$ 1,174 | \$ 289,871 | \$ 260,650 |
| Total assets | \$ 434,527 | \$ 497,790 | \$ 606,550 | \$ 521,225 | \$ 575,518 |
| Deferred revenue | \$ 106,048 | \$ 118,447 | \$ 127,831 | \$ 145,347 | \$ 192,372 |
| Convertible subordinated notes | \$ | \$ | \$ 214,955 | \$ 214,955 | \$ 214,955 |
| Senior secured notes | \$ 125,000 | \$ 125,000 | \$ | \$ | \$ |
| Liability related to the sale of future royalties ⁽¹⁾ | \$ 128,520 | \$ 131,266 | \$ | \$ | \$ |
| Other long-term liabilities | \$ 25,775 | \$ 20,014 | \$ 21,741 | \$ 22,585 | \$ 23,344 |
| Accumulated deficit | \$ (1,732,393) | \$ (1,570,380) | \$ (1,398,525) | \$ (1,264,547) | \$ (1,226,609) |
| Total stockholders' equity (deficit) | \$ (89,903) | \$ 47,018 | \$ 197,811 | \$ 90,662 | \$ 102,367 |

(1)

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In February 2012, we sold all of our rights to receive future royalty payments on net sales of UCB's CIMZIL[®] 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

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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.

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 clinical-stage 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 other 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 when it is bonded with polymers. 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.

Our most advanced proprietary product candidate, naloxegol (formerly known as NKTR-118), is an oral peripheral opioid antagonist which has completed Phase 3 clinical studies and has been filed for regulatory approvals in the US, E.U. and Canada for the treatment of opioid-induced constipation (OIC) in patients with non-cancer pain. We are a party to an exclusive worldwide license agreement with AstraZeneca AB (AstraZeneca) for the global development and commercialization of naloxegol and naloxegol fixed-dose combination products (formerly known as NKTR-119). The core Phase 3 clinical development program for naloxegol, which AstraZeneca calls the KODIAC program, is comprised of four clinical trials which are designed to investigate the safety and efficacy of naloxegol for the treatment of OIC in patients with non-cancer related pain. The outcome and timing of the naloxegol regulatory review events will have a substantial impact on our financial condition as we are entitled to up to \$35.0 million in regulatory milestones and \$140.0 million in commercial launch milestones, as well as up to \$75 million of payments related to the naloxegol fixed-dose combination program. The naloxegol fixed-dose combination program is an early stage research and development program that is designed to combine various opioids with naloxegol. AstraZeneca is responsible for all clinical, regulatory and commercialization costs for both the naloxegol drug candidate and all drug candidates within the naloxegol fixed-dose combination program.

On November 12, 2012, AstraZeneca announced positive top-line results for naloxegol from two Phase 3 efficacy and safety clinical trials and from a safety extension trial (KODIAC-04, -05, and -07). On February 26, 2013, AstraZeneca announced positive top-line results from the long-term safety study (KODIAC-08) of naloxegol in patients with OIC. On September 25, 2013, the EMA notified AstraZeneca that it had accepted for review the naloxegol regulatory approval application filed by AstraZeneca in August 2013. As a result, we were

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entitled to a \$25.0 million payment from AstraZeneca, which was received on September 30, 2013. On September 16, 2013, AstraZeneca filed an NDA with the FDA for naloxegol, which was accepted for review by the FDA on November 16, 2013, resulting in a \$70.0 million milestone payment to Nektar from AstraZeneca in November 2013. If the FDA does not require a future clinical trial or other significant studies to assess the cardiovascular safety (CV Safety Study) of naloxegol prior to an approval decision, AstraZeneca is obligated to pay us an additional \$35.0 million. If the FDA does require a CV Safety Study, AstraZeneca may terminate the license agreement with us in its entirety or only with respect to its rights in the United States. If AstraZeneca elects to terminate the license agreement in its entirety due to a CV Safety Study, we will be required to repay them the \$70.0 million we received plus accrued interest at 4.5% compounded annually in four installments in accordance with the following payment schedule: \$10.0 million plus accrued interest on January 15, 2015, \$10.0 million plus accrued interest on January 15, 2016, \$20.0 million plus accrued interest on January 15, 2017 and \$30.0 million plus accrued interest on January 15, 2018. If AstraZeneca elects to terminate the license agreement only with respect to its rights in the U.S., then such repayment amount would be funded through a 50% reduction of non-U.S. royalty amounts otherwise payable to us until the aggregate amount of such royalty reduction equals the total principal amount of \$70.0 million plus accumulated interest at 4.5% compounded annually. If the FDA requires a post-approval cardiovascular safety study as a condition to approval of the naloxegol NDA, then the royalty rate payable to us from net sales of naloxegol in the U.S. by AstraZeneca would be reduced by two percentage points until the aggregate accumulated amount of such royalty payment reduction is equal to a maximum of \$35.0 million. We will be entitled to \$140.0 million in commercial launch milestone payments if naloxegol is approved by the FDA and EMA and commercial launch is achieved in the U.S. and one major country in the E.U. As a result, the FDA's determination as to whether to require a CV Safety Study prior to an approval determination and the decisions of both the FDA and E.U. with regard to the marketing applications currently filed for naloxegol is critical to our financial position as well as our future business prospects.

Our second most advanced proprietary drug candidate, etirinotecan pegol (also known as NKTR-102), is a next-generation topoisomerase I inhibitor. Etirinotecan pegol is currently being evaluated as a single-agent therapy 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 that have previously received treatment with an anthracycline, a taxane, and capecitabine. We completed enrollment in the BEACON study in late July 2013. On January 14, 2014, we announced that the Independent Data Monitoring Committee, or the DMC, created to provide safety oversight for the BEACON study recommended continuation of the Phase 3 BEACON study following an interim data analysis which was performed after reaching 50% of the events needed to achieve the primary endpoint of overall survival. The BEACON study will require a substantial investment over the next two years.

Our third most advanced proprietary drug candidate, NKTR-181, is a novel mu-opioid analgesic drug candidate for chronic pain conditions. The molecule has been designed to have a slow rate of entry into the brain, which is expected to reduce the attractiveness of the molecule as a target of abuse and reduce other serious central nervous system-related side effects, such as sedation and respiratory depression, which are commonly associated with standard opioid therapies. In May 2012, the development program for NKTR-181 for the treatment of moderate to severe chronic pain was granted Fast Track designation by the FDA. On June 19, 2013, we announced positive data from a human abuse liability study of NKTR-181. On September 26, 2013, we announced preliminary topline results from a Phase 2 clinical study of NKTR-181 in patients with moderate to severe chronic pain from osteoarthritis of the knee. The Phase 2 study utilized a double-blind, placebo-controlled, randomized withdrawal study design to assess the efficacy, safety and tolerability of NKTR-181. Of the 295 patients that entered the study, only 9 (3%) patients did not achieve meaningful pain relief with NKTR-181. During the titration period, 53 (18%) patients discontinued treatment because of adverse events, most of which are those commonly associated with opioids. A total of 213 patients achieved an average 40% reduction in pain and entered the randomized phase of the study. In this study, NKTR-181 performed as expected as an opioid analgesic throughout the study. However, patients who were randomized to the placebo arm did not show the expected increase in pain scores observed in similar enriched enrollment, randomized withdrawal studies. This

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lack of a placebo rebound caused the Phase 2 study to miss the primary endpoint, which was the average change in a patient's pain score from baseline to the end of the double-blind, randomized treatment period. In December 2013, we met with the FDA to discuss the results of the Phase 2 clinical study and certain preliminary considerations for the Phase 3 clinical study design. We are currently evaluating the appropriate Phase 3 clinical study design for NKTR-181 and expect to start a Phase 3 clinical study in mid-2014.

We have a significant 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. Bayer has initiated a Phase 3 clinical development of BAY41-6551 with the first patient enrolled in April 2013. We originally developed the liquid aerosol inhalation platform and Amikacin Inhale and entered into a collaboration agreement with Bayer in August 2007 to further advance the drug candidate's development and potential commercialization. In 2011, Bayer achieved agreement with the FDA on the design of the planned Phase 3 clinical studies of BAY41-6551 under the Special Protocol Assessment process that is intended to support the submission of an NDA if the ongoing Phase 3 clinical study is successful.

We also have a significant collaboration with Baxter Healthcare to identify and develop PEGylated drug candidates with the objective of providing new long-acting therapies for hemophilia patients. Under the terms of this collaboration, we are providing a license to our PEGylation intellectual property, technology and expertise. Baxter is responsible for all clinical development. The first drug candidate in this collaboration, BAX 855, is a longer-acting (PEGylated) form of a full-length recombinant factor VIII (rFVIII) protein which has completed Phase 1 clinical development in patients with Hemophilia A. In February 2013, Baxter initiated a Phase 3 multi-center, open-label clinical study called PROLONG-ATE in previously treated adult patients with severe hemophilia A to assess the efficacy, safety and pharmacokinetics of BAX 855 for prophylaxis and on-demand treatment of bleeding. On November 13, 2013, Baxter announced that it had completed enrollment of 146 patients in the PROLONG-ATE clinical study. If BAX 855 is approved by health authorities and is successfully commercialized by Baxter, this will represent a substantial royalty revenue opportunity for us, subject to significant risks and uncertainties relating to the outcome of the ongoing Phase 3 clinical study, the health authority regulatory review process, and if approved, subsequent commercial success.

While the late stage clinical development programs described above are key elements of the future success of our company, we believe it is critically important that we continue to make substantial investments in our earlier-stage drug candidate pipeline. In January 2014, we initiated a single-ascending dose Phase 1 clinical study of NKTR-171. Further, we have several drug candidates in research that we are preparing to advance into the clinic in future years. 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 demonstrate positive clinical results and receive regulatory approval in one or more major markets, 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 disproportionate positive or negative impact on our scientific and medical prospects, financial prospects, financial condition, 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 cost-plus or fixed price 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, 2013, we estimated that we had at least twelve months of working capital to fund our current business plans. At December 31, 2013, we had approximately \$262.0 million in cash and investments in marketable securities, of which \$25.0 million was restricted in relation to our 12.0% senior secured notes, and

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\$160.8 million in indebtedness. The indebtedness includes \$125.0 million in aggregate principal amount of 12.0% senior secured notes due July 15, 2017, but excludes our long-term liability relating to the sale of future royalties under the Purchase and Sale Agreement with RPI Finance Trust. As is further described in Note 7 to our Consolidated Financial Statements, this royalty obligation liability will generally not be settled in cash, but we expect to make a cash payment of \$7.0 million in 2014 as a specified worldwide 2013 net sales threshold of MIRCERA[®] is not expected to be met.

On January 28, 2014, we completed the issuance and sale of 9,775,000 shares of our common stock with gross proceeds of approximately \$117.2 million. Additionally, we incurred approximately \$0.6 million in legal and accounting fees, filing fees, and other offering expenses.

Results of Operations***Years Ended December 31, 2013, 2012, and 2011***

Revenue (in thousands, except percentages)

| | Year Ended December 31, | | | Increase/ (Decrease) | Increase/ (Decrease) | Percentage Increase/ (Decrease) | Percentage Increase/ (Decrease) |
|--|-------------------------|-----------|-----------|-------------------------|-------------------------|---------------------------------------|---------------------------------------|
| | 2013 | 2012 | 2011 | 2013 vs. 2012 | 2012 vs. 2011 | 2013 vs. 2012 | 2012 vs. 2011 |
| Product sales | \$ 44,846 | \$ 35,399 | \$ 24,864 | \$ 9,447 | \$ 10,535 | 27% | 42% |
| Royalty revenue | 1,148 | 4,874 | 10,327 | (3,726) | (5,453) | (76)% | (53)% |
| Non cash royalty revenue related to sale of future royalties | 22,055 | 10,791 | | 11,264 | 10,791 | >100% | 100% |
| License, collaboration and other revenue | 80,872 | 30,127 | 36,289 | 50,745 | (6,162) | >100% | (17)% |
| Total revenue | \$ 148,921 | \$ 81,191 | \$ 71,480 | \$ 67,730 | \$ 9,711 | 83% | 14% |

Our revenue is derived from our collaboration agreements, under which we may receive product sales revenue, royalties, license fees, milestone payments 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, are 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 fixed price and cost-plus manufacturing and supply agreements with our collaboration partners. The timing of shipments is based solely on the demand and requirements of our collaboration partners and is not ratably throughout the year.

Product sales increased for the year ended December 31, 2013 compared to the year ended December 31, 2012 primarily as a result of an \$9.0 million increase in product sales to one of our collaboration partners. Product sales increased during the year ended December 31, 2012 compared to the year ended December 31, 2011 as a result of increased product demand from a number of our collaboration partners.

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We currently expect product sales to decrease substantially in 2014 as compared to 2013 due to decreased product demand from 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 decreased during the year ended December 31, 2013 compared to the year ended December 31, 2012 and decreased during the year ended December 31, 2012 compared to the year ended December 31, 2011 primarily as a result of the sale of our rights to receive the royalties from product sales of UCB's CIMZIA[®] and Roche's MIRCERA[®] as is further described below. Royalties from CIMZIA[®] and MIRCERA[®] recognized after the royalty sale transaction took effect are presented on a separate revenue line item entitled "Non-cash royalty revenue related to sale of future royalties." We expect royalty revenue received in cash to decrease in 2014 as compared to 2013.

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. During the year ended December 31, 2013 and 2012, we recognized \$22.1 million and \$13.5 million, respectively, in aggregate royalties from net sales of CIMZIA[®] and MIRCERA[®], of which the \$2.7 million recognized in the three months ended March 31, 2012 was retained by us as these amounts resulted from product sales in the fourth quarter of 2011. We expect non-cash royalties from net sales of CIMZIA[®] and MIRCERA[®] to decrease slightly in 2014 as compared to 2013.

License, collaboration and other revenue

License, collaboration and other revenue includes the recognition of upfront payments and milestone 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, 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, 2013 compared to the year ended December 31, 2012 primarily as a result of the recognition of a \$25.0 million payment from AstraZeneca achieved in September 2013 on the acceptance for review by the EMA of the naloxegol regulatory approval application filed by AstraZeneca, the recognition of a \$10.0 million milestone achieved upon the start of the Amikacin Inhale Phase 3 clinical trial by Bayer in April 2013, the recognition of \$7.9 million related to the delivery of additional quantities of our proprietary PEGylation reagent to Roche in the fourth quarter of 2013, and the recognition of the remaining \$6.7 million deferred revenue balance related to our agreement with Affymax as a result of the termination of that agreement.

License, collaboration and other revenue for the year ended December 31, 2012 decreased compared to the year ended December 31, 2011 primarily due to the recognition in 2011 of a \$5.0 million license fee from an agreement signed in September 2011.

We expect license, collaboration and other revenue in 2014 will be significantly impacted by the outcome and timing of the naloxegol regulatory review events. In particular, in the event naloxegol is approved by the FDA, we would expect to recognize as revenue the \$70.0 million payment received from AstraZeneca in November 2013 and we would be entitled to a \$35.0 million milestone payment. If these activities occur in 2014, our license, collaboration and other revenue in 2014 will increase significantly from 2013.

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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

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

| | Year Ended December 31, | | |
|----------------------|-------------------------|------------------|------------------|
| | 2013 | 2012 | 2011 |
| United States | \$ 42,535 | \$ 34,591 | \$ 37,896 |
| Europe | 106,386 | 46,600 | 33,584 |
| Total revenue | \$ 148,921 | \$ 81,191 | \$ 71,480 |

The increase in revenue attributable to European countries for the year ended December 31, 2013 compared to the year ended December 31, 2012 is primarily attributable to increased milestone and royalty revenues from our existing European collaboration partners, including the \$25.0 million milestone payment from AstraZeneca described above. The increase in revenue attributable to European countries for the year ended December 31, 2012 compared to the year ended December 31, 2011 is primarily attributable to increased product sales and royalty revenues from our existing European collaboration partners.

Cost of goods sold (in thousands, except percentages)

| | Year Ended December 31, | | | Increase/ (Decrease) 2013 vs. 2012 | Increase/ (Decrease) 2012 vs. 2011 | Percentage Increase/ (Decrease) 2013 vs. 2012 | Percentage Increase/ (Decrease) 2012 vs. 2011 |
|----------------------|-------------------------|-----------|-----------|---|---|---|---|
| | 2013 | 2012 | 2011 | | | | |
| | Cost of goods sold | \$ 38,509 | \$ 30,428 | | | | |
| Product gross profit | 6,337 | 4,971 | 2,973 | 1,366 | 1,998 | 27% | 67% |
| Product gross margin | 14% | 14% | 12% | | | | |

Cost of goods sold and product gross profit increased during the year ended December 31, 2013 compared to the year ended December 31, 2012 primarily due to the \$9.4 million increase in product sales in the year ended December 31, 2013 compared to the year ended December 31, 2012. Product gross margin in the year ended December 31, 2013 was consistent with the year ended December 31, 2012.

Cost of goods sold increased during the year ended December 31, 2012 compared to the year ended December 31, 2011 primarily due to the \$10.5 million increase in product sales in 2012. The increase in product gross margin during the year ended December 31, 2012 compared to the year ended December 31, 2011 is primarily due to the decreased cost per unit in 2012 resulting from increased manufacturing activity and improved overhead absorption.

We expect product gross margin 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 decrease in 2014 as compared to 2013 as a result of the anticipated reduction in product sales.

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| | Year Ended December 31, | | | Increase/ (Decrease) 2013 vs. 2012 | Increase/ (Decrease) 2012 vs. 2011 | Percentage Increase/ (Decrease) 2013 vs. 2012 | Percentage Increase/ (Decrease) 2012 vs. 2011 |
|--|----------------------------------|------------|------------|---|---|---|---|
| | 2013 | 2012 | 2011 | | | | |
| | Research and development expense | \$ 190,010 | \$ 148,675 | | | | |

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, 2013 compared to the year ended December 31, 2012 primarily due to the etirinotecan pegol (NKTR-102) Phase 3 BEACON clinical study initiated in December 2011 as well as the NKTR-181 Phase 2 clinical study initiated in July 2012. 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 inhaled amikacin (see Note 8 to our Consolidated Financial Statements).

The increase in research and development expense for the year ended December 31, 2012 compared to the year ended December 31, 2011 is primarily attributable to the \$15.2 million increase in direct research and development program costs, a substantial portion of which is attributable to our etirinotecan pegol Phase 3 BEACON study as well as the NKTR-181 Phase 2 clinical study. In addition, research and development expense increased due to a \$6.2 million increase in salaries and employee benefits resulting from increased headcount to support our expanded clinical development activities.

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, | | |
|--|--|-------------------------|------------|------------|
| | | 2013 | 2012 | 2011 |
| Etirinotecan pegol (NKTR-102) (topoisomerase I inhibitor-polymer conjugate) ⁽²⁾ | Phase 3 | \$ 44,669 | \$ 31,650 | \$ 13,106 |
| BAY41-6551 (Amikacin Inhale) ⁽³⁾ | Phase 3 | 26,716 | 13,512 | 11,389 |
| NKTR-181 (mu-opioid analgesic molecule for chronic pain) | Phase 2 | 22,955 | 13,537 | 9,747 |
| NKTR-171 (neuropathic pain) | Phase 1 | 3,635 | 432 | |
| NKTR-192 (mu-opioid analgesic molecule for acute pain) | Preclinical | 2,691 | 2,676 | 3,100 |
| Other product candidates | Various | 4,901 | 3,831 | 13,059 |
| Total third party and direct materials costs | | 105,567 | 65,638 | 50,401 |
| Personnel, overhead and other costs | | 68,993 | 68,781 | 59,433 |
| Stock-based compensation and depreciation | | 15,450 | 14,256 | 16,932 |
| Research and development expense | | \$ 190,010 | \$ 148,675 | \$ 126,766 |

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

(2) In addition, during the year ended December 31, 2011, we made \$11.2 million of prepayments to certain vendors in our BEACON study.

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(3) 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 to decrease in 2014 as compared to 2013 and to continue at or above the 2012 level. We plan to continue to advance etirinotecan pegol in the Phase 3 BEACON study for metastatic breast cancer for which we expect the clinical study to continue through early 2015. The clinical development costs for the BEACON clinical study will continue to be significant. We estimate that the total third party and direct material costs over the life of the BEACON study will be approximately \$100.0 million, of which \$64.7 million was incurred through the end of 2013. We have also studied or have ongoing studies being conducted for etirinotecan pegol, including investigator-initiated clinical studies, in bevacizumab (Avastin)-resistant high-grade glioma, colorectal cancer, metastatic and recurrent non-small cell lung cancer, and ovarian cancer. We are unable to estimate the timing or costs to complete the clinical development for etirinotecan pegol across all the potential oncology indications.

In addition to our etirinotecan pegol development activities, in 2014, we plan to commence Phase 3 clinical studies for NKTR-181 and we also plan to continue to advance the development of NKTR-171.

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 naloxegol or the naloxegol 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 2014 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 end points 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;

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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 naloxegol 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) 2013 vs. 2012 | Increase/ (Decrease) 2012 vs. 2011 | Percentage Increase/ (Decrease) 2013 vs. 2012 | Percentage Increase/ (Decrease) 2012 vs. 2011 |
|--|------------------------------------|-----------|-----------|---|---|---|---|
| | 2013 | 2012 | 2011 | | | | |
| | General and administrative expense | \$ 40,532 | \$ 41,614 | | | | |

General and administrative expense includes the cost of administrative staffing, business development, marketing, finance, and legal activities. General and administrative expense during the year ended December 31, 2013 was consistent with the year ended December 31, 2012. General and administrative expense decreased during the year ended December 31, 2012 compared to the year ended December 31, 2011 primarily as a result of a \$2.7 million payment obligation incurred in 2011 related to the settlement of a commercial litigation matter as well as a \$2.1 million decrease in non-cash stock-based compensation expense in 2012 as compared to 2011. In 2014, we expect general and administrative expenses to be consistent with 2013.

Interest income (in thousands except percentages)

| | Year Ended December 31, | | | Increase/ (Decrease) 2013 vs. 2012 | Increase/ (Decrease) 2012 vs. 2011 | Percentage Increase/ (Decrease) 2013 vs. 2012 | Percentage Increase/ (Decrease) 2012 vs. 2011 |
|--|-------------------------|--------|----------|---|---|---|---|
| | 2013 | 2012 | 2011 | | | | |
| | Interest income | \$ 732 | \$ 2,315 | | | | |

Interest income for the year ended December 31, 2013 decreased as compared to the year ended December 31, 2012 as a result of lower average cash and investment balances as well as the impact of lower interest rates earned on our investment balances. Interest income for the year ended December 31, 2012 was consistent with the year ended December 31, 2011.

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| | Year Ended December 31, | | | Increase/ (Decrease) 2013 vs. 2012 | Increase/ (Decrease) 2012 vs. 2011 | Percentage Increase/ (Decrease) 2013 vs. 2012 | Percentage Increase/ (Decrease) 2012 vs. 2011 |
|--|-------------------------|-----------|-----------|---|---|---|---|
| | 2013 | 2012 | 2011 | | | | |
| Interest expense | \$ 18,453 | \$ 15,489 | \$ 10,223 | \$ 2,964 | \$ 5,266 | 19% | 52% |
| Non-cash interest expense on liability related to sale of future royalties | \$ 22,309 | \$ 18,057 | \$ | \$ 4,252 | \$ 18,057 | 24% | 100% |

The increase in interest expense for the year ended December 31, 2013 compared to the year ended December 31, 2012 and the year ended December 31, 2011 is attributable to the interest expense recorded on the senior secured notes we issued in 2012. On July 11, 2012, we issued \$125.0 million of 12% senior secured notes maturing on July 15, 2017. In connection with this transaction, we retired a principal amount of \$42.5 million of our \$215.0 million in aggregate principal amount of 3.25% convertible subordinated notes in exchange for \$42.5 million in principal amount of 12% senior secured notes. We repaid the remaining \$172.4 million in principal amount of convertible subordinated notes in full at maturity on September 28, 2012.

The increase in non-cash interest expense on liability related to sale of future royalties for the year ended December 31, 2013 compared to the year ended December 31, 2012 and the year ended December 31, 2011 is attributable to the royalty sale transaction that we completed in 2012. 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 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.

We expect interest expense and non-cash interest expense in 2014 to be consistent with 2013.

Liquidity and Capital Resources

We have financed our operations primarily through revenue from product sales, royalties and collaboration agreements, as well as public and private placements of debt and equity. At December 31, 2013, we had approximately \$262.0 million in cash and investments in marketable securities, of which \$25.0 million was restricted in relation to our 12.0% senior secured notes, and \$160.8 million in indebtedness. The indebtedness includes \$125.0 million in aggregate principal amount of 12.0% senior secured notes due July 15, 2017, but excludes our long-term liability relating to the sale of future royalties. As is further described in Note 7 to our Consolidated Financial Statements, this royalty obligation liability will not generally be settled in cash, but we expect to make a payment of \$7.0 million in 2014 as a specified worldwide 2013 net sales threshold of MIRCERA® is not expected to be met.

On January 28, 2014, we completed the issuance and sale of 9,775,000 shares of our common stock for gross proceeds to the Company of approximately \$117.2 million. Additionally, we incurred approximately \$0.6 million in legal and accounting fees, filing fees, and other offering expenses.

As of December 31, 2013, 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 etirinotecan pegol (also known as NKTR-102), Amikacin Inhale, NKTR-181, and NKTR-171, will require significant investment in order to continue to advance in clinical development with the objective of entering into

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a collaboration partnership or obtaining regulatory approval. However, we have no credit facility or any other sources of committed capital. In addition, while in the past we have received a number of significant payments from license and collaboration agreements and other significant transactions, we do not currently anticipate completing new transactions with substantial upfront payments in the near-term. Our current business plan is also subject to significant uncertainties and risks as a result of, among other factors, 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 the success or failure of our drug development programs, including naloxegol, etirinotecan pegol, BAX 855, Amikacin Inhale, NKTR-181, and NKTR-171. The availability and terms of financing alternatives and any future significant payments from existing or new collaborations all depend on the positive outcome of ongoing or planned clinical studies, whether we or our partners are successful in obtaining health authority approvals in major markets, and if approved, the commercial success of these drugs. In the event we do not enter into any new collaboration partnerships with significant upfront payments or do not receive the naloxegol milestone payments as discussed above, we would likely be required to pursue financing alternatives. In the event we determine to pursue financing alternatives, our objective would be to first explore financing alternatives that are not dilutive to the ownership of our common stock security holders. However, if non-dilutive financing alternatives are not available to us on commercially reasonable terms or at all, we could be required to pursue dilutive equity-based financing alternatives such as an offering of convertible debt or common stock. If we do not receive substantial milestone 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.

Due to the potential for continued uncertainty in the credit markets in 2014 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, 2013, 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, 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 from collaboration agreements. We expect that cash flows used in operating activities, excluding upfront and milestone payments received, if any, will increase in 2014 as a result of increased spending on our proprietary research and development programs.

Cash flows used in operating activities for the year ended December 31, 2012 totaled \$129.8 million, which includes \$148.3 million of net operating cash uses, partially offset by the receipt of \$18.5 million from collaboration agreements. Net operating cash uses also include \$6.7 million in interest payments on our convertible subordinated notes retired in full on September 28, 2012.

Cash flows used in operating activities for the year ended December 31, 2011 totaled \$113.7 million, which includes \$7.0 million for semi-annual interest payments on our convertible subordinated notes, \$11.2 million of prepayments to certain vendors in our BEACON study, and \$125.0 million of other net operating cash uses,

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partially offset by the receipt of \$29.5 million from collaboration agreements, of which \$16.5 million was included in accounts receivable at December 31, 2010 resulting from an upfront payment obligation arising from an amendment to one of our manufacturing and supply agreements.

Cash flows from investing activities

We paid \$4.1 million, \$10.6 million, and \$9.7 million to purchase property and equipment in the years ended December 31, 2013, 2012, and 2011, respectively. We expect our capital expenditures in 2014 to increase significantly as compared to 2013 primarily as a result of our plan to build commercial manufacturing capability for the devices for the Amikacin Inhale program.

Cash flows used in financing activities

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 part of this sale, we incurred approximately \$4.4 million in transaction costs. During the year ended December 31, 2013, we made a \$3.0 million payment to the purchaser of these royalties because the minimum 2012 MIRCERA® net sales threshold was not met.

On July 11, 2012, we issued \$125.0 million of senior secured notes maturing on July 15, 2017. As part of this transaction, we incurred approximately \$4.5 million in issuance costs. In connection with this transaction, we retired the principal amount of \$42.5 million of our \$215.0 million in aggregate principal amount of convertible subordinated notes in exchange for \$42.5 million in principal amount of the senior secured notes. In addition, \$25.0 million of the proceeds from the senior secured notes issuance is required to be maintained in a restricted account until July 1, 2015. On September 28, 2012, we repaid the remaining \$172.4 million in principal amount of the convertible subordinated notes.

On January 24, 2011, we completed a public offering of our common stock with gross proceeds of approximately \$220.4 million. As part of the public offering, we incurred approximately \$0.6 million in legal and accounting fees, filing fees, and other offering expenses.

We received proceeds from issuance of common stock related to our employee option and stock purchase plans of \$8.2 million, \$4.1 million, and \$4.5 million in the years ended December 31, 2013, 2012, and 2011, respectively.

On January 28, 2014, we completed the issuance and sale of 9,775,000 shares of our common stock for gross proceeds to the Company of approximately \$117.2 million. Additionally, we incurred approximately \$0.6 million in legal and accounting fees, filing fees, and other offering expenses.

Contractual Obligations (in thousands)

| | Total | Payments Due by Period | | | 2019+ |
|--|------------|------------------------|----------------------|----------------------|----------|
| | | <=1 Yr 2014 | 2-3 Yrs 2015-2016 | 4-5 Yrs 2017-2018 | |
| Obligations⁽¹⁾ | | | | | |
| 12% Senior secured notes due July 2017, including interest | \$ 185,000 | \$ 15,000 | \$ 30,000 | \$ 140,000 | \$ |
| Operating leases ⁽²⁾ | 28,221 | 2,559 | 9,642 | 10,224 | 5,796 |
| Capital leases, including interest ⁽³⁾ | 14,483 | 5,169 | 9,314 | | |
| Purchase commitments ⁽⁴⁾ | 12,590 | 12,590 | | | |
| Litigation settlements, including interest | 15,000 | 6,500 | 8,000 | 500 | |
| | \$ 255,294 | \$ 41,818 | \$ 56,956 | \$ 150,724 | \$ 5,796 |

(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.

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- (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 will begin making non-cancelable lease payments in 2014. On December 28, 2011, we amended the lease of the Mission Bay Facility to include an additional 24,002 square feet of space. Under the terms of the amendment, beginning January 1, 2012, we began making lease payments for this additional space. The sublease is discussed in Note 6 of Item 8. Financial Statements and Supplementary Data.
- (3) These amounts primarily result from 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, 2013 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 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. Upfront fees are recognized ratably over the 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, clinical 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, 2013, we had \$23.5 million of deferred upfront fees related to two collaboration agreements that are being amortized over 11 to 19 years, or an average of 15.2 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

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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 be as low as \$2.2 million or as high as \$11.0 million as compared to the \$2.4 million recognized in the year ended December 31, 2013.

As of December 31, 2013, we also had \$80.7 million of deferred upfront fees related to seven license, manufacturing and supply agreements that are being amortized over periods from 3 to 10 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. 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. If the actual timing of these phases varies from the estimate, we will adjust the accrual prospectively. 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 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.

Stock-Based Compensation

We use the Black-Scholes option valuation 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. 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.

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In addition, 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.

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 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 may be 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, 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 2013 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, 2013 would have increased by \$1.5 million.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board issued a new accounting standard that will require the presentation of certain unrecognized tax benefits as a reduction to deferred tax assets rather than as a liability when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This guidance is effective for our interim and annual periods beginning January 1, 2014. 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 \$0.5 million decrease, less than 1%, in the fair value of our available-for-sale securities at December 31, 2013. This potential change is based on sensitivity analyses performed on our investment securities at December 31, 2013. Actual results may

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differ materially. The same hypothetical 50 basis point increase in interest rates would have resulted in an approximate \$0.4 million decrease, less than 1%, in the fair value of our available-for-sale securities at December 31, 2012.

Due to the potential for continued uncertainty in the credit markets in 2014, we may experience reduced liquidity with respect to some of our investments in marketable securities. These investments are generally held to maturity, which is less than two years. However, if the need arises to liquidate such securities before maturity, we may experience losses on liquidation. As of December 31, 2013, we held \$198.0 million of available-for-sale investments, excluding money market funds, with an average time to maturity of five 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 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.

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Item 8. *Financial Statements and Supplementary Data*

NEKTAR THERAPEUTICS

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Nektar Therapeutics

We have audited the accompanying consolidated balance sheets of Nektar Therapeutics as of December 31, 2013 and 2012, 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, 2013. 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, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, 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, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated February 27, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Redwood City, California

February 27, 2014

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Nektar Therapeutics

We have audited Nektar Therapeutics' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 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, 2013, 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, 2013 and 2012, 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, 2013 of Nektar Therapeutics and our report dated February 27, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Redwood City, California

February 27, 2014

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NEKTAR THERAPEUTICS
CONSOLIDATED BALANCE SHEETS

| | December 31, | |
|--|---|------------|
| | 2013 | 2012 |
| | (In thousands, except par value information) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 39,067 | \$ 25,437 |
| Short-term investments | 197,959 | 251,757 |
| Accounts receivable, net of allowance of nil at December 31, 2013 and 2012 | 2,229 | 5,805 |
| Inventory | 13,452 | 18,269 |
| Other current assets | 5,175 | 13,363 |
| Total current assets | 257,882 | 314,631 |
| Restricted cash | 25,000 | 25,000 |
| Property and equipment, net | 66,974 | 72,215 |
| Goodwill | 76,501 | 76,501 |
| Other assets | 8,170 | 9,443 |
| Total assets | \$ 434,527 | \$ 497,790 |
| LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT) | | |
| Current liabilities: | | |
| Accounts payable | \$ 9,115 | \$ 2,863 |
| Accrued compensation | 14,254 | 8,773 |
| Accrued expenses | 6,243 | 8,008 |
| Accrued clinical trial expenses | 16,905 | 17,500 |
| Deferred revenue, current portion | 23,664 | 21,896 |
| Interest payable | 6,917 | 7,083 |
| Liability related to the sale of future royalties, current portion | 7,000 | 3,000 |
| Other current liabilities | 14,123 | 9,414 |
| Total current liabilities | 98,221 | 78,537 |
| Senior secured notes | 125,000 | 125,000 |
| Capital lease obligations, less current portion | 8,049 | 11,607 |
| Liability related to receipt of refundable milestone payment | 70,000 | |
| Liability related to the sale of future royalties, less current portion | 121,520 | 128,266 |
| Deferred revenue, less current portion | 82,384 | 96,551 |
| Other long-term liabilities | 19,256 | 10,811 |
| Total liabilities | 524,430 | 450,772 |
| Commitments and contingencies | | |
| Stockholders' equity (deficit): | | |
| Preferred stock, 10,000 shares authorized, \$0.0001 par value; no shares designated, issued or outstanding at December 31, 2013 and 2012 | | |
| Common stock, \$0.0001 par value; 300,000 authorized; 116,494 shares and 115,259 shares issued and outstanding at December 31, 2013 and 2012, respectively | 11 | 11 |
| Capital in excess of par value | 1,643,660 | 1,617,744 |
| Accumulated other comprehensive loss | (1,181) | (357) |

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| | | |
|--|-------------|-------------|
| Accumulated deficit | (1,732,393) | (1,570,380) |
| Total stockholders' equity (deficit) | (89,903) | 47,018 |
| Total liabilities and stockholders' equity (deficit) | \$ 434,527 | \$ 497,790 |

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

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NEKTAR THERAPEUTICS
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year Ended December 31, | | |
|---|--|---------------------|---------------------|
| | 2013 | 2012 | 2011 |
| | (In thousands, except per share information) | | |
| Revenue: | | | |
| Product sales | \$ 44,846 | \$ 35,399 | \$ 24,864 |
| Royalty revenue | 1,148 | 4,874 | 10,327 |
| Non-cash royalty revenue related to sale of future royalties | 22,055 | 10,791 | |
| License, collaboration and other revenue | 80,872 | 30,127 | 36,289 |
| Total revenue | 148,921 | 81,191 | 71,480 |
| Operating costs and expenses: | | | |
| Cost of goods sold | 38,509 | 30,428 | 21,891 |
| Research and development | 190,010 | 148,675 | 126,766 |
| General and administrative | 40,532 | 41,614 | 46,760 |
| Impairment of long-lived assets | | 1,675 | |
| Total operating costs and expenses | 269,051 | 222,392 | 195,417 |
| Loss from operations | (120,130) | (141,201) | (123,937) |
| Non-operating income (expense): | | | |
| Interest income | 732 | 2,315 | 2,244 |
| Interest expense | (18,453) | (15,489) | (10,223) |
| Non-cash interest expense on liability related to sale of future royalties | (22,309) | (18,057) | |
| Other income (expense), net | 392 | 983 | (1,044) |
| Total non-operating expense, net | (39,638) | (30,248) | (9,023) |
| Loss before provision for income taxes | (159,768) | (171,449) | (132,960) |
| Provision for income taxes | 2,245 | 406 | 1,018 |
| Net loss | \$ (162,013) | \$ (171,855) | \$ (133,978) |
| Basic and diluted net loss per share | \$ (1.40) | \$ (1.50) | \$ (1.19) |
| Weighted average shares outstanding used in computing basic and diluted net loss per share | 115,732 | 114,820 | 112,942 |

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

Table of Contents**Index to Financial Statements****NEKTAR THERAPEUTICS****CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

| | Year Ended December 31, | | |
|---|-------------------------|--------------|--------------|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Net loss | \$ (162,013) | \$ (171,855) | \$ (133,978) |
| Other comprehensive income (loss): | | | |
| Net unrealized gain (loss) on available-for-sale investments | (268) | 1,206 | (783) |
| Income tax provision (benefit) on unrealized gain on available-for-sale investments | 470 | (470) | |
| Net foreign currency translation gain (loss) | (1,026) | 10 | (1,288) |
| Other comprehensive income (loss), net of tax | (824) | 746 | (2,071) |
| Comprehensive loss | \$ (162,837) | \$ (171,109) | \$ (136,049) |

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

Table of Contents**Index to Financial Statements****NEKTAR THERAPEUTICS****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)**

| | Common Shares | Par Value | Capital in Excess of Par Value | Accumulated Other Comprehensive Income/(Loss) (In thousands) | Accumulated Deficit | Total Stockholders Equity (Deficit) |
|---|--------------------------|----------------------|---|---|--------------------------------|--|
| Balance at December 31, 2010 | 94,517 | \$ 9 | \$ 1,354,232 | \$ 968 | \$ (1,264,547) | \$ 90,662 |
| Sale of common stock, net of issuance costs of \$617 | 19,000 | 2 | 219,781 | | | 219,783 |
| Shares issued under equity compensation plans | 968 | | 4,530 | | | 4,530 |
| Stock-based compensation | | | 18,885 | | | 18,885 |
| Other comprehensive loss | | | | (2,071) | | (2,071) |
| Net loss | | | | | (133,978) | (133,978) |
| Balance at December 31, 2011 | 114,485 | 11 | 1,597,428 | (1,103) | (1,398,525) | 197,811 |
| Shares issued under equity compensation plans | 774 | | 4,117 | | | 4,117 |
| Stock-based compensation | | | 16,199 | | | 16,199 |
| Other comprehensive income | | | | 746 | | 746 |
| Net loss | | | | | (171,855) | (171,855) |
| 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) |

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

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NEKTAR THERAPEUTICS
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, | | |
|--|-------------------------|--------------|--------------|
| | 2013 | 2012 | 2011 |
| | (In thousands) | | |
| Cash flows from operating activities: | | | |
| Net loss | \$ (162,013) | \$ (171,855) | \$ (133,978) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Non-cash royalty revenue related to sale of future royalties | (22,055) | (10,791) | |
| Non-cash interest expense on liability related to sale of future royalties | 22,309 | 18,057 | |
| Stock-based compensation | 17,708 | 16,199 | 18,885 |
| Depreciation and amortization | 14,275 | 14,508 | 14,951 |
| Impairment of long-lived assets | | 1,675 | |
| Other non-cash transactions | 664 | 845 | 1,359 |
| Changes in assets and liabilities: | | | |
| Accounts receivable, net | 3,576 | (867) | 20,164 |
| Inventory | 4,817 | (5,613) | (5,390) |
| Other assets | 6,423 | 6,031 | (12,267) |
| Accounts payable | 6,199 | (122) | (3,384) |
| Accrued compensation | 5,481 | (4,034) | 3,555 |
| Accrued expenses | (1,915) | 1,495 | 1,013 |
| Accrued clinical trial expenses | (595) | 5,547 | (191) |
| Deferred revenue | (12,399) | (9,384) | (17,516) |
| Interest payable | (166) | 5,278 | |
| Liability related to receipt of refundable milestone payment | 70,000 | | |
| Other liabilities | 9,164 | 3,275 | (943) |
| Net cash used in operating activities | (38,527) | (129,756) | (113,742) |
| Cash flows from investing activities: | | | |
| Maturities of investments | 319,181 | 307,887 | 383,052 |
| Purchases of investments | (268,068) | (164,662) | (695,371) |
| Sales of investments | 2,887 | 5,378 | 210,089 |
| Restricted cash | | (25,000) | |
| Purchases of property and equipment | (4,091) | (10,583) | (9,722) |
| Net cash provided by (used in) investing activities | 49,909 | 113,020 | (111,952) |
| Cash flows from financing activities: | | | |
| Payment of capital lease obligations | (2,992) | (2,437) | (1,978) |
| (Repayment of) proceeds from sale of future royalties, net of \$4.4 million of transaction costs in 2012 | (3,000) | 119,588 | |
| Proceeds from issuance of senior secured notes, net of \$4.5 million of issuance costs | | 77,940 | |
| Repayment of convertible subordinated notes | | (172,407) | |
| Proceeds from shares issued under equity compensation plans | 8,208 | 4,117 | 4,530 |
| Issuance of common stock, net of issuance costs | | | 219,783 |
| Net cash provided by financing activities | 2,216 | 26,801 | 222,335 |
| Effect of exchange rates on cash and cash equivalents | 32 | 60 | 916 |

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| | | | |
|---|-----------|-----------|-----------|
| Net increase (decrease) in cash and cash equivalents | 13,630 | 10,125 | (2,443) |
| Cash and cash equivalents at beginning of year | 25,437 | 15,312 | 17,755 |
| Cash and cash equivalents at end of year | \$ 39,067 | \$ 25,437 | \$ 15,312 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for interest | \$ 17,590 | \$ 9,620 | \$ 10,277 |
| Cash paid for income taxes | \$ 1,014 | \$ 1,021 | \$ 957 |
| Supplemental schedule of non-cash investing and financing activities: | | | |
| Retirement of convertible subordinated notes in exchange for senior secured notes | \$ | \$ 42,548 | \$ |

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

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NEKTAR THERAPEUTICS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013

Note 1 Organization and Summary of Significant Accounting Policies

Organization

We are a clinical-stage 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 resources to date and are expected to continue to require significant resources. 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 from licensing, collaboration and manufacturing agreements as well as financing transactions. At December 31, 2013, we had approximately \$262.0 million in cash, cash equivalents and investments in marketable securities, of which \$25.0 million was restricted, and \$160.8 million in indebtedness. The indebtedness includes \$125.0 million in aggregate principal amount of 12.0% senior secured notes due July 15, 2017, but excludes our long-term liability relating to the sale of future royalties. As is further described in Note 7, this royalty obligation liability will not be settled in cash, but we expect to make a payment of \$7.0 million to the royalty purchaser in 2014 as a certain specified worldwide net sales threshold of MIRCERA® is not expected to be met.

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 and Nektar Therapeutics UK, Ltd. (Nektar UK). 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 material to our consolidated financial position. Aggregate gross foreign currency transaction gains (losses) recorded in operations for the years ended December 31, 2013, 2012, and 2011 were not material.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. On an ongoing basis, we evaluate our estimates, including those related to deferred revenue recognition periods, inventories, the impairment of investments, the impairment of goodwill and long-lived assets, contingencies, estimated interest expense from our liability related to our sale of future royalties, stock-based compensation, and ongoing litigation, amongst other estimates. We base our estimates on historical experience and on other assumptions that management believes are reasonable under the circumstances. These estimates also form the basis for making judgments about the carrying values of assets and liabilities when these values are not readily apparent from other sources.

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 total revenue, operating loss or net loss or total assets, liabilities or stockholders' equity (deficit).

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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.

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 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, 2013, three different customers represented 30%, 28%, and 28%, respectively, of our accounts receivable. At December 31, 2012, four different customers represented 38%, 27%, 14% and 11%, 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 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.

Property and Equipment

Property 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 seven years. Leasehold improvements and buildings are depreciated using the straight-line method over the shorter of the estimated useful life or the remaining term of the lease.

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We periodically review our property and equipment for recoverability whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Generally, an impairment loss would be recognized if the carrying amount of an asset exceeds the sum of the discounted cash flows expected to result from the use and eventual disposal of the asset.

Goodwill

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 test for impairment in the fourth quarter of each year using an October 1 measurement date, as well as at other times when impairment indicators exist or when events occur or circumstances change that would indicate the carrying amount may not be fully recoverable.

We are organized in one reporting unit and have evaluated the goodwill for the Company as a whole. In order to test for goodwill impairment, we first assess qualitative factors to determine whether it is more likely than not that the fair value of our single reporting unit is less than its carrying amount and, if so, we perform a two-step goodwill impairment test. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step compares the book value of our assigned goodwill to its implied fair value. We did not recognize any goodwill-related impairment charges during 2013, 2012, or 2011.

Revenue Recognition

We enter into arrangements with pharmaceutical and biotechnology collaboration partners that may involve multiple deliverables. Our arrangements may contain one or more of the following elements: upfront fees, contract research and development, milestone payments, manufacturing and supply payments, royalties, and license fees. Each deliverable in the arrangement is evaluated to determine whether it meets the criteria to be accounted for as a separate unit of accounting or whether it should be combined with other deliverables. Revenue is recognized separately for each element.

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

Royalty revenues

Generally, we are entitled to royalties from our 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 at 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.

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License, collaboration and other

Upfront fees received by us in license and collaboration arrangements that include future obligations, such as manufacturing and supply obligations, are 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.

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 health 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 meet 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 such milestones only if and as each 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.

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 valuation 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

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purchased under the ESPP. The Black-Scholes option pricing model requires the input of highly subjective assumptions. 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 allocated among inventory, 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.

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. 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.

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. The weighted average of these potentially dilutive securities has been excluded from the diluted net loss per share calculation and is as follows (in thousands):

| | Year Ended December 31, | | |
|--------------------------------|-------------------------|---------------|---------------|
| | 2013 | 2012 | 2011 |
| Stock options | 12,959 | 13,970 | 11,338 |
| Convertible subordinated notes | | | 9,989 |
| Total | 12,959 | 13,970 | 21,327 |

Table of Contents**Index to Financial Statements*****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 July 2013, the Financial Accounting Standards Board issued a new accounting standard that will require the presentation of certain unrecognized tax benefits as a reduction to deferred tax assets rather than as a liability when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This guidance is effective for our interim and annual periods beginning January 1, 2014. 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, | December 31, |
| | 2013 | 2012 |
| Cash and cash equivalents | \$ 39,067 | \$ 25,437 |
| Short-term investments | 197,959 | 251,757 |
| Restricted cash | 25,000 | 25,000 |
| Total cash and investments in marketable securities | \$ 262,026 | \$ 302,194 |

We invest in liquid, high quality debt securities. Our investments in debt securities are subject to interest rate risk. To minimize the exposure due to an adverse shift in interest rates, we invest in securities with maturities of two years or less and maintain a weighted average maturity of one year or less. As of December 31, 2013 and 2012, all of our investments had contractual maturities of one year or less and were classified as short-term.

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Gross unrealized gains and losses were not significant at either December 31, 2013 or 2012. During the years ended December 31, 2013, 2012 and 2011, we sold available-for-sale securities totaling \$2.9 million, \$5.4 million and \$210.1 million respectively, and realized gains and losses were not significant in any of those periods.

Restricted cash of \$25.0 million is required to be maintained in a separate account until July 1, 2015 under the terms of our 12% Senior Secured Notes due July 2017 (see Note 5).

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

| | Fair Value Hierarchy Level | Estimated Fair Value at | |
|---|-------------------------------------|-------------------------|----------------------|
| | | December 31, 2013 | December 31, 2012 |
| Corporate notes and bonds | 2 | \$ 138,515 | \$ 241,158 |
| U.S. corporate commercial paper | 2 | 59,444 | 3,990 |
| Obligations of U.S. government agencies | 2 | | 6,108 |
| Obligations of U.S. states and municipalities | 2 | | 1,504 |
| Available-for-sale investments | | 197,959 | 252,760 |
| Money market funds | 1 | 26,453 | 22,487 |
| Cash, including restricted cash | N/A | 37,614 | 26,947 |
| Total cash and investments in marketable securities | | \$ 262,026 | \$ 302,194 |

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

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

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

All of our investments are categorized as Level 1 or Level 2, as explained in the table above. We use a market approach to value our Level 2 investments. During the years ended December 31, 2013 and 2012, there were no transfers between Level 1 and Level 2 of the fair value hierarchy.

At December 31, 2013 and 2012, 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, | |
|---------------|--------------|----------|
| | 2013 | 2012 |
| Raw materials | \$ 3,947 | \$ 7,489 |

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| | | |
|-----------------|-----------|-----------|
| Work-in-process | 6,146 | 6,661 |
| Finished goods | 3,359 | 4,119 |
| Inventory | \$ 13,452 | \$ 18,269 |

Table of Contents**Index to Financial Statements****Note 4 Property and Equipment**

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

| | December 31, | |
|--|--------------|-----------|
| | 2013 | 2012 |
| Building and leasehold improvements | \$ 71,306 | \$ 72,180 |
| Laboratory equipment | 26,621 | 27,145 |
| Manufacturing equipment | 23,699 | 20,877 |
| Furniture, fixtures and other equipment | 23,235 | 21,914 |
| Depreciable property and equipment at cost | 144,861 | 142,116 |
| Less: accumulated depreciation | (84,148) | (72,666) |
| Depreciable property and equipment, net | 60,713 | 69,450 |
| Construction-in-progress | 6,261 | 2,765 |
| Property and equipment, net | \$ 66,974 | \$ 72,215 |

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. Property and equipment includes certain assets acquired through capital leases (see Note 6).

In July 2012, we consolidated our U.S.-based research activities into our existing San Francisco facility and ceased use of and plan to sell one of our buildings located in Huntsville, Alabama that was dedicated to research activities. The announcement of this consolidation plan in March 2012 triggered the recognition of a \$1.7 million impairment charge relating to these assets in the year ended December 31, 2012.

Depreciation expense, including depreciation of assets acquired through capital leases, for the years ended December 31, 2013, 2012, and 2011 was \$13.0 million, \$13.8 million, and \$15.0 million, respectively.

Note 5 Senior Secured Notes

On July 11, 2012, we issued \$125.0 million in aggregate principal amount of senior secured notes (Senior Notes) with the entire principal amount due on July 15, 2017. The Senior Notes bear interest at 12.0% per annum payable in cash semi-annually in arrears on January 15 and July 15 of each year, beginning January 15, 2013. The Senior Notes are secured by a first-priority lien on substantially all of our assets. In connection with this transaction, we retired \$42.5 million of principal amount of our convertible subordinated notes due September 2012 in exchange for the same principal amount of Senior Notes and received the remaining proceeds in cash, less approximately \$4.5 million in transaction costs. We used the proceeds from the issuance of the Senior Notes and our existing cash to repay the remaining \$172.4 million in principal amount of our convertible subordinated notes in full at maturity on September 28, 2012.

The Senior Notes contain customary covenants, including covenants that limit or restrict our ability to incur liens, incur indebtedness, and make certain restricted payments, but do not contain covenants related to future financial performance. In particular, \$25.0 million of the proceeds is required to be maintained in a restricted account until July 1, 2015 and is classified as restricted cash on our Consolidated Balance Sheets. From July 1, 2015 through the quarter ending June 30, 2017, the aggregate balance of our unrestricted cash and cash equivalents at the end of any two consecutive fiscal quarters is required to be at least \$25.0 million, subject to certain conditions. The Senior Notes are callable by us at any time, subject to certain prepayment premiums and conditions. If we experience certain change of control events, the holders of the Senior Notes will have the right to require us to purchase all or a portion of the Senior Notes at a purchase price in cash equal to 101% of the

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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 Senior Notes at 100% of the principal amount thereof, plus accrued and unpaid interest to the date of purchase.

As of December 31, 2013, based on a discounted cash flow analysis using Level 3 inputs including financial discount rates, we believe the \$125.0 million carrying amount of our 12% Senior Secured Notes due July 2017 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 a result of our relocation, an impairment test was performed for the building and related leasehold improvements located in San Carlos. As a result of this impairment test, we recorded an impairment charge of \$12.6 million in 2010. As of December 31, 2013 and 2012, the gross amount of assets recorded under capital leases was \$2.3 million and the recorded value of these assets, net of depreciation, was \$1.0 million and \$1.4 million, respectively.

We have subleased all of the San Carlos facility, but have not been relieved of any obligations under the terms of this lease. Our future minimum rental receipts under the San Carlos facility subleases total \$7.4 million as of December 31, 2013.

Future minimum payments for our capital leases at December 31, 2013 are as follows (in thousands):

| | |
|--|----------|
| Years ending December 31, | |
| 2014 | \$ 5,169 |
| 2015 | 5,280 |
| 2016 | 4,034 |
| Total minimum payments required | 14,483 |
| Less: amount representing interest | (2,898) |
| Present value of future minimum lease payments | 11,585 |
| Less: current portion | (3,536) |
| Capital lease obligation, less current portion | \$ 8,049 |

Operating Lease

On September 30, 2009, we entered into an operating sublease (Sublease) with Pfizer, Inc. for a 102,283 square foot facility located in San Francisco, California (Mission Bay Facility). Upon completion of construction of the Mission Bay Facility, we moved in on November 29, 2010. The Mission Bay Facility includes a research and development center with biology, chemistry, pharmacology, and clinical development capabilities, as well as all of the functions previously located in San Carlos, California, including our corporate headquarters.

Under the terms of the Sublease, we will begin 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.

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On December 28, 2011, we expanded our lease of the Mission Bay Facility to include an additional 24,002 square feet of space. The lease term commenced on December 28, 2011 and ends on January 31, 2020. Monthly base rent will escalate over the term of the lease at various intervals.

Our future minimum lease payments for our operating leases at December 31, 2013 are as follows (in thousands):

| | |
|-------------------------------------|-----------|
| Years ending December 31, | |
| 2014 | \$ 2,559 |
| 2015 | 4,750 |
| 2016 | 4,892 |
| 2017 | 5,037 |
| 2018 | 5,187 |
| 2019 and thereafter | 5,796 |
| Total future minimum lease payments | \$ 28,221 |

We recognize rent expense on a straight-line basis over the lease period. For the years ended December 31, 2013, 2012, and 2011, rent expense for all our operating leases, including our Mission Bay Facility, was approximately \$2.9 million, \$2.8 million, and \$2.4 million, respectively.

Note 7 Liability Related to Sale of Future Royalties

On February 24, 2012, we entered into a Purchase and Sale Agreement (the Purchase and Sale Agreement) with RPI Finance Trust (RPI), an affiliate of Royalty Pharma, pursuant to which we sold, and RPI purchased, our right to receive royalty payments (the Royalty Entitlement) arising from the worldwide net sales, from and after January 1, 2012, of (a) CIMZIA[®], under Nektar's license, manufacturing and supply agreement with UCB Pharma (UCB), and (b) MIRCERA[®], under Nektar's 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 for the Royalty Entitlement of \$124.0 million. 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, 2013 and for the period from the inception of the royalty transaction on February 24, 2012 (inception) to December 31, 2013 (in thousands):

| | Year ended December 31, 2013 | Period from inception to December 31, 2013 |
|---|------------------------------------|---|
| Liability related to sale of future royalties beginning balance | \$ 131,266 | \$ |
| Proceeds from sale of future royalties | | 124,000 |
| Non-cash interest expense recognized | 22,309 | 40,366 |
| Non-cash CIMZIA [®] and MIRCERA [®] royalty revenue | (22,055) | (32,846) |
| Payments from Nektar to RPI | (3,000) | (3,000) |
| Total liability related to sale of future royalties as of December 31, 2013 | 128,520 | 128,520 |
| Less: current portion | (7,000) | (7,000) |
| Liability related to sale of future royalties, less current portion | \$ 121,520 | \$ 121,520 |

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As a result of this liability accounting, even though the royalties from UCB and Roche are remitted directly to RPI starting with royalties arising from product sales in the first quarter of 2012, we will continue to recognize revenue for these royalties. During the year ended December 31, 2012, we recognized royalties from net sales of CIMZIA[®] and MIRCERA[®] upon notification of the actual royalty amount, which occurs in the quarter after such sales are made. During the year ended December 31, 2013, we began to recognize royalties based on estimates of the net sales made in each period, which resulted in an increase in non-cash royalty revenue of \$4.6 million in the year ended December 31, 2013. During the years ended December 31, 2013 and 2012, we recognized \$22.1 and \$10.8 million, respectively, in non-cash royalties from net sales of CIMZIA[®] and MIRCERA[®].

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 below, if any, 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 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 governmental health authority imposed restrictions on the use of the drug products, 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.

Pursuant to the Purchase and Sale Agreement, in March 2013, we were required to pay RPI \$3.0 million because worldwide net sales of MIRCERA[®] for the 12 month period ended December 31, 2012 did not reach a required threshold. Furthermore, we are required to make an additional payment of up to \$7.0 million if the specified worldwide net sales threshold of MIRCERA[®] for the 12 month period ended December 31, 2013 is not achieved. We have concluded that it is probable that the minimum 2013 MIRCERA[®] net sales threshold will not be met and, therefore, we expect to make the \$7.0 million payment to RPI described above in early 2014. The liability for this expected \$7.0 million payment is included in current liabilities on our Consolidated Balance Sheet at December 31, 2013.

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. In particular, if we breach our obligations under the Purchase and Sale Agreement, 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 \$4.1 million, \$2.9 million, and \$1.8 million for the years ended December 31, 2013, 2012, and 2011, 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.

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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, 2013, these commitments were approximately \$12.6 million, all of which are expected to be paid in 2014.

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 operations of that period or on our cash flows and liquidity.

On November 18, 2009, the Research Foundation of the State University of New York (SUNY) filed an action against us in the United States District Court for the Northern District of New York. SUNY sought to recover amounts it alleged it was owed pursuant to a technology licensing contract between us and SUNY. On December 20, 2013, we entered into a Settlement Agreement and Release (Settlement) with SUNY. Under the terms of the Settlement, SUNY agreed to dismiss the action with prejudice and relinquish all rights it may have had to a portion of future development and regulatory milestone payments payable to us under the Co-Development, License and Co-Promotion Agreement, dated August 1, 2007, between us (and our subsidiaries) and Bayer Healthcare LLC, as amended, related to the inhaled amikacin program in exchange for (i) a \$5.0 million payment due on April 1, 2014; (ii) a \$5.0 million payment due on January 1, 2015, (iii) a series of four \$500,000 payments each due on April 1, 2014, January 1, 2015, January 1, 2016, and January 1, 2017, respectively; and (iv) certain other terms and conditions. As a result of the Settlement, we recorded a charge of \$11.3 million to research and development expense during the year ended December 31, 2013 which reflects the estimated net present value of the \$12.0 million settlement payments using an 8% annual discount rate. As of December 31, 2013, the \$5.5 million current portion of the \$11.3 million settlement liability is included in other current liabilities in our Consolidated Balance Sheet.

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, 2013 or 2012.

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.

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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 \$1,000,000 per incident for securities related claims and \$500,000 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. In 2011, 3,100,000 shares were previously designated Series A Junior Participating Preferred Stock (Series A Preferred Stock) in connection with our Share Purchase Rights Plan (Rights Plan) that expired on June 1, 2011. On March 30, 2012, we filed a certificate of elimination of the Series A Preferred Stock. As of December 31, 2013 and 2012, no preferred shares are designated, issued or outstanding.

Common Stock

On January 24, 2011, we completed the issuance and sale of 19,000,000 shares of our common stock for gross proceeds to the Company of approximately \$220.4 million. Additionally, we incurred approximately \$0.6 million in legal and accounting fees, filing fees, and other offering expenses.

On January 28, 2014, we completed the issuance and sale of 9,775,000 shares of our common stock for gross proceeds to the Company of approximately \$117.2 million. Additionally, we incurred approximately \$0.6 million in legal and accounting fees, filing fees, and other offering expenses.

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At December 31, 2013, we had 28,609,480 reserved shares of common stock, all of which are reserved for issuance under our equity compensation plans as summarized in the following table (share number in thousands):

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options (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) | 14,936 | \$ 8.76 | 7,954 |
| Equity compensation plans not approved by security holders | 5,719 | \$ 9.84 | |
| Total | 20,655 | \$ 9.06 | 7,954 |

(1) Includes shares of common stock available for future issuance under our ESPP as of December 31, 2013.

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.

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. In 2012 and 2013, the requisite service period for stock options granted to our employees under the 2012 Plan as well as all other previously existing stock plans was generally four years; the requisite service period for stock options granted to our directors was generally one year.

The maximum number of shares of our common stock that may be issued or transferred pursuant to awards under the 2012 Plan is 10,347,140 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.

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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.

Restricted Stock Units

RSU awards have been granted under the 2008 Plan, the 2000 Plan and the 2000 Non-Officer Plan and are settled by delivery of shares of our common stock on or shortly after the date the awards vest. We did not grant any RSU awards during the years ended December 31, 2013, 2012 or 2011 and no RSUs are outstanding at December 31, 2013. RSU awards are similar to restricted stock in that they are issued for no consideration; however, the holder generally is not entitled to the underlying shares of common stock until the RSU award vests. Also, because the RSU awards are granted for \$0.01 per share, the grant-date fair value of the award is equal to the intrinsic value of our common stock on the date of grant.

Beginning with shares granted during 2005, each RSU award depletes the pool of options available for grant under our equity incentive plans by a ratio of 1:1.5.

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, 1,500,000 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

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to a maximum of \$3,000 per participant. For the years ended December 31, 2013, 2012, and 2011, we recognized \$1.0 million, \$0.9 million, and \$0.9 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 payments, royalties, sales milestones, and payments for the manufacture and supply of our proprietary PEGylation materials and/or reimbursement for research and development activities. All of our collaboration agreements are generally cancelable by our partners without significant financial penalty. Our costs of performing these services are generally included in research and development expense, except that costs for product sales to our collaboration partners are included in cost of goods sold.

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

| Partner | Agreement | Year Ended December 31, | | |
|--|--|-------------------------|-----------|-----------|
| | | 2013 | 2012 | 2011 |
| AstraZeneca AB | Naloxegol (NKTR-118) and naloxegol fixed-dose combination program (NKTR-119) | \$ 25,016 | \$ 59 | \$ 2,496 |
| Roche | PEGASYS® and MIRCERA® | 18,382 | 7,146 | 5,131 |
| Bayer Healthcare LLC | BAY41-6551 (Amikacin Inhale) | 15,293 | 2,971 | 2,992 |
| Affymax, Inc. | OMONTYS® | 7,149 | 2,829 | 3,838 |
| Amgen, Inc. | Neulasta® | 5,035 | 5,000 | 5,000 |
| Baxter Healthcare | BAX 855 (Hemophilia) | 1,702 | 6,238 | 5,646 |
| Other | | 8,295 | 5,884 | 11,186 |
| License, collaboration and other revenue | | \$ 80,872 | \$ 30,127 | \$ 36,289 |

As of December 31, 2013, our collaboration agreements with partners included potential future payments for development milestones totaling approximately \$144.3 million, including amounts from our agreements with Baxter and Bayer described below. In addition, we are entitled to receive up to \$175.0 million and \$75.0 million of contingent payments related to NKTR-118 and NKTR-119, respectively, based on development and regulatory events to be pursued and completed solely by AstraZeneca.

AstraZeneca AB: naloxegol (NKTR-118) and naloxegol fixed-dose combination program (NKTR-119)

In September 2009, we entered into a license agreement with AstraZeneca AB (AstraZeneca), as amended by AstraZeneca and us in August 2013, under which we granted AstraZeneca a worldwide, exclusive, perpetual, royalty-bearing, and sublicensable license under our patents and other intellectual property to develop, market, and sell naloxegol (formerly known as NKTR-118) and naloxegol fixed-dose combination program (formerly known as NKTR-119). AstraZeneca is responsible for all costs associated with research, development and commercialization and is responsible for all drug development and commercialization decisions for naloxegol and the naloxegol 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. As of December 31, 2013, we are entitled to receive up to an additional \$175.0 million and \$75.0 million of contingent payments related to naloxegol and the naloxegol fixed-dose combination program, respectively, based on development events to be pursued and completed solely by AstraZeneca, as described below.

On September 25, 2013, the European Medicines Agency (EMA) notified AstraZeneca that it had accepted for review the naloxegol regulatory approval application filed by AstraZeneca in August 2013. As a result, we were entitled to a \$25.0 million payment from AstraZeneca, which was received on September 30, 2013 and was fully recognized as revenue in the year ended December 31, 2013.

On September 16, 2013, AstraZeneca filed a New Drug Application (NDA) with the United States Food and Drug Administration (FDA) for naloxegol, which was accepted for review by the FDA on November 16, 2013, resulting in a \$70.0 million milestone payment to us from AstraZeneca in November 2013. We cannot recognize revenue for this payment until it is no longer refundable and, as a result of the potential for repayment of the \$70.0 million (as described below), we have recorded this amount in the line item *Liability related to receipt of refundable milestone payment* on our Consolidated Balance Sheet at December 31, 2013. If the FDA does not require a future clinical trial or other significant studies to assess the cardiovascular safety (CV Safety Study) of naloxegol prior to an approval decision, AstraZeneca is obligated to pay us an additional \$35.0 million. If the FDA does require a CV Safety Study, AstraZeneca may terminate the license agreement with us in its entirety or

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only with respect to its rights in the United States. If AstraZeneca elects to terminate the license agreement in its entirety due to a CV Safety Study, we would be required to repay them the \$70.0 million payment plus accrued interest at 4.5% compounded annually in four installments in accordance with the following payment schedule: \$10.0 million plus accrued interest on January 15, 2015, \$10.0 million plus accrued interest on January 15, 2016, \$20.0 million plus accrued interest on January 15, 2017 and \$30.0 million plus accrued interest on January 15, 2018. If AstraZeneca elects to terminate the license agreement only with respect to its rights in the U.S., then such repayment amount would be funded through a 50% reduction of non-U.S. royalty amounts otherwise payable to us until the aggregate amount of such royalty reduction equals the total principal amount of \$70.0 million plus accumulated interest at 4.5% compounded annually. If the FDA requires a post-approval cardiovascular safety study as a condition to approval of the naloxegol NDA, then the royalty rate payable to us from net sales of naloxegol in the U.S. by AstraZeneca would be reduced by two percentage points until the aggregate accumulated amount of such royalty payment reduction is equal to a maximum of \$35.0 million.

We will be entitled to the remaining \$140.0 million of contingent payments if naloxegol is approved by the FDA and EMA and commercial launch is achieved in the U.S. and one major country in the European Union. In addition, we are also entitled to sales milestone payments and royalties based on annual worldwide net sales of naloxegol and naloxegol fixed-dose combination products.

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 perform 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, 2013, we have deferred revenue of approximately \$10.3 million related to this agreement, which we expect to recognize through December 2015, the period through which we are required to provide back-up manufacturing and supply services related to PEGASYS®.

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 have 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 have allocated the total \$27.0 million consideration to these items based on the relative selling price method. As of December 31, 2013, we have deferred revenue of approximately \$16.1 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

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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, 2013, we have deferred revenue of approximately \$6.9 million related to these activities, which we expect to recognize through December 2016, the estimated end of our obligations under the modified arrangements.

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 the years prior to 2013, we received an upfront payment of \$40.0 million in 2007 and milestone payments of \$20.0 million, of which \$10.0 million was recorded as a liability to Bayer for the reimbursement of its costs of the Phase 3 clinical trial.

As a result of the start of the Phase 3 clinical trial by Bayer in the treatment of intubated and mechanically ventilated patients with Gram-negative pneumonia in April 2013, we achieved a \$10.0 million development milestone, which was received and recognized as revenue in the second quarter of 2013. The receipt of this milestone also triggered the payment of our \$10.0 million obligation to Bayer described above, which was paid in June 2013.

In addition, we are entitled to receive a total of up to \$50.0 million for 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, 2013, we have deferred revenue of approximately \$22.5 million related to this agreement, which we expect to recognize through December 2026, the estimated end of our obligations under this agreement.

Affymax, Inc.: OMONTYS®

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 March 27, 2012, the FDA approved OMONTYS® to treat anemia in patients with chronic kidney disease on dialysis and OMONTYS® sales were initiated in the second quarter of 2012. On February 23, 2013, Affymax and Takeda Pharmaceutical Company Limited (Takeda) 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. Effective as of April 1, 2013, Affymax announced that it had amended its collaboration agreement with Takeda to transfer regulatory, manufacturing, and development responsibilities for OMONTYS® to Takeda. 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.

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

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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 (the Additional Rights). 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, 2013, we have deferred revenue of approximately \$34.2 million related to this agreement, which we expect to recognize through October 2020, the estimated end of our obligations under this agreement.

Baxter Healthcare: BAX 855/Hemophilia

In September 2005, we entered into an exclusive research, development, license and manufacturing and supply agreement with Baxter Healthcare SA and Baxter Healthcare Corporation (together referred to as Baxter) 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 Baxter with its requirements for our proprietary materials. Baxter is responsible for all clinical development, regulatory, and commercialization expenses. The agreement is terminable by the parties under customary conditions.

Under the terms of our agreement with Baxter, we are entitled to up to \$28.0 million of development milestones related to Hemophilia A 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 products resulting from this agreement. This Hemophilia A program includes BAX 855, which is currently in a Phase 3 clinical study initiated in February 2013. In prior years, we received an upfront payment of \$4.0 million related to the Hemophilia A programs. As of December 31, 2013, we do not have significant deferred revenue related to this agreement.

Other

In addition, as of December 31, 2013, we have a number of collaboration agreements, including our collaboration partners UCB, Ophthotech Corp., and Regado Biosciences, Inc., under which we are entitled to up to a total of \$66.3 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.

Table of Contents**Index to Financial Statements****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, | | |
|--------------------------------|-------------------------|-----------|-----------|
| | 2013 | 2012 | 2011 |
| Cost of goods sold | \$ 1,297 | \$ 1,496 | \$ 1,266 |
| Research and development | 7,910 | 7,082 | 7,944 |
| General and administrative | 8,501 | 7,621 | 9,675 |
| Total stock-based compensation | \$ 17,708 | \$ 16,199 | \$ 18,885 |

As of December 31, 2013, total unrecognized compensation costs of \$23.4 million related to unvested stock-based compensation arrangements are expected to be recognized as expense over a weighted-average period of 1.7 years.

Black-Scholes Assumptions

The following tables list the Black-Scholes option-pricing model assumptions used to calculate the fair value of employee and director stock options. Stock-based compensation resulting from our ESPP was not material in the years ended December 31, 2013, 2012, and 2011.

| | Year Ended December 31, 2013 | Year Ended December 31, 2012 | Year Ended December 31, 2011 |
|---|---------------------------------|---------------------------------|---------------------------------|
| Average risk-free interest rate | 0.9% | 0.9% | 1.6% |
| Dividend yield | 0.0% | 0.0% | 0.0% |
| Average volatility factor | 61.2% | 62.2% | 63.8% |
| Average weighted average expected life | 5.2 years | 5.0 years | 4.9 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, 2013, 2012, and 2011, we estimated the weighted-average expected life based on the contractual and vesting terms of the stock options, as well as historic cancellation and exercise data.

Table of Contents**Index to Financial Statements*****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, 2012 | 18,996 | \$ 9.03 | | |
| Options granted | 3,470 | 9.42 | | |
| Options exercised | (1,047) | 7.07 | | |
| Options forfeited & canceled | (764) | 12.76 | | |
| Outstanding at December 31, 2013 | 20,655 | \$ 9.06 | 4.35 | \$ 56,269 |
| Vested and expected to vest at December 31, 2013 | 20,357 | \$ 9.07 | 4.31 | \$ 55,454 |
| Exercisable at December 31, 2013 | 15,519 | \$ 9.08 | 3.64 | \$ 43,287 |

(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, 2013.

The weighted-average grant-date fair value per share of options granted during the years ended December 31, 2013, 2012, and 2011 was \$4.95, \$3.92, and \$5.22, respectively. The total intrinsic value of options exercised during the years ended December 31, 2013, 2012, and 2011 was \$4.5 million, \$1.9 million, and \$3.7 million, respectively. The estimated fair value of options vested during the years ended December 31, 2013, 2012, and 2011 was \$14.1 million, \$15.7 million, and \$18.1 million, respectively.

RSU Awards

We issued RSU awards to certain officers and employees. The RSU awards granted in 2006 vested upon achievement of pre-determined performance milestones, of which the last performance milestone was met in 2013. The RSU awards granted in 2007 through 2010 had a time-based vesting schedule. There were no RSU awards granted in 2013, 2012, or 2011. There were no, 120,580, and 136,080 RSU awards outstanding at December 31, 2013, 2012, and 2011, respectively. We expensed the grant date fair value of the RSU awards ratably over the expected service or performance period.

Note 12 Income Taxes

Income (loss) before provision for income taxes includes the following components (in thousands):

| | Year Ended December 31, | | |
|--|-------------------------|--------------|--------------|
| | 2013 | 2012 | 2011 |
| Domestic | \$ (161,068) | \$ (174,258) | \$ (135,880) |
| Foreign | 1,300 | 2,809 | 2,920 |
| Loss before provision for income taxes | \$ (159,768) | \$ (171,449) | \$ (132,960) |

Table of Contents**Index to Financial Statements*****Provision for Income Taxes***

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

| | Year Ended December 31, | | |
|-----------------------------------|-------------------------|---------------|-----------------|
| | 2013 | 2012 | 2011 |
| Current: | | | |
| Federal | \$ | \$ (137) | \$ |
| State | 1 | 1 | 1 |
| Foreign | 1,838 | 1,029 | 921 |
| Total Current | 1,839 | 893 | 922 |
| Deferred: | | | |
| Federal | 422 | (422) | |
| State | 49 | (49) | |
| Foreign | (65) | (16) | 96 |
| Total Deferred | 406 | (487) | 96 |
| Provision for income taxes | \$ 2,245 | \$ 406 | \$ 1,018 |

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, | | |
|--|-------------------------|---------------|-----------------|
| | 2013 | 2012 | 2011 |
| U.S. federal provision (benefit) | | | |
| At statutory rate | \$ (55,919) | \$ (60,007) | \$ (46,536) |
| State taxes | 50 | (48) | 1 |
| Change in valuation allowance | 55,042 | 47,349 | 48,959 |
| Foreign tax inclusion | | 6,510 | |
| Non-cash interest expense on liability related to sale of future royalties | 7,808 | 6,320 | |
| Foreign tax differential | (20) | (227) | (129) |
| Research credits | (6,273) | (591) | (893) |
| Other | 1,557 | 1,100 | (384) |
| Provision for income taxes | \$ 2,245 | \$ 406 | \$ 1,018 |

Table of Contents**Index to Financial Statements*****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, | |
|--|--------------|------------|
| | 2013 | 2012 |
| Deferred tax assets: | | |
| Net operating loss carryforwards | \$ 391,385 | \$ 351,354 |
| Research and other credits | 61,707 | 52,769 |
| Deferred revenue | 35,588 | 39,521 |
| Sale of future royalties | 28,057 | 39,750 |
| Stock-based compensation | 25,962 | 23,746 |
| Capitalized research expenses | 17,687 | 7,192 |
| Reserves and accruals | 14,685 | 8,776 |
| Property and equipment | 8,580 | 8,482 |
| Other | 2,539 | 2,773 |
| Deferred tax assets before valuation allowance | 586,190 | 534,363 |
| Valuation allowance for deferred tax assets | (586,040) | (534,268) |
| Total deferred tax assets | 150 | 95 |
| Total deferred tax liabilities | | |
| Net deferred tax assets | \$ 150 | \$ 95 |

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 \$51.8 million and \$43.6 million during the years ended December 31, 2013 and 2012, respectively. The valuation allowance includes approximately \$35.6 million of income tax benefit at both December 31, 2013 and December 31, 2012 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, 2013, U.S. income taxes have not been provided on a cumulative total of \$1.7 million of such earnings. At the present time it is not practicable to estimate the amount of U.S. income taxes that might be payable if these earnings were repatriated.

Net Operating Loss and Tax Credit Carryforwards

As of December 31, 2013, we had a net operating loss carryforward for federal income tax purposes of approximately \$1,029.7 million, portions of which will begin to expire in 2018. We had a total state net operating loss carryforward of approximately \$614.6 million, which will begin to expire in 2014. 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. The annual limitations may result in the expiration of net operating losses and credits before utilization.

We have federal research credits of approximately \$36.5 million, which will begin to expire in 2019 and state research credits of approximately \$20.9 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.

Table of Contents**Index to Financial Statements*****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 would 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.

We file income tax returns in the U.S., California, Alabama, India and the U.K. The 2009 and 2010 tax years were previously under audit by the IRS. These audits were completed and we received no change letters. The 2005 through 2010 tax years were previously under audit in Alabama. These audits were completed with no changes to the tax liability. 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 2013.

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

| | 2013 | December 31, 2012 | 2011 |
|---------------------------------------|-----------|----------------------|-----------|
| Beginning balance | \$ 14,067 | \$ 13,576 | \$ 13,058 |
| Tax positions related to current year | | | |
| Additions: | | | |
| Federal | 477 | 289 | 297 |
| State | 381 | 302 | 221 |
| Reductions | | | |
| Tax positions related to prior year | | | |
| Additions: | | | |
| Federal | 636 | 37 | |
| State | | | |
| Foreign | 802 | | |
| Reductions | | | |
| Settlements | | | |
| Lapses in statute of limitations | | (137) | |
| Ending balance | \$ 16,363 | \$ 14,067 | \$ 13,576 |

Although it is reasonably possible that certain unrecognized tax benefits may increase or decrease within the next twelve months due to tax examination changes, settlement activities, expirations of statute of limitations, or the impact on recognition and measurement considerations related to the results of published tax cases or other similar activities, we do not anticipate any significant changes to unrecognized tax benefits over the next twelve months. During the years ended December 31, 2013, 2012 and 2011, 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. Within our one business segment we have two components, PEGylation technology and pulmonary technology.

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Our revenue is derived primarily from clients in the pharmaceutical and biotechnology industries. Roche, UCB, AstraZeneca, and Bayer represented 28%, 21%, 17% and 10% of our revenue, respectively, for the year ended December 31, 2013. Revenue from UCB, Roche and Affymax represented 30%, 23%, and 11% of our revenue, respectively, for the year ended December 31, 2012. Revenue from UCB and Roche represented 27% and 16% of our revenue, respectively, for the year ended December 31, 2011.

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, | | |
|----------------------|-------------------------|------------------|------------------|
| | 2013 | 2012 | 2011 |
| United States | \$ 42,535 | \$ 34,591 | \$ 37,896 |
| Europe | 106,386 | 46,600 | 33,584 |
| Total revenue | \$ 148,921 | \$ 81,191 | \$ 71,480 |

At December 31, 2013, \$57.3 million, or approximately 88%, of the net book value of our property and equipment was located in the United States and \$7.7 million, or approximately 12%, was located in India. At December 31, 2012, \$62.5 million, or approximately 87%, of the net book value of our property and equipment was located in the United States and \$9.7 million, or approximately 13%, was located in India.

Note 14 Subsequent Event

On January 28, 2014, we completed the issuance and sale of 9,775,000 shares of our common stock for gross proceeds to the Company of approximately \$117.2 million. Additionally, we incurred approximately \$0.6 million in legal and accounting fees, filing fees, and other offering expenses.

Note 15 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 the 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 2013 | | | | Fiscal Year 2012 | | | |
|---|------------------|-------------|-------------|-------------|------------------|-------------|-------------|-------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Product sales | \$ 11,810 | \$ 10,324 | \$ 14,672 | \$ 8,040 | \$ 6,945 | \$ 9,694 | \$ 8,355 | \$ 10,405 |
| Total revenue | \$ 23,004 | \$ 33,862 | \$ 60,909 | \$ 31,146 | \$ 17,949 | \$ 23,684 | \$ 18,412 | \$ 21,146 |
| Cost of goods sold | \$ 11,661 | \$ 5,011 | \$ 12,877 | \$ 8,960 | \$ 8,707 | \$ 7,203 | \$ 7,228 | \$ 7,290 |
| Research and development expenses | \$ 45,618 | \$ 52,230 | \$ 43,914 | \$ 48,248 | \$ 35,085 | \$ 33,201 | \$ 34,016 | \$ 46,373 |
| Operating loss | \$ (45,106) | \$ (32,605) | \$ (6,525) | \$ (35,894) | \$ (37,932) | \$ (26,988) | \$ (32,900) | \$ (43,381) |
| Net loss | \$ (55,063) | \$ (42,748) | \$ (16,543) | \$ (47,659) | \$ (41,097) | \$ (34,285) | \$ (43,547) | \$ (52,926) |
| Basic and diluted net loss per share(1) | \$ (0.48) | \$ (0.37) | \$ (0.14) | \$ (0.41) | \$ (0.36) | \$ (0.30) | \$ (0.38) | \$ (0.46) |

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

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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, 2013. 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 (1992 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, 2013.

The effectiveness of our internal control over financial reporting as of December 31, 2013 has been audited by 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, 2013, 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

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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.

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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 2014 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.

Table of Contents**Index to Financial Statements****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> | 73 |
| <u>Consolidated Balance Sheets at December 31, 2013 and 2012</u> | 75 |
| <u>Consolidated Statements of Operations for each of the three years in the period ended December 31, 2013</u> | 76 |
| <u>Consolidated Statements of Comprehensive Loss for each of the three years in the period ended December 31, 2013</u> | 77 |
| <u>Consolidated Statements of Stockholders' Equity (Deficit) for each of the three years in the period ended December 31, 2013</u> | 78 |
| <u>Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2013</u> | 79 |
| <u>Notes to Consolidated Financial Statements</u> | 80 |

(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. |

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- 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.

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Exhibit

| Number | Description of Documents |
|---------------|---|
| 4.3(8) | Indenture dated July 11, 2012 by and between Nektar Therapeutics and Wells Fargo Bank, National Association, including the form of 12.0% Senior Secured Note due 2017. |
| 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(18) | Forms of Equity Award Agreements under the 2012 Performance Incentive Plan.++ |
| 10.7(18) | 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(13) | Amended and Restated Built-to-Suite Lease between Nektar Therapeutics and BMR-201 Industrial Road LLC, dated August 17, 2004, as amended on January 11, 2005 and July 19, 2007. |
| 10.16(16) | Sublease, dated as of September 30, 2009, by and between Pfizer, Inc. and Nektar Therapeutics.+ |
| 10.17(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. |
| 10.18(14) | Co-Development, License and Co-Promotion Agreement, dated August 1, 2007, between Nektar Therapeutics (and its subsidiaries) and Bayer Healthcare LLC, as amended.+ |
| 10.19(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.+ |
| 10.20(1) | Exclusive License Agreement, dated December 31, 2008, between Nektar Therapeutics, a Delaware corporation, and Novartis Pharma AG, a Swiss corporation.+ |
| 10.21(14) | Supply, Dedicated Suite and Manufacturing Guarantee Agreement, dated October 29, 2010, by and among Nektar Therapeutics, Amgen Inc. and Amgen Manufacturing, Limited.+ |
| 10.22(16) | License Agreement by and between AstraZeneca AB and Nektar Therapeutics, dated September 20, 2009.+ |
| 10.23(7) | 12% Senior Secured Notes due 2017 Purchase Agreement dated July 3, 2012, by and among Nektar Therapeutics and the purchasers named therein. |

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Exhibit

| Number | Description of Documents |
|---------------|--|
| 10.24(18) | Pledge and Security Agreement dated July 11, 2012 as amended by the Amendment to Pledge and Security Agreement dated as of February 28, 2013, by and between Nektar Therapeutics and Wells Fargo Bank, National Association. |
| 10.25(8) | Escrow and Deposit Account Control Agreement dated July 11, 2012 among Nektar Therapeutics, Wells Fargo Bank, National Association, as collateral agent, and Wells Fargo Bank, National Association, as escrow agent. |
| 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(19) | Employment Transition and General Release Agreement dated as of February 11, 2014, by and between Nektar Therapeutics and Rinko Ghosh. |
| 10.29(19) | 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(19) | Subsidiaries of Nektar Therapeutics. |
| 23.1(19) | Consent of Independent Registered Public Accounting Firm. |
| 24 | Power of Attorney (reference is made to the signature page). |
| 31.1(19) | Certification of Nektar Therapeutics principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a). |
| 31.2(19) | 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, 2013, 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, (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.

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- | | | |
|------|---|---|
| (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 11, 2011. |
| (7) | Incorporated by reference to the indicated exhibit in Nektar Therapeutics | Current Report on Form 8-K, filed on July 10, 2012. |
| (8) | Incorporated by reference to the indicated exhibit in Nektar Therapeutics | Current Report on Form 8-K, filed on July 11, 2012. |
| (9) | Incorporated by reference to the indicated exhibit in Nektar Therapeutics | Registration Statement on Form S-8 (No. 333-98321), filed on August 19, 2002. |
| (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 July 3, 2012. |
| (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) | Filed herewith. | |

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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 27, 2014.

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*

Table of Contents**Index to Financial Statements****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/ HOWARD W. ROBIN Howard W. Robin | Chief Executive Officer, President and Director (Principal Executive Officer) | February 27, 2014 |
| /s/ JOHN NICHOLSON John Nicholson | Senior Vice President and Chief Financial Officer (Principal Financial Officer) | February 27, 2014 |
| /s/ JILLIAN B. THOMSEN Jillian B. Thomsen | Senior Vice President, Finance and Chief Accounting Officer (Principal Accounting Officer) | February 27, 2014 |
| /s/ ROBERT B. CHESS Robert B. Chess | Director, Chairman of the Board of Directors | February 27, 2014 |
| /s/ R. SCOTT GREER R. Scott Greer | Director | February 27, 2014 |
| /s/ JOSEPH J. KRIVULKA Joseph J. Krivulka | Director | February 27, 2014 |
| /s/ CHRISTOPHER A. KUEBLER Christopher A. Kuebler | Director | February 27, 2014 |
| /s/ LUTZ LINGNAU Lutz Lingnau | Director | February 27, 2014 |
| /s/ SUSAN WANG Susan Wang | Director | February 27, 2014 |

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/s/ ROY A. WHITFIELD

Director

February 27, 2014

Roy A. Whitfield

/s/ DENNIS L. WINGER

Director

February 27, 2014

Dennis L. Winger

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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.

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| 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(8) | Indenture dated July 11, 2012 by and between Nektar Therapeutics and Wells Fargo Bank, National Association, including the form of 12.0% Senior Secured Note due 2017. |
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| 10.18(14) | Co-Development, License and Co-Promotion Agreement, dated August 1, 2007, between Nektar Therapeutics (and its subsidiaries) and Bayer Healthcare LLC, as amended.+ |
| 10.19(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.+ |
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| 23.1(19) | Consent of Independent Registered Public Accounting Firm. |
| 24 | Power of Attorney (reference is made to the signature page). |
| 31.1(19) | Certification of Nektar Therapeutics principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a). |
| 31.2(19) | 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, 2013, 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, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements. |

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- + 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.
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- (7) Incorporated by reference to the indicated exhibit in Nektar Therapeutics Current Report on Form 8-K, filed on July 10, 2012.
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