

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2020

or

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

For the transition period from to

Commission File Number: 0-24006

NEKTAR THERAPEUTICS

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-3134940
(IRS Employer
Identification No.)

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

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

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

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|----------------------------------|-------------------|---|
| Common Stock, \$0.0001 par value | NKTR | NASDAQ Global Select Market |

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

The number of outstanding shares of the registrant's Common Stock, \$0.0001 par value, was 179,398,666 on October 30, 2020.

**NEKTAR THERAPEUTICS
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Forward-Looking Statements

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). All statements other than statements of historical fact are “forward-looking statements” for purposes of this quarterly report on Form 10-Q, including any projections of market size, earnings, revenue, milestone payments, royalties, sales or other financial items, any statements of the plans and objectives of management for future operations (including, but not limited to, preclinical development, clinical trials and manufacturing), any statements related to our financial condition and future working capital needs, any statements regarding potential future financing alternatives, any statements concerning proposed drug candidates, any statements regarding the timing for the start or end of clinical trials or submission of regulatory approval filings, any statements regarding future economic conditions or performance, any statements regarding the initiation, formation, or success of our collaboration arrangements, timing of commercial launches and product sales levels by our collaboration partners and future payments that may come due to us under these arrangements, any statements regarding our plans and objectives to initiate or continue clinical trials, any statements related to potential, anticipated, or ongoing litigation, any statements concerning estimates and predictions of the COVID-19 pandemic's impact on our business and clinical trials and any statements of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as “may,” “will,” “expects,” “plans,” “anticipates,” “estimates,” “potential” or “continue,” or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, such expectations or any of the forward-looking statements may prove to be incorrect and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including, but not limited to, the risk factors set forth in Part II, Item 1A “Risk Factors” below and for the reasons described elsewhere in this quarterly report on Form 10-Q. All forward-looking statements and reasons why results may differ included in this report are made as of the date hereof and we do not intend to update any forward-looking statements except as required by law or applicable regulations. Except where the context otherwise requires, in this quarterly report on Form 10-Q, the “Company,” “Nektar,” “we,” “us,” and “our” refer to Nektar Therapeutics, a Delaware corporation, and, where appropriate, its subsidiaries.

Trademarks

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

PART I: FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements—Unaudited:

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

| | September 30, 2020 | December 31, 2019 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 55,843 | \$ 96,363 |
| Short-term investments | 900,163 | 1,228,499 |
| Accounts receivable | 42,925 | 36,802 |
| Inventory | 12,892 | 12,665 |
| Advance payments to contract manufacturers | 10,483 | 31,834 |
| Other current assets | 21,550 | 15,387 |
| Total current assets | 1,043,856 | 1,421,550 |
| Long-term investments | 197,715 | 279,119 |
| Property, plant and equipment, net | 60,189 | 65,665 |
| Operating lease right-of-use assets | 128,985 | 134,177 |
| Goodwill | 76,501 | 76,501 |
| Other assets | 1,420 | 344 |
| Total assets | <u>\$ 1,508,666</u> | <u>\$ 1,977,356</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Senior secured notes, net and interest payable (see Note 1) | \$ — | \$ 252,891 |
| Accounts payable | 15,484 | 19,234 |
| Accrued compensation | 29,504 | 11,467 |
| Accrued clinical trial expenses | 48,886 | 32,626 |
| Accrued contract manufacturing expenses | 7,141 | 7,304 |
| Other accrued expenses | 9,630 | 12,338 |
| Operating lease liabilities, current portion | 15,348 | 12,516 |
| Deferred revenue, current portion | 507 | 5,517 |
| Total current liabilities | 126,500 | 353,893 |
| Operating lease liabilities, less current portion | 139,022 | 142,730 |
| Liability related to the sale of future royalties, net | 66,378 | 72,020 |
| Deferred revenue, less current portion | 2,494 | 2,554 |
| Other long-term liabilities | 3,291 | 768 |
| Total liabilities | <u>337,685</u> | <u>571,965</u> |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.0001 par value; 10,000 shares authorized; no shares designated or outstanding at September 30, 2020 or December 31, 2019 | — | — |
| Common stock, \$0.0001 par value; 300,000 shares authorized; 179,394 shares and 176,505 shares outstanding at September 30, 2020 and December 31, 2019, respectively | 18 | 17 |
| Capital in excess of par value | 3,363,998 | 3,271,097 |
| Accumulated other comprehensive income (loss) | (1,080) | (1,005) |
| Accumulated deficit | (2,191,955) | (1,864,718) |
| Total stockholders' equity | <u>1,170,981</u> | <u>1,405,391</u> |
| Total liabilities and stockholders' equity | <u>\$ 1,508,666</u> | <u>\$ 1,977,356</u> |

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

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|--------------------|---------------------------------|---------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Revenue: | | | | |
| Product sales | \$ 5,691 | \$ 5,558 | \$ 14,620 | \$ 14,302 |
| Royalty revenue | 12,289 | 10,275 | 31,411 | 29,008 |
| Non-cash royalty revenue related to sale of future royalties | 10,422 | 10,264 | 28,001 | 27,585 |
| License, collaboration and other revenue | 1,631 | 3,121 | 55,421 | 9,860 |
| Total revenue | 30,033 | 29,218 | 129,453 | 80,755 |
| Operating costs and expenses: | | | | |
| Cost of goods sold | 5,570 | 4,927 | 15,154 | 15,385 |
| Research and development | 100,531 | 99,048 | 305,954 | 324,197 |
| General and administrative | 26,982 | 23,983 | 77,546 | 71,570 |
| Impairment of assets and other costs for terminated program | — | — | 45,189 | — |
| Total operating costs and expenses | 133,083 | 127,958 | 443,843 | 411,152 |
| Loss from operations | (103,050) | (98,740) | (314,390) | (330,397) |
| Non-operating income (expense): | | | | |
| Interest expense | — | (5,425) | (6,851) | (15,882) |
| Non-cash interest expense on liability related to sale of future royalties | (8,425) | (5,813) | (22,084) | (17,853) |
| Interest income and other income (expense), net | 2,910 | 11,492 | 16,453 | 35,964 |
| Total non-operating income (expense), net | (5,515) | 254 | (12,482) | 2,229 |
| Loss before provision for income taxes | (108,565) | (98,486) | (326,872) | (328,168) |
| Provision for income taxes | 21 | 99 | 365 | 335 |
| Net loss | \$ (108,586) | \$ (98,585) | \$ (327,237) | \$ (328,503) |
| Basic and diluted net loss per share | \$ (0.61) | \$ (0.56) | \$ (1.84) | \$ (1.88) |
| Weighted average shares outstanding used in computing basic and diluted net loss per share | 179,090 | 175,402 | 178,203 | 174,609 |

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

NEKTAR THERAPEUTICS
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|--------------------|---------------------------------|---------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Net loss | \$ (108,586) | \$ (98,585) | \$ (327,237) | \$ (328,503) |
| Other comprehensive income (loss): | | | | |
| Net unrealized gain (loss) on available-for-sale investments | (2,144) | (261) | 423 | 6,621 |
| Net foreign currency translation gain (loss) | 349 | (360) | (498) | (217) |
| Other comprehensive income (loss) | (1,795) | (621) | (75) | 6,404 |
| Comprehensive loss | <u>\$ (110,381)</u> | <u>\$ (99,206)</u> | <u>\$ (327,312)</u> | <u>\$ (322,099)</u> |

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

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

| | Common Shares | Par Value | Capital in Excess of Par Value | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity |
|---|------------------|--------------|--------------------------------------|--|------------------------|----------------------------------|
| Balance at December 31, 2018 | 173,530 | \$ 17 | \$ 3,147,925 | \$ (6,316) | \$ (1,424,051) | \$ 1,717,575 |
| Shares issued under equity compensation plans | 698 | — | 5,463 | — | — | 5,463 |
| Stock-based compensation | — | — | 25,385 | — | — | 25,385 |
| Comprehensive income (loss) | — | — | — | 4,720 | (119,632) | (114,912) |
| Balance at March 31, 2019 | 174,228 | 17 | 3,178,773 | (1,596) | (1,543,683) | 1,633,511 |
| Shares issued under equity compensation plans | 738 | — | 7,103 | — | — | 7,103 |
| Stock-based compensation | — | — | 24,522 | — | — | 24,522 |
| Comprehensive income (loss) | — | — | — | 2,305 | (110,286) | (107,981) |
| Balance at June 30, 2019 | 174,966 | 17 | 3,210,398 | 709 | (1,653,969) | 1,557,155 |
| Shares issued under equity compensation plans | 820 | — | 5,882 | — | — | 5,882 |
| Stock-based compensation | — | — | 24,880 | — | — | 24,880 |
| Comprehensive income (loss) | — | — | — | (621) | (98,585) | (99,206) |
| Balance at September 30, 2019 | 175,786 | \$ 17 | \$ 3,241,160 | \$ 88 | \$ (1,752,554) | \$ 1,488,711 |
| | Common Shares | Par Value | Capital in Excess of Par Value | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity |
| Balance at December 31, 2019 | 176,505 | \$ 17 | \$ 3,271,097 | \$ (1,005) | \$ (1,864,718) | \$ 1,405,391 |
| Shares issued under equity compensation plans | 1,358 | — | 11,347 | — | — | 11,347 |
| Stock-based compensation | — | — | 24,211 | — | — | 24,211 |
| Comprehensive loss | — | — | — | (5,872) | (138,651) | (144,523) |
| Balance at March 31, 2020 | 177,863 | 17 | 3,306,655 | (6,877) | (2,003,369) | 1,296,426 |
| Shares issued under equity compensation plans | 947 | 1 | 7,825 | — | — | 7,826 |
| Stock-based compensation | — | — | 24,396 | — | — | 24,396 |
| Comprehensive income (loss) | — | — | — | 7,592 | (80,000) | (72,408) |
| Balance at June 30, 2020 | 178,810 | \$ 18 | \$ 3,338,876 | \$ 715 | \$ (2,083,369) | \$ 1,256,240 |
| Shares issued under equity compensation plans | 584 | — | 1,455 | — | — | 1,455 |
| Stock-based compensation | — | — | 23,667 | — | — | 23,667 |
| Comprehensive income (loss) | — | — | — | (1,795) | (108,586) | (110,381) |
| Balance at September 30, 2020 | 179,394 | \$ 18 | \$ 3,363,998 | \$ (1,080) | \$ (2,191,955) | \$ 1,170,981 |

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

NEKTAR THERAPEUTICS
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

| | Nine months ended September 30, | |
|---|---------------------------------|------------------|
| | 2020 | 2019 |
| Cash flows from operating activities: | | |
| Net loss | \$ (327,237) | \$ (328,503) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Non-cash royalty revenue related to sale of future royalties | (28,001) | (27,585) |
| Non-cash interest expense on liability related to sale of future royalties | 22,084 | 17,853 |
| Stock-based compensation | 72,274 | 74,787 |
| Depreciation and amortization | 10,937 | 9,582 |
| Impairment of advance payments to contract manufacturers and equipment for terminated program | 20,351 | — |
| Accretion of premiums (discounts), net and other non-cash transactions | 1,150 | (9,147) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (6,123) | 2,008 |
| Inventory | (227) | (2,339) |
| Operating leases, net | 4,316 | 11,550 |
| Other assets | (5,588) | 18,127 |
| Accounts payable | (3,337) | 16,109 |
| Accrued compensation | 20,478 | 13,164 |
| Other accrued expenses | 9,340 | 10,401 |
| Deferred revenue | (5,070) | (9,465) |
| Net cash used in operating activities | <u>(214,653)</u> | <u>(203,458)</u> |
| Cash flows from investing activities: | | |
| Purchases of investments | (791,445) | (1,028,883) |
| Maturities of investments | 1,158,722 | 1,122,902 |
| Sales of investments | 41,700 | — |
| Purchases of property, plant and equipment | (5,504) | (22,614) |
| Net cash provided by investing activities | <u>403,473</u> | <u>71,405</u> |
| Cash flows from financing activities: | | |
| Proceeds from shares issued under equity compensation plans | 20,651 | 18,449 |
| Repayment of senior notes | (250,000) | — |
| Net cash provided by (used in) financing activities | <u>(229,349)</u> | <u>18,449</u> |
| Effect of foreign exchange rates on cash and cash equivalents | 9 | (77) |
| Net decrease in cash and cash equivalents | <u>(40,520)</u> | <u>(113,681)</u> |
| Cash and cash equivalents at beginning of period | 96,363 | 194,905 |
| Cash and cash equivalents at end of period | <u>\$ 55,843</u> | <u>\$ 81,224</u> |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | <u>\$ 9,742</u> | <u>\$ 14,299</u> |
| Operating lease right-of-use asset recognized in exchange for lease liabilities | <u>\$ 2,133</u> | <u>\$ 56,025</u> |

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

NEKTAR THERAPEUTICS
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2020
(Unaudited)

Note 1 — Organization and Summary of Significant Accounting Policies

Organization

We are a research-based biopharmaceutical company headquartered in San Francisco, California and incorporated in Delaware. We are developing a pipeline of drug candidates that utilize our advanced polymer conjugate technology platforms, which are designed to enable the development of new molecular entities that target known mechanisms of action. Our research and development pipeline of new investigational drugs includes investigational treatments for cancer, autoimmune disease and viral infections.

Our research and development activities have required significant ongoing investment to date and are expected to continue to require significant investment. As a result, we expect to continue to incur substantial losses and negative cash flows from operations in the future. We have financed our operations primarily through cash generated from licensing, collaboration and manufacturing agreements and financing transactions. At September 30, 2020, we had approximately \$1.2 billion in cash and investments in marketable securities. On April 13, 2020, we repaid the principal and accrued interest of our senior notes totaling \$254.8 million, as described further below.

Basis of Presentation and Principles of Consolidation

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

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

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

Our comprehensive loss consists of our net loss plus our foreign currency translation gains and losses and unrealized holding gains and losses on available-for-sale securities. There were no significant reclassifications out of accumulated other comprehensive income (loss) to the statements of operations during the three and nine months ended September 30, 2020 and 2019.

The accompanying Condensed Consolidated Financial Statements are unaudited. The Condensed Consolidated Balance Sheet data as of December 31, 2019 was derived from the audited consolidated financial statements which are included in our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on February 28, 2020. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and the accompanying notes to those financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2019.

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

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the

date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accounting estimates and assumptions are inherently uncertain.

The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations and financial condition, including sales, expenses, reserves and allowances, manufacturing, clinical trials, research and development costs and employee-related amounts, will depend on future developments that are highly uncertain, including as a result of new information that may emerge concerning the COVID-19 pandemic and the actions taken to contain it or treat COVID-19, as well as the economic impact on local, regional, national and international customers and markets. We consider the effects of the COVID-19 pandemic in developing our estimates.

Actual results could differ materially from those estimates and assumptions. As appropriate, we assess our estimates each period, update them to reflect current information and generally recognize any changes in such estimates in the period first identified.

Reclassifications

In December 2019, the FASB issued ASU 2019-12 - Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes (ASU 2019-12). ASU 2019-12 created an exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income). Under the historical guidance, in this situation, an entity would record an income tax provision from other items, such as unrealized gains on available-for-sale securities reported in other comprehensive income, with an offsetting income tax benefit in continuing operations. Under ASU 2019-12, an entity would record no income tax provision. We elected to adopt ASU 2019-12 effective January 1, 2019 on a prospective basis in accordance with the guidance. Because we reported a net loss and unrealized gains on available-for-sale securities during 2019 and accordingly recorded a tax provision pursuant to the legacy guidance, we have recast such results from previously reported amounts. As a result, we eliminated the tax benefit in continuing operations and tax provision in other comprehensive income (loss). The tax effect in continuing operations was a tax benefit of \$1.3 million for the nine months ended September 30, 2019, and was a tax expense of \$0.2 million for the three months ended September 30, 2019.

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

Segment Information

We operate in one business segment which focuses on applying our technology platform to develop novel drug candidates. 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.

Significant Concentrations

Our customers are primarily pharmaceutical and biotechnology companies that are located in the U.S. and Europe and with whom we have multi-year arrangements. Our accounts receivable balance contains billed and unbilled trade receivables from product sales, milestones (to the extent that they have been achieved and are due from the counterparty), other contingent payments and royalties, as well as reimbursable costs from collaborative research and development agreements. As of September 30, 2020, our accounts receivable includes \$13.0 million under customer contracts from our collaboration partners and \$29.9 million for unbilled net expense reimbursements from our collaboration partner Bristol-Myers Squibb Company (BMS). As of December 31, 2019, our accounts receivable included \$12.8 million from customer contracts and \$24.0 million for unbilled net expense reimbursements from BMS. We generally do not require collateral from our customers. We perform a regular review of our customers' credit risk and payment histories, including payments made after period end. Historically, we have not experienced credit losses from our accounts receivable and recorded no bad debt expense for the three and nine months ended September 30, 2020 and 2019. We have not recorded a reserve for credit losses at September 30, 2020 or December 31, 2019.

We are dependent on our suppliers and contract manufacturers to provide raw materials and drugs 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, including as a result of the COVID-19 pandemic, our ability to develop and produce our drug candidates, our ability to supply comparator drugs

for our clinical trials, 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.

For our available-for-sale securities, we have significant concentrations of issuers in the banking and financial services industry. While our investment policy requires that we only invest in highly-rated securities and limit our exposure to any single issuer, the COVID-19 pandemic may materially affect the financial conditions of issuers. Additionally, pursuant to our investment policy, we may sell securities before maturity if the issuer's credit rating has been downgraded below our minimum credit rating requirements, which may result in a loss on the sale. As a result of the COVID-19 pandemic, we have begun to see an increase in credit downgrades for certain of our securities. Accordingly, if the COVID-19 pandemic or other factors result in downgrades below our minimum credit rating requirements and if we decide to sell these securities, we may experience losses on such sales.

Senior Secured Notes

On October 5, 2015, we completed the sale and issuance of \$250.0 million in aggregate principal amount of 7.75% senior secured notes due 2020 (the Notes). The Notes were secured by a first-priority lien on substantially all of our assets (except our right-of-use assets) and bore interest at a rate of 7.75% per annum payable in cash quarterly in arrears on January 15, April 15, July 15, and October 15 of each year. Interest was calculated based on actual days outstanding over a 360 days year. The Notes were to mature on October 5, 2020, at which time the outstanding principal would have been due and payable.

On April 13, 2020, we redeemed the Notes at par and therefore repaid the principal of \$250.0 million and accrued interest of \$4.8 million. As a result of the redemption and repayment, the liens discussed above were terminated.

Collaborative Arrangements

We enter into collaboration arrangements with pharmaceutical and biotechnology collaboration partners, under which we may grant licenses to our collaboration partners to further develop and commercialize one of our proprietary drug candidates, either alone or in combination with the collaboration partners' compounds, or grant licenses to partners to use our technology to research and develop their own proprietary drug candidates. We may also perform research, development, manufacturing and supply activities under our collaboration agreements. Consideration under these contracts may include an upfront payment, development and regulatory milestones and other contingent payments, expense reimbursements, royalties based on net sales of approved drugs, and commercial sales milestone payments. Additionally, these contracts may provide options for the customer to purchase our proprietary PEGylation materials, drug candidates or additional contract research and development services under separate contracts.

When we enter into collaboration agreements, we assess whether the arrangements fall within the scope of ASC 808, *Collaborative Arrangements* (ASC 808) based on whether the arrangements involve joint operating activities and whether both parties have active participation in the arrangement and are exposed to significant risks and rewards of the arrangement. To the extent that the arrangement falls within the scope of ASC 808, we assess whether the payments between us and our collaboration partner fall within the scope of other accounting literature. If we conclude that payments from the collaboration partner to us represent consideration from a customer, such as license fees and contract research and development activities, we account for those payments within the scope of ASC 606, *Revenue from Contracts with Customers* (ASC 606). However, if we conclude that our collaboration partner is not a customer for certain activities and associated payments, such as for certain collaborative research, development, manufacturing and commercial activities, we present such payments as a reduction of research and development expense or general and administrative expense, based on where we present the underlying expense.

Revenue Recognition

For elements of those arrangements that we determine should be accounted for under ASC 606, we assess which activities in our collaboration agreements are performance obligations that should be accounted for separately and determine the transaction price of the arrangement, which includes the assessment of the probability of achievement of future milestones and other potential consideration. For arrangements that include multiple performance obligations, such as granting a license or performing contract research and development activities or participation on joint steering or other committees, we allocate upfront and milestone payments under a relative standalone selling price method. Accordingly, we develop assumptions that require judgment to determine the standalone selling price for each performance obligation identified in the contract. These key assumptions may include revenue forecasts, clinical development timelines and costs, discount rates and probabilities of clinical and regulatory success.

Product Sales

Product sales are primarily derived from manufacturing and supply agreements with our customers. We have assessed our current manufacturing and supply arrangements and have generally determined that they provide the customer an option to purchase our proprietary PEGylation materials. Accordingly, we treat each purchase order as a discrete exercise of the customer's option (i.e. a separate contract) rather than as a component of the overall arrangement. The pricing for the manufacturing and supply is generally at a fixed price and may be subject to annual producer price index (PPI) adjustments. We invoice and recognize product sales when title and risk of loss pass to the customer, which generally occurs upon shipment. Customer payments are generally due 30 days from receipt of invoice. We test our products for adherence to technical specifications before shipment; accordingly, we have not experienced any significant returns from our customers.

Royalty Revenue

Generally, we are entitled to royalties from our collaboration partners based on the net sales of their approved drugs that are marketed and sold in one or more countries where we hold royalty rights. For arrangements that include sales-based royalties, including commercial milestone payments based on the level of sales, we have concluded that the license is the predominant item to which the royalties relate. Accordingly, we recognize royalty revenue, including for our non-cash royalties, when the underlying sales occur based on our best estimates of sales of the drugs. Our partners generally pay royalties or commercial milestones after the end of the calendar quarter in accordance with contractual terms. We present commercial milestone payments within license, collaboration and other revenue.

License, Collaboration and other Revenue

License Grants: For collaboration arrangements that include a grant of a license to our intellectual property, we consider whether the license grant is distinct from the other performance obligations included in the arrangement. Generally, we would conclude that the license is distinct if the customer is able to benefit from the license with the resources available to it. For licenses that are distinct, we recognize revenues from nonrefundable, upfront payments and other consideration allocated to the license when the license term has begun and we have provided all necessary information regarding the underlying intellectual property to the customer, which generally occurs at or near the inception of the arrangement.

Milestone Payments: At the inception of the arrangement and at each reporting date thereafter, we assess whether we should include any milestone payments or other forms of variable consideration in the transaction price, based on whether a significant reversal of revenue previously recognized is not probable upon resolution of the uncertainty. Since milestone payments may become payable to us upon the initiation of a clinical study, filing for or receipt of regulatory approval or the first commercial sale of a product, we review the relevant facts and circumstances to determine when we should update the transaction price, which may occur before the triggering event. When we do update the transaction price for milestone payments, we allocate it on a relative standalone selling price basis and record revenue on a cumulative catch-up basis, which results in recognizing revenue for previously satisfied performance obligations in such period. If we update the transaction price before the triggering event, we recognize the increase in the transaction price as a contract asset. Our partners generally pay development milestones subsequent to achievement of the triggering event.

Research and Development Services: For amounts allocated to our research and development obligations in a collaboration arrangement, we recognize revenue over time using a proportional performance model, representing the transfer of goods or services as we perform activities over the term of the agreement.

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. Where we perform research and development activities under a joint development collaboration, such as our collaboration with BMS, we record the cost reimbursement from our partner as a reduction to research and development expense when reimbursement amounts are due to us under the agreement.

We record an accrued expense for the estimated costs of our clinical trial activities performed by third parties. The financial terms of these agreements are subject to negotiation, vary from contract to contract and may result in uneven payment flows to our vendors. Payments under the contracts depend on factors such as the achievement of certain events, successful enrollment of patients, and completion of certain clinical trial activities. We generally accrue costs associated with the start-up and reporting phases of the clinical trials ratably over the estimated duration of the start-up and reporting phases. We generally accrue costs associated with the treatment phase of clinical trials based on the estimated activities performed by our third parties. We

may also accrue expenses based on the total estimated cost of the treatment phase on a per patient basis and 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.

We record an accrued expense for the estimated costs of our contract manufacturing activities performed by third parties. The financial terms of these agreements are subject to negotiation, vary from contract to contract and may result in uneven payment flows to our vendors. Payments under the contracts include upfront payments and milestone payments, which depend on factors such as the achievement of the completion of certain stages of the manufacturing process. For purposes of recognizing expense, we assess whether we consider the production process is sufficiently defined such that the resulting product can be considered the delivery of a good, as evidenced by predictive or contractually required yields in the production process or payment terms based on the actual yield, or the delivery of a service, where processes and yields are developing and less certain. If we consider the process to be the delivery of a good, we recognize expense when the drug product is delivered, or we otherwise bear risk of loss. If we consider the process to be the delivery of a service, we recognize expense based on our best estimates of the contract manufacturer's progress towards completion of the stages in the contracts. We recognize and amortize upfront payments and accrue liabilities based on the specific terms of each arrangement. Certain arrangements may provide upfront payments for certain stages of the arrangement and milestone payments for the completion of certain stages, and, accordingly, we may record advance payments for services that have not been completed or goods not delivered and liabilities for stages where the contract manufacturer is entitled to a milestone payment.

We capitalize advance payments for goods or services that will be used or rendered for future research and development activities and recognize expense as the related goods are delivered or services performed. We base our estimates on the best information available at the time. However, additional information may become available to us which may allow us to make a more accurate estimate in future periods. In this event, we may be required to record adjustments to research and development expenses in future periods when the actual level of activity becomes more certain. We generally consider such increases or decreases in cost as changes in estimates and reflect them in research and development expenses in the period identified.

Impairment of Assets and Other Costs for Terminated Program

On January 14, 2020, the joint FDA Anesthetic Drug Products Advisory Committee and Drug Safety and Risk Management Committee did not recommend approval of our NDA for NKTR-181. As a result, we withdrew our NDA and decided to make no further investments in this program. On February 26, 2020, the Audit Committee of our Board of Directors approved management's plan for the wind-down of Inheris and the NKTR-181 program.

As a result, in the three months ended March 31, 2020, we wrote off \$19.7 million of advance payments to contract manufacturers for commercial batches of NKTR-181. We also incurred \$25.5 million of additional costs, primarily for non-cancellable commitments to our contract manufacturers and certain severance costs. We present these costs in the Impairment of assets and other costs for terminated program line in our Condensed Consolidated Statement of Operations. We did not incur any substantial costs related to the wind-down of Inheris and the NKTR-181 program in the three months ended September 30, 2020. As of September 30, 2020, we have substantially completed our wind-down and do not expect additional costs.

Income Taxes

For the three and nine months ended September 30, 2020 and 2019, our income tax expense primarily results from taxable income in our Nektar India subsidiary. We have fully reserved our U.S. federal deferred tax assets generated from our net operating losses, as we believe it is not more likely than not that the benefit will be realized.

Coronavirus Aid, Relief and Economic Security (CARES) Act

In March 2020, the U.S. government enacted the CARES Act, which includes modifications to the limitation on business interest expense and net operating loss provisions and provides a payment delay of employer payroll taxes during 2020 after the date of enactment. We do not expect that the CARES Act will have a material effect on our results of operations or financial position.

Recently Adopted Accounting Pronouncements

On January 1, 2020, we adopted Accounting Standards Update 2018-18: Clarifying the Interaction between Topic 808 and Topic 606 (ASU 2018-18). The guidance clarifies that certain transactions between collaborative arrangement participants should be accounted for as revenue under ASC 606 when the collaborative arrangement participant is a customer for a promised good or service that is distinct within the collaborative arrangement. The guidance also precludes entities from presenting amounts related

to transactions with a collaborative arrangement participant that is not a customer as revenue, unless those transactions are directly related to third-party sales. ASU 2018-18 is applied retrospectively to January 1, 2018, when we adopted ASC 606. Our adoption of ASU 2018-18 did not materially affect our revenue recognition.

On January 1, 2020, we adopted ASU 2016-13: Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The guidance modifies the measurement and recognition of credit losses for most financial assets and certain other instruments. The amendment updates the guidance for measuring and recording credit losses on financial assets measured at amortized cost by replacing the “incurred loss” model with an “expected loss” model. As a result of adoption, we present these financial assets, which include our accounts receivable and available-for-sale debt securities, at the net amount we expect to collect. The amendment also requires that we record credit losses related to available-for-sale debt securities as an allowance through net income rather than reducing the carrying amount under the historical, other-than-temporary-impairment model. Our adoption of ASU 2016-13 did not materially affect our Condensed Consolidated Financial Statements.

Note 2 — Cash and Investments in Marketable Securities

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

| | Estimated Fair Value at | |
|---|-------------------------|-------------------|
| | September 30, 2020 | December 31, 2019 |
| Cash and cash equivalents | \$ 55,843 | \$ 96,363 |
| Short-term investments | 900,163 | 1,228,499 |
| Long-term investments | 197,715 | 279,119 |
| Total cash and investments in marketable securities | \$ 1,153,721 | \$ 1,603,981 |

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 September 30, 2020 and December 31, 2019, all of our long-term investments had maturities between one and two years.

During the three months ended September 30, 2020, we sold no available-for-sale securities. During the nine months ended September 30, 2020, we sold available-for-sale securities totaling \$41.7 million. Gross realized gains and losses on those sales were not significant. During the three and nine months ended September 30, 2019, we did not sell any of our available-for-sale securities. The cost of securities sold is based on the specific identification method.

We report our accrued interest receivable, which totaled \$5.4 million and \$6.5 million at September 30, 2020 and December 31, 2019, respectively, in other current assets on our Condensed Consolidated Balance Sheets.

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

| | Fair Value Hierarchy Level | September 30, 2020 | | | December 31, 2019 | |
|---|----------------------------|--------------------|------------------------|-------------------------|-------------------|--------------|
| | | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Fair Value |
| Corporate notes and bonds | 2 | \$ 831,575 | \$ 2,341 | \$ (201) | \$ 833,715 | \$ 1,132,182 |
| Corporate commercial paper | 2 | 245,796 | 131 | (14) | 245,913 | 375,473 |
| Obligations of U.S. government agencies | 2 | 9,998 | 1 | — | 9,999 | — |
| Available-for-sale investments | | \$ 1,087,369 | \$ 2,473 | \$ (215) | \$ 1,089,627 | \$ 1,507,655 |
| Money market funds | 1 | | | | 48,931 | 83,546 |
| Certificates of deposit | N/A | | | | 8,795 | 6,951 |
| Cash | N/A | | | | 6,368 | 5,829 |
| Total cash and investments in marketable securities | | | | | \$ 1,153,721 | \$ 1,603,981 |

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 for identical or similar assets or liabilities 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.

We use a market approach to value our Level 2 investments. The disclosed fair value related to our investments is based on market prices from a variety of industry standard data providers and generally represents quoted prices for similar assets in active markets or has been derived from observable market data.

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.

At December 31, 2019, our gross unrealized gains and losses totaled \$2.1 million and \$0.3 million, respectively.

Note 3 — Inventory

Inventory consists of the following (in thousands):

| | September 30, 2020 | December 31, 2019 |
|-----------------|--------------------|-------------------|
| Raw materials | \$ 1,387 | \$ 1,673 |
| Work-in-process | 11,188 | 8,267 |
| Finished goods | 317 | 2,725 |
| Total inventory | <u>\$ 12,892</u> | <u>\$ 12,665</u> |

We manufacture finished goods inventory upon receipt of firm purchase orders, and we may manufacture certain intermediate work-in-process materials and purchase raw materials based on purchase forecasts from our collaboration partners. We include direct materials, direct labor, and manufacturing overhead in inventory and determine cost on a first-in, first-out basis for raw materials and on a specific identification basis for work-in-process and finished goods. We value inventory at the lower of cost or net realizable value, and we write down defective or excess inventory to net realizable value based on historical experience or projected usage. We expense inventory related to our research and development activities as manufactured by us or when purchased.

Note 4 — Liability Related to Sale of Future Royalties

On February 24, 2012, we entered into a Purchase and Sale Agreement (the Purchase and Sale Agreement) with RPI Finance Trust (RPI), an affiliate of Royalty Pharma, pursuant to which we sold, and RPI purchased, our right to receive royalty payments (the Royalty Entitlement) arising from the worldwide net sales, from and after January 1, 2012, of (a) CIMZIA[®], under our license, manufacturing and supply agreement with UCB Pharma (UCB), and (b) MIRCERA[®], under our license, manufacturing and supply agreement with F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc. (together referred to as Roche). We received aggregate cash proceeds of \$124.0 million for the Royalty Entitlement. As part of this sale, we incurred approximately \$4.4 million in transaction costs, which are 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 continue to account for these royalties as revenue. We recorded the \$124.0 million in proceeds from this transaction as a liability (Royalty Obligation) that is amortized using the effective interest method over the estimated life of the Purchase and Sale Agreement as royalties from the CIMZIA[®] and MIRCERA[®] products are remitted directly to RPI. During the nine months ended September 30, 2020 and 2019, we recognized \$28.0 million and \$27.6 million, respectively, in non-cash royalty revenue from net sales of CIMZIA[®] and MIRCERA[®], and we recorded \$22.1 million and \$17.9 million, respectively, of related non-cash interest expense.

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 from our original estimates, we will prospectively adjust the amortization of the Royalty Obligation. From inception through 2017, our estimate of the total interest expense on the Royalty Obligation resulted in an effective annual interest rate of approximately 17%. We have periodically adjusted our imputed interest rate over the years since inception as actual and forecasted sales of CIMZIA[®] and MIRCERA[®] have increased and such increases have been sustained. During the three months ended September 30, 2020, primarily as a result of increases in the forecasted sales of CIMZIA[®], our estimate of the effective annual interest rate over the life of the agreement increased to 20.2%, which results in a prospective interest rate of 48%. Since the proceeds from this agreement are fixed, any future changes in royalty revenue results in an equal corresponding change in imputed interest expense, which would result in changes in the prospective interest rate we use to amortize the liability.

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 (often with time limitations) that are customary for a transaction of this nature. For example, we provided representations and warranties concerning intellectual property matters in the Purchase and Sale Agreement; however, the time limitation we have to indemnify

RPI with respect to any breach of these intellectual property-based representations and warranties has passed. To our knowledge, we are currently in compliance with these provisions of the Purchase and Sale Agreement; however, if we were to breach our obligations, we could be required to pay damages to RPI that are not limited to the purchase price we received in the sale transaction.

Note 5 — Commitments and Contingencies

Legal Matters

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

On October 30, 2018, we and certain of our executives were named in a putative securities class action complaint filed in the U.S. District Court for the Northern District of California (U.S. District Court in California), which complaint was subsequently amended on May 15, 2019. Also, on February 13, 2019, and February 18, 2019, shareholder derivative complaints were filed in the U.S. District Court for the District of Delaware naming the CEO, CFO and certain members of our board of directors. These class action and shareholder derivative actions assert, among other things, that for a period beginning at least from November 11, 2017 through October 2, 2018, our stock was inflated due to alleged misrepresentations about the efficacy and safety of bempegaldesleukin. On July 13, 2020, the U.S. District Court in California Court granted Nektar's motion to dismiss all claims in this securities class action filing, stating (among other things) that the amended complaint failed "to adequately allege that any of the statements ... identified by Plaintiffs were false or misleading." Following the motion to dismiss, on August 10, 2020, the class action plaintiffs filed a second consolidated class action complaint, and the matter remains pending.

In addition, on August 19, 2019, we and certain of our executives were named in a putative securities class action complaint filed in U.S. District Court in California, which complaint was subsequently amended on January 24, 2020. Also, on February 11, 2020, and on February 20, 2020, shareholder derivative complaints were filed in U.S. District Court in California naming the CEO, CFO and certain members of our board of directors, which derivative complaints were consolidated and subsequently amended on July 1, 2020. The class action and shareholder derivative complaints assert, among other things, that for a period between February 15, 2019 and August 8, 2019, inclusive, our stock was inflated due to an alleged failure to disclose a reduction in the planned number of bempegaldesleukin clinical trials and a bempegaldesleukin manufacturing issue.

All of the securities class action lawsuits and derivative complaints are in the early stages. Accordingly, we cannot reasonably estimate a potential future loss or a range of potential future losses. However, an unfavorable resolution could potentially have a material adverse effect on our business, financial condition, and results of operations or prospects, and potentially result in paying monetary damages. We have recorded no liability for these matters in our Condensed Consolidated Balance Sheets at either September 30, 2020 or December 31, 2019.

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

From time to time, we enter into other strategic agreements such as divestitures and financing transactions pursuant to which we are required to make representations and warranties and undertake to perform or comply with certain covenants, including our obligation to RPI described in Note 4. In the event it is determined that we breached certain of the representations and warranties or covenants made by us in any such agreements, we could incur substantial indemnification liabilities depending on the timing, nature, and amount of any such claims.

To date, we have not incurred costs to defend lawsuits or settle claims related to these indemnification obligations, representations or warranties. Because the aggregate amount of any potential indemnification obligation is not a stated amount,

we cannot reasonably estimate the overall maximum amount of any such obligations. We have recorded no liabilities for these obligations in our Condensed Consolidated Balance Sheets at either September 30, 2020 or December 31, 2019.

Note 6 — License and Collaboration Agreements

We have entered into various collaboration agreements including license agreements and collaborative research, development and commercialization agreements with various pharmaceutical and biotechnology companies. Under these collaboration arrangements, we are entitled to receive license fees, upfront payments, milestone and other contingent payments, royalties, sales milestone payments, and payments for the manufacture and supply of our proprietary PEGylation materials and/or reimbursement for research and development activities. We generally include our costs of performing these services in research and development expense, except for costs for product sales to our collaboration partners which we include in cost of goods sold. We analyze our agreements to determine whether we should account for the agreements within the scope of ASC 808, and, if so, we analyze whether we should account for any elements under ASC 606.

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

| Partner | Drug or Drug Candidate | Three months ended September 30, | | Nine months ended September 30, | |
|--|------------------------|----------------------------------|-----------------|---------------------------------|-----------------|
| | | 2020 | 2019 | 2020 | 2019 |
| Bristol-Myers Squibb Company | Bempegaldesleukin | \$ — | \$ — | \$ 50,000 | \$ — |
| Eli Lilly and Company | NKTR-358 | — | 1,500 | 1,259 | 5,200 |
| Amgen, Inc. | Neulasta® | 1,250 | 1,250 | 3,750 | 3,750 |
| Other | | 381 | 371 | 412 | 910 |
| License, collaboration and other revenue | | <u>\$ 1,631</u> | <u>\$ 3,121</u> | <u>\$ 55,421</u> | <u>\$ 9,860</u> |

During the three and nine months ended September 30, 2020, we recognized \$22.7 million and \$109.4 million, respectively, of revenue for performance obligations that we had satisfied in prior periods. This amount includes all of our royalty revenue and non-cash royalty revenue, as well as \$50.0 million in BMS Collaboration milestones received in the nine months ended September 30, 2020, as further described below.

The following table presents the changes in our deferred revenue balance from our collaboration agreements during the nine months ended September 30, 2020 (in thousands):

| | Nine Months Ended September 30, 2020 |
|--|---|
| Deferred revenue—December 31, 2019 | \$ 8,071 |
| Recognition of previously unearned revenue | (5,070) |
| Deferred revenue—September 30, 2020 | <u>\$ 3,001</u> |

Our balance of deferred revenue contains the transaction price from our collaboration agreements allocated to performance obligations which are partially unsatisfied.

As of September 30, 2020, our collaboration agreements with partners included potential future payments for development and regulatory milestones totaling approximately \$1.7 billion, including amounts from our agreements with BMS and Eli Lilly and Company described below. In addition, under our collaboration agreements we are entitled to receive contingent sales milestone payments, other contingent payments and royalty payments, as described below.

There have been no material changes to our collaboration agreements in the three and nine months ended September 30, 2020, except as described below.

Bristol-Myers Squibb Company (BMS): Bempegaldesleukin, also referred to as NKTR-214

On February 13, 2018, we entered into a Strategic Collaboration Agreement (the BMS Collaboration Agreement) and a Share Purchase Agreement with BMS, both of which became effective on April 3, 2018. Pursuant to the BMS Collaboration Agreement, we and BMS are jointly developing bempegaldesleukin, including, without limitation, in combination with BMS's Opdivo® (nivolumab), and other compounds of BMS, us or any third party. The parties have agreed to jointly commercialize bempegaldesleukin on a worldwide basis. We retained the right to record all worldwide sales for bempegaldesleukin. We will share global commercialization profits and losses with BMS for bempegaldesleukin, with Nektar sharing 65% and BMS sharing 35% of the net profits and losses. The parties share the internal and external development costs for bempegaldesleukin in

combination regimens based on each party's relative ownership interest in the compounds included in the regimens. In accordance with the agreement, the parties share development costs for bempegaldesleukin in combination with Opdivo®, 67.5% of costs to BMS and 32.5% to Nektar. The parties share costs for the manufacturing of bempegaldesleukin, 35% of costs to BMS and 65% to Nektar.

In April 2018, BMS paid us a non-refundable upfront cash payment of \$1.0 billion. We are eligible to receive additional cash payments up to a total of approximately \$1.455 billion (including the milestones which we have received under Amendment No. 1 described below) upon the achievement of certain development and regulatory milestones, and up to a total of \$350.0 million upon the achievement of certain sales milestones. In April 2018, BMS also purchased 8,284,600 shares of our common stock pursuant to the Share Purchase Agreement for total additional cash consideration of \$850.0 million.

On January 9, 2020, we and BMS entered into Amendment No. 1 (the Amendment) to the BMS Collaboration Agreement. Pursuant to the Amendment, we and BMS agreed to update the Collaboration Development Plan under which we are collaborating and developing bempegaldesleukin. The cost sharing under the Amendment remains unchanged. We received a non-refundable, creditable milestone payment of \$25.0 million for the first patient, first visit in the registrational muscle-invasive bladder cancer trial, which was achieved on January 30, 2020, and also received a non-refundable, non-creditable milestone payment of \$25.0 million for the first patient, first visit in the registrational adjuvant melanoma trial, which we achieved on July 27, 2020. For the creditable milestone, BMS is entitled to deduct the amount paid from future development milestones due to us under the original agreement.

We determined that the BMS Collaboration Agreement falls within the scope of ASC 808, and we analogized to ASC 606 for the accounting for our performance obligation of the delivery of the licenses to develop and commercialize bempegaldesleukin.

During 2018, we aggregated the total consideration of \$1.85 billion received under the agreements and allocated it between the stock purchase and the revenue-generating elements, because we and BMS negotiated the agreements together and the effective date of the BMS Collaboration Agreement was dependent upon the effective date of the Share Purchase Agreement. We recorded the estimated fair value of the shares of \$790.2 million in stockholders' equity. We allocated the remaining \$1,059.8 million to the transaction price of the collaboration agreement, which we recognized in 2018. We consider the future potential development, regulatory and sales milestones of up to approximately \$1.8 billion to be variable consideration.

During the three months ended March 31, 2020, we updated the transaction price by \$25.0 million for the achievement of the first patient, first visit in the registrational muscle-invasive bladder cancer trial. During the three months ended June 30, 2020, we updated the transaction price by \$25.0 million for the milestone for the first patient, first visit in the registrational adjuvant melanoma trial because we concluded that a reversal of the milestone was not probable. Since we had already completed our sole performance obligation of delivery of the licenses, we recognized \$50.0 million in license, collaboration and other revenue during the nine months ended September 30, 2020. We continue to exclude the other milestones from the transaction price as of September 30, 2020 due to the significant uncertainties involved with clinical development and regulatory approval. We re-evaluate the transaction price at each reporting period and as uncertain events are resolved or other changes in circumstances occur.

As mentioned above, BMS shares certain percentages of development costs incurred by us and we share certain percentages of development costs incurred by BMS. We consider these activities to represent collaborative activities under ASC 808, and we recognize such cost sharing proportionately with the performance of the underlying services. We recognize BMS' reimbursement of our costs as a reduction of research and development expense and our reimbursement of BMS' costs as research and development expense. During the three and nine months ended September 30, 2020, we recorded \$29.2 million and \$93.8 million, respectively, as a reduction of research and development expense for BMS' share of our expenses, net of our share of BMS' expenses. During the three and nine months ended September 30, 2019, we recorded \$28.3 million and \$81.4 million, respectively, as a reduction of research and development expense for BMS' share of our expenses, net of our share of BMS' expenses. As of September 30, 2020, we have recorded an unbilled receivable of \$29.9 million from BMS in accounts receivable in our Condensed Consolidated Balance Sheet.

Eli Lilly and Company (Lilly): NKTR-358

On July 23, 2017, we entered into a worldwide license agreement with Eli Lilly and Company (Lilly), which became effective on August 23, 2017, to co-develop NKTR-358, a novel immunological drug candidate that we invented. Under the terms of the agreement, we (i) received an initial payment of \$150.0 million in September 2017 and are eligible for up to \$250.0 million in additional development milestones, (ii) will co-develop NKTR-358 with Lilly, for which we were responsible for completing Phase 1 clinical development and are responsible for certain drug product development and supply activities, (iii) will share with Lilly Phase 2 development costs with 75% of those costs borne by Lilly and 25% of the costs borne by us, (iv) will have the

option to contribute funding to Phase 3 development on an indication-by-indication basis ranging from zero to 25% of development costs, and (v) will have the opportunity to receive a royalty rate up to the low twenties based upon our Phase 3 development cost contribution and the level of annual global product sales. Lilly will be responsible for all costs of global commercialization, and we will have an option to co-promote in the U.S. under certain conditions. A portion of the development milestones may be reduced by 50% under certain conditions, related to the final formulation of the approved product and the timing of prior approval (if any) of competitive products with a similar mechanism of action, which could reduce these milestone payments by 75% if both conditions occur.

The agreement will continue until Lilly no longer has any royalty payment obligations or, if earlier, the termination of the agreement in accordance with its terms. The agreement may be terminated by Lilly for convenience, and may also be terminated under certain other circumstances, including material breach.

We identified our license grant to Lilly, our Phase 1 clinical development obligation and our drug product development obligation as the significant performance obligations in the arrangement. The valuation of each performance obligation involves significant estimates and assumptions, including but not limited to, expected market opportunity and pricing, assumed royalty rates, clinical trial costs, timelines and likelihood of success; in each case these estimates and assumptions covering long time periods. We determined the selling price for the license based on a discounted cash flow analysis of projected revenues from NKTR-358 and development and commercial costs using a discount rate based on a market participant's weighted-average cost of capital adjusted for forecasting risk. We determined the selling prices for our Phase 1 clinical development and drug product development deliverables based on the nature of the services to be performed and estimates of the associated efforts and third-party rates for similar services.

Although we are entitled to significant development milestones under this arrangement, through September 30, 2020, we have excluded such milestones from the transaction price due to the significant uncertainties involved with clinical development. We have therefore determined the transaction price to consist of the upfront payment of \$150.0 million received in September 2017. Based on our estimates of the standalone selling prices of the performance obligations, we allocated the \$150.0 million upfront payment as \$125.9 million to the license, \$17.6 million to our portion of the Phase 1 clinical development and \$6.5 million to the drug product development.

We recognized the \$125.9 million of revenue allocated to the license upon the effective date of the license agreement in August 2017, since we determined that the license was a right to use our intellectual property, for which, as of the effective date, we had provided all necessary information to Lilly to benefit from the license and the license term had begun. We recognized revenue for our portion of the Phase 1 clinical development and drug product development using an input method, using costs incurred, as this method depicts our progress towards providing Lilly with the results of clinical trials and drug production processes. As of September 30, 2020, we have completed our performance obligations and we have no deferred revenue related to this agreement.

Baxalta Inc. / Takeda Pharmaceutical Company Ltd: Hemophilia

We are a party to an exclusive research, development, license and manufacturing and supply agreement with Baxalta Inc. (Baxalta), a subsidiary of Takeda Pharmaceutical Company Ltd. (Takeda), entered into in September 2005 to develop products designed to improve therapies for Hemophilia A patients using our PEGylation technology. Under the terms of the agreement, we are entitled to research and development funding for our active programs, which are now complete for Factor VIII, and are responsible for supplying Takeda with its requirements for our proprietary materials. Takeda is responsible for all clinical development, regulatory, and commercialization expenses. The agreement is terminable by the parties under customary conditions.

This Hemophilia A program includes ADYNOVATE[®], which was approved by the United States Food and Drug Administration (FDA) in November 2015 for use in adults and adolescents, aged 12 years and older, who have Hemophilia A, and is now marketed in the U.S., the European Union, and many other countries. As a result of the marketing authorization in the EU in January 2018, we earned a \$10.0 million development milestone, which we received in March 2018. During 2018, we earned an additional \$10.0 million milestone for annual sales of ADYNOVATE[®]/ ADYNOVI[™] reaching a certain specified amount. In addition, we are entitled to an additional sales milestone upon achievement of an annual worldwide net sales target and royalties based on worldwide net sales of products resulting from this agreement.

In October 2017, we entered into a right to sublicense agreement with Baxalta, under which we granted to Baxalta the right to grant a nonexclusive sublicense to certain patents that were previously exclusively licensed to Baxalta under our 2005 agreement. Under the right to sublicense agreement, Baxalta paid us \$12.0 million in November 2017 and agreed to pay us single digit royalty payments based upon net sales of the products covered under the sublicense throughout the term of the agreement.

Our remaining unsatisfied performance obligation consists of our ongoing supply of PEGylation materials at a price less than the standalone selling price of these materials. As of September 30, 2020, our deferred revenue from this arrangement is not significant.

Amgen, Inc.: Neulasta®

In October 2010, we amended and restated an existing supply and license agreement by entering into a supply, dedicated suite and manufacturing guarantee agreement (the Amended and Restated Agreement) and a license agreement with Amgen, Inc. and Amgen Manufacturing, Limited (together referred to as Amgen). Under the terms of the Amended and Restated Agreement, we received a \$50.0 million payment in the fourth quarter of 2010 in return for our guaranteeing the supply of certain quantities of our proprietary PEGylation materials to Amgen.

We determined that our obligation to manufacture and supply our PEGylation materials and to maintain the dedicated manufacturing suite solely for the production of such materials for Amgen represented an obligation to stand ready to manufacture such materials. We concluded that we should recognize revenue based on the passage of time as this method depicts the satisfaction of Amgen's right to require production of PEGylation materials at any time. As of September 30, 2020, we have deferred revenue of approximately \$0.4 million related to this agreement, which we expect to recognize through October 2020, the estimated end of our obligations under this agreement.

AstraZeneca AB: MOVANTIK® (naloxegol oxalate), previously referred to as naloxegol and NKTR-118

In September 2009, we entered into an agreement with AstraZeneca AB (AstraZeneca) under which we granted AstraZeneca a worldwide, exclusive license under our patents and other intellectual property to develop, market, and sell MOVANTIK®. AstraZeneca is responsible for all research, development and commercialization costs and related decisions for MOVANTIK®. In September 2014 and December 2014, MOVANTIK® /MOVENTIG® was approved in the US and EU, respectively. As of September 30, 2020, we have received a total of \$385.0 million of upfront and contingent milestone payments from this agreement, all of which was received in or before 2015. In addition, we are entitled to significant and escalating double-digit royalty payments and sales milestone payments based on annual worldwide net sales of MOVANTIK®.

In March 2016, AstraZeneca announced that it had entered into an agreement with ProStrakan Group plc, a subsidiary of Kyowa Hakko Kirin Co. Ltd. (Kirin), granting Kirin exclusive marketing rights to MOVENTIG® in the EU, Iceland, Liechtenstein, Norway and Switzerland. Under our license agreement with AstraZeneca, we and AstraZeneca share the upfront payment, market access milestone payments, royalties and sales milestone payments made by Kirin to AstraZeneca with AstraZeneca receiving 60% and Nektar receiving 40%.

As of September 30, 2020, we do not have deferred revenue related to our agreement with AstraZeneca.

In April 2020, AstraZeneca announced that it had sublicensed its global commercialization rights for MOVANTIK®, excluding Europe, Canada and Israel, to RedHill Biopharma. This sublicense does not change our rights under the agreement with AstraZeneca and our royalty rate, royalty term and future potential sales milestones remain unchanged.

Other

In addition, as of September 30, 2020, we have other collaboration agreements, including with our collaboration partner UCB Pharma and Pfizer, Inc., under which we are entitled to up to a total of \$40.0 million of development milestone payments 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 and, therefore, have excluded all development milestones from the respective transaction prices for these agreements. As of September 30, 2020, we have deferred revenue of approximately \$2.0 million related to these other collaboration agreements.

Note 7 — Stock-Based Compensation

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|------------------|---------------------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Cost of goods sold | \$ 744 | \$ 1,119 | \$ 2,168 | \$ 3,208 |
| Research and development | 14,212 | 15,680 | 43,826 | 47,549 |
| General and administrative | 8,711 | 8,081 | 25,255 | 24,030 |
| Impairment of assets and other costs for terminated program | — | — | 1,025 | — |
| Total stock-based compensation | \$ 23,667 | \$ 24,880 | \$ 72,274 | \$ 74,787 |

The stock-based compensation expense reported in impairment of assets and other costs for terminated program results from executive severance, which we accounted for as a liability award. Upon issuance of the award in the three months ended June 30, 2020, we reclassified the award into equity.

We issued stock-based awards and resulting shares of our common stock as follows (shares in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|----------|---------------------------------|----------|
| | 2020 | 2019 | 2020 | 2019 |
| Options granted | 233 | 131 | 282 | 246 |
| Weighted-average grant-date fair value of options granted | \$ 11.64 | \$ 13.43 | \$ 11.68 | \$ 15.81 |
| RSUs granted | 693 | 316 | 1,213 | 712 |
| Weighted-average grant-date fair value of RSUs granted | \$ 21.56 | \$ 28.00 | \$ 21.04 | \$ 31.80 |
| Shares issued under equity compensation plans | 584 | 820 | 2,889 | 2,256 |

On June 17, 2020, the Stockholders of Nektar approved an amendment to the Amended and Restated 2017 Performance Incentive Plan to increase the aggregate number of shares of Common Stock authorized for issuance thereunder by 10,000,000 shares, and an amendment and restatement of the Amended and Restated Employee Stock Purchase Plan to increase the aggregate number of shares of Common Stock authorized for issuance under the plan by 1,000,000 shares.

Note 8 — Net Loss Per Share

We calculate basic net loss per share based on the weighted-average number of common shares outstanding during the periods presented and calculate diluted net loss per share based on the weighted-average number of shares of common stock outstanding, including potentially dilutive securities. For all periods presented in the accompanying Condensed Consolidated Statements of Operations, our net loss available to common stockholders equals the reported net loss.

For the three and nine months ended September 30, 2020 and 2019, basic and diluted net loss per share are the same due to our net losses and the requirement to exclude potentially dilutive securities which would have an antidilutive effect on net loss per share. During the three and nine months ended September 30, 2020 and 2019, potentially dilutive securities consisted of weighted-average common shares underlying outstanding stock options and RSUs as follows (in thousands):

| | Three months ended September 30, | | Nine months ended September 30, | |
|---------------------------------|----------------------------------|--------|---------------------------------|--------|
| | 2020 | 2019 | 2020 | 2019 |
| Potentially dilutive securities | 16,575 | 17,163 | 17,499 | 18,012 |

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

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

Overview

Strategic Direction of Our Business

Nektar Therapeutics is a research-based biopharmaceutical company that discovers and develops innovative new medicines in areas of high unmet medical need. Our research and development pipeline of new investigational drugs includes treatments for cancer, autoimmune disease and viral infections. We leverage our proprietary and proven chemistry platform to discover and design new drug candidates. These drug candidates utilize our advanced polymer conjugate technology platforms, which are designed to enable the development of new molecular entities that target known mechanisms of action. We continue to make significant investments in building and advancing our pipeline of proprietary drug candidates as we believe that this is the best strategy to build long-term stockholder value.

In immuno-oncology (I-O), we are executing a clinical development program for bempedalsleukin (previously referred to as NKTR-214), in collaboration with Bristol-Myers Squibb Company (BMS) as well as other independent development work evaluating bempedalsleukin in combination with other agents with potential complementary mechanisms of action. We announced in August of 2019 that the FDA granted a Breakthrough Therapy designation for bempedalsleukin in combination with Opdivo[®] for the treatment of patients with untreated unresectable or metastatic melanoma. We expect our research and development expense to continue to grow over the next few years as we expand and execute our broad clinical development program for bempedalsleukin.

On January 9, 2020, we and BMS entered into an Amendment No. 1 (the Amendment) to the Collaboration Agreement, dated February 13, 2018 (the BMS Collaboration Agreement). Pursuant to the Amendment, we and BMS agreed to update the Collaboration Development Plan under which we are collaborating and developing bempedalsleukin. Specifically, pursuant to the updated Collaboration Development Plan, bempedalsleukin in combination with Opdivo[®] is currently being evaluated in ongoing registrational trials in first-line metastatic melanoma, first-line cisplatin ineligible, PD-L1 low, locally advanced or metastatic urothelial cancer, first-line metastatic renal cell carcinoma (RCC), muscle-invasive bladder cancer, and adjuvant melanoma, as well as a Phase 1/2 dose escalation and expansion study to evaluate bempedalsleukin plus Opdivo[®] in combination with either axitinib or cabozantinib in first line RCC in order to support a future Phase 3 registrational trial. Several other registrational-supporting pediatric and safety studies for the combination of bempedalsleukin and Opdivo[®] are currently underway. Also, as specifically allowed under the BMS Collaboration Agreement, Nektar is independently studying bempedalsleukin in combination with pembrolizumab in a non-small cell lung cancer (NSCLC) Phase 1/2 trial.

The Amendment did not alter the cost-sharing methodology under the BMS Collaboration Agreement. The parties share development costs based on each party's relative ownership interest in the compounds included in the regimen. For example, we share clinical development costs for bempedalsleukin in combination with Opdivo[®], BMS 67.5% and Nektar 32.5%. For costs of manufacturing bempedalsleukin, however, BMS is responsible for 35% and Nektar is responsible for 65% of costs. BMS supplies Opdivo[®] free of charge. We also share commercialization related costs, 35% BMS and 65% Nektar, which we present in general and administrative expense. Our share of development costs is limited to an annual cap of \$125.0 million. To the extent this annual cap is exceeded, we will recognize our full share of the research and development expense and BMS will reimburse us for the amount over the annual cap which will be recorded as a contingent liability. This contingent liability will generally be paid to BMS only if bempedalsleukin is approved and solely by reducing a portion of our share of net profits following the first commercial sale of bempedalsleukin.

The BMS Collaboration Agreement entitles Nektar to receive up to \$1.455 billion of clinical, regulatory and commercial launch milestones. Of these milestones, we received a non-refundable, creditable milestone payment of \$25.0 million for the first patient, first visit in the registrational muscle-invasive bladder cancer trial, which was achieved on January 30, 2020, and also received a non-refundable, non-creditable milestone payment of \$25.0 million for the first patient, first visit in the registrational adjuvant melanoma trial, which we achieved on July 27, 2020. Of the remaining milestones, \$625.0 million are associated with the approval and launch of bempedalsleukin in its first indication in the U.S., EU and Japan (which reflects the reduction for the \$25.0 million nonrefundable, creditable milestone for the first patient, first visit in the muscle-invasive bladder cancer trial). As a result, whether and when bempedalsleukin is approved in any indication will have a significant impact on our future results of operations and financial condition.

Outside of the collaboration development plan with BMS, we are conducting and pursuing additional I-O research and development activities evaluating bempedalsleukin in combination with other agents that have potential complementary mechanisms of action. Our strategic objective is to establish bempedalsleukin as a key component of many I-O combination regimens with the potential to enhance the standard of care in multiple oncology settings. With our non-BMS clinical collaborations for bempedalsleukin, we generally share clinical development costs on a substantially pro-rata basis commensurate with our ownership interest in the underlying compounds. We expect to continue to make significant and increasing investments exploring the potential of bempedalsleukin with mechanisms of action that we believe are synergistic with bempedalsleukin based on emerging scientific findings in cancer biology and preclinical development work.

On October 22, 2020, we received FDA clearance for an Investigational New Drug application for bempedalsleukin to be evaluated in a Phase 1b clinical study in adult patients who have been diagnosed with mild COVID-19 infection. The study design allows us to evaluate whether bempedalsleukin's adaptive immune-stimulating mechanism to promote priming and proliferation of T cells and NK cells could be useful in the emerging treatment options for COVID-19. Enrollment in the Phase 1b randomized, double-blind, placebo-controlled study is planned to start in early November.

We are also advancing other molecules, including NKTR-262 and NKTR-255, in our I-O portfolio. NKTR-262 is a small molecule agonist that targets toll-like receptors (TLRs) found on innate immune cells in the body. NKTR-262 is designed to stimulate the innate immune system and promote maturation and activation of antigen-presenting cells (APCs), such as dendritic cells, which are critical to induce the body's adaptive immunity and create antigen-specific cytotoxic T cells. NKTR-262 is being developed as an intra-tumoral injection in combination with systemic bempedalsleukin in order to induce an abscopal response and achieve the goal of tumor regression in cancer patients treated with both therapies. The Phase 1/2 dose-escalation and expansion trial of NKTR-262 in patients with solid tumors is currently ongoing. NKTR-255 is a biologic that targets the interleukin-15 (IL-15) pathway in order to activate the body's innate and adaptive immunity. Activation of the IL-15 pathway enhances the survival and function of natural killer (NK) cells and induces survival of both effector and CD8 memory T cells. Preclinical findings suggest NKTR-255 has the potential to synergistically combine with antibody dependent cellular cytotoxicity molecules as well as enhance CAR-T therapies. We have initiated a Phase 1 clinical study of NKTR-255 in adults with relapsed or refractory non-Hodgkin lymphoma or multiple myeloma. We also have initiated a Phase 1 study for NKTR-255 in solid tumor settings.

In immunology, we are developing NKTR-358, which is designed to correct the underlying immune system imbalance in the body that occurs in patients with autoimmune disease. NKTR-358 is designed to optimally target the IL-2 receptor complex in order to stimulate proliferation and growth of regulatory T cells. NKTR-358 is being developed as a once or twice monthly self-administered injection for a number of autoimmune diseases. In 2017, we entered into a worldwide license agreement with Eli Lilly and Company (Lilly) to co-develop NKTR-358. We received an initial payment of \$150.0 million in September 2017 and are eligible for up to an additional \$250.0 million for development and regulatory milestones. We were responsible for completing Phase 1 clinical development and certain drug product development and supply activities. We also share Phase 2 development costs with Lilly, with Lilly responsible for 75% and Nektar responsible for 25% of these costs. We will have the option to contribute funding to Phase 3 development on an indication-by-indication basis, ranging from zero to 25% of the Phase 3 development costs and receive a royalty rate on global NKTR-358 sales up to the low twenties based upon our Phase 3 development cost contribution and the level of annual global product sales. Lilly will be responsible for all costs of global commercialization and we will have an option to co-promote in the U.S. under certain conditions.

We have completed a Phase 1 dose-finding trial of NKTR-358 to evaluate single-ascending doses of NKTR-358 in approximately 100 healthy patients. Results from this study demonstrated a multiple-fold increase in regulatory T cells with no change in CD8 positive or natural killer cell levels and no dose-limiting toxicities were observed. We also completed treatment of a Phase 1 multiple-ascending dose trial to evaluate NKTR-358 in patients with systemic lupus erythematosus (SLE). Lilly is conducting two Phase 1b studies in patients with psoriasis and atopic dermatitis, has initiated a Phase 2 study in SLE in October 2020, and is planning to initiate a Phase 2 study in ulcerative colitis. Under the terms of the agreement, Lilly is to initiate two additional Phase 2 studies in other auto-immune diseases.

We were developing NKTR-181 for the treatment of chronic low back pain in adult patients and had submitted an NDA for NKTR-181. At the FDA advisory committee meeting held on January 14, 2020, the joint FDA Anesthetic Drug Products Advisory Committee and Drug Safety and Risk Management Committee did not recommend approval of NKTR-181, and, as a result, we withdrew the NDA and decided to make no further investment commitments to this program.

The level of our future research and development investment will depend on a number of trends and uncertainties including clinical outcomes, future studies required to advance programs to regulatory approval, and the economics related to potential future collaborations that may include up-front payments, development funding, milestones, and royalties. Over the next several years, we plan to continue to make significant investments to advance our early drug candidate pipeline.

We have historically derived all of our revenue and substantial amounts of operating capital from our collaboration agreements including the BMS Collaboration Agreement, pursuant to which we have recognized \$1.11 billion in revenue and recorded \$790.2 million in additional paid in capital for shares of our common stock issued in the transaction. While in the near-term we continue to expect to generate substantially all of our revenue from collaboration arrangements, including the potential remaining \$1.405 billion in development and regulatory milestones under the BMS collaboration, in the medium- to long-term, our plan is to generate significant commercial revenue from proprietary products including bempedaldesleukin. Since we do not have experience commercializing products or an established commercialization organization, there will be substantial risks and uncertainties in future years as we build commercial, organizational, and operational capabilities.

We also receive royalties and milestones from two approved drugs. We have a collaboration with AstraZeneca for MOVANTIK[®], an oral peripherally-acting mu-opioid antagonist for the treatment of opioid-induced constipation in adult patients with non-cancer pain which was approved by the FDA and subsequently launched in March 2015 and MOVENTIG[®], for the treatment of opioid-induced constipation in adult patients who have an inadequate response to laxatives, which was approved by health authorities in the European Union and many other countries beginning in 2014. We also have a collaboration with Baxalta Inc. (a wholly-owned subsidiary of Takeda Pharmaceutical Company Ltd.) for ADYNOVATE[®], that was approved by the FDA in late 2015 for use in adults and adolescents, aged 12 years and older, who have Hemophilia A. ADYNOVI[™] was approved by health authorities in Europe in January 2018, and has also been approved in many other countries.

Our business is subject to significant risks, including the risks inherent in our development efforts, the results of our clinical trials, our dependence on the marketing efforts by our collaboration partners, uncertainties associated with obtaining and enforcing patents, the lengthy and expensive regulatory approval process and competition from other products. For a discussion of these and some of the other key risks and uncertainties affecting our business, see Item 1A. Risk Factors.

While the approved drugs and clinical development programs described above are key elements of our future success, we believe it is critically important that we continue to make substantial investments in our earlier-stage drug candidate pipeline. We have several drug candidates in earlier stage clinical development or being explored in research that we are preparing to advance into the clinic in future years. We are also advancing several other drug candidates in preclinical development in the areas of I-O, immunology, and other therapeutic indications. We believe that our substantial investment in research and development has the potential to create significant value if one or more of our drug candidates demonstrates positive clinical results, receives regulatory approval in one or more major markets and achieves commercial success. Drug research and development is an inherently uncertain process with a high risk of failure at every stage prior to approval. The timing and outcome of clinical trial results are extremely difficult to predict. Clinical development successes and failures can have a disproportionately positive or negative impact on our scientific and medical prospects, financial condition and prospects, results of operations and market value.

Effects of the COVID-19 Pandemic

In March 2020, COVID-19, the disease resulting from a novel strain of coronavirus infection, was declared a global pandemic. Many countries, including the United States and India, initially took steps such as restricting travel, closing schools, and issuing shelter-in-place orders to slow or moderate the spread of the virus. More recently, states and countries have adopted individualized approaches to respond to the COVID-19 pandemic. In particular, local resurgences in number and rates of infections, and the further spread of the virus may result in the return of prior restrictions or the institution of restrictions in the affected areas. Although vaccines intended to reduce the incidence of infection are in development, it remains unclear how long the negative impacts caused by the coronavirus will continue into the future.

Currently, with respect to the operation of our facilities, we are closely adhering to applicable guidelines and orders. Essential operations in research, manufacturing and maintenance that occur within our facilities are continuing in accordance with the permissions granted under government ordinances. Across all our locations, we have instituted a temporary work from home policy for all office personnel who do not need to work on site to maintain productivity. At this time, we have not identified a material change to our productivity as a result of these measures, but this could change, particularly if restricted travel, closed schools, and shelter-in-place orders are not removed or significantly eased in the areas in which we operate.

The safety and well-being of our employees, and the patients and healthcare providers in our clinical trial programs, are of first and foremost importance to us. We believe that the safety measures we are taking and instructing our contractors to take in response to the COVID-19 pandemic meet or exceed the guidance and requirements issued from government and public health officials.

We and our partners are currently engaged in the clinical testing of our proprietary drug candidates and the COVID-19 pandemic introduces significant challenges to our clinical development programs which are central to our business. The evolving situation around the COVID-19 pandemic, along with the resulting public health guidance measures that have been put into place,

have thus far had varying impacts on the clinical testing of our proprietary drug candidates depending on the therapeutic indication, geographic distribution of clinical trial sites, the clinical trial stage, and, in certain cases, our partners' general corporate approach to the COVID-19 pandemic. The rapid development and fluidity of the COVID-19 pandemic precludes any firm estimates as to the ultimate effect this disease will have on our clinical trials, our operations and our business. As a result, any current assessment of the effects of the COVID-19 pandemic, including the impact of this disease on our specific clinical programs as discussed below, is difficult to predict and subject to change.

Specifically, for the ongoing registrational clinical trials studying the combination of bempedalsleukin and Opdivo® in cancer indications being led by Nektar (such as adjuvant melanoma, RCC and first-line cisplatin ineligible, PD-L1 low, locally advanced or metastatic urothelial cancer), although we have not seen evidence to date that the COVID-19 pandemic has had a significant impact on enrollment for these trials, the future impact of the COVID-19 pandemic on these trials is very difficult to predict and, with regard to individual clinical trial sites within these studies, will likely vary by the geographic region in which they are located.

For Nektar's Phase 1/2 trial studying bempedalsleukin and pembrolizumab in NSCLC, although the COVID-19 pandemic delayed the initiation of certain investigator sites in Europe earlier in the trial, we currently expect to have initial safety as well as preliminary overall response rate data for an initial set of patients in the dose-escalation and NSCLC cohorts of this study by the first part of 2021.

With regard to Nektar's ongoing clinical study of NKTR-262 (the Phase 1/2 REVEAL study), this study has largely remained on track although we have experienced some challenges with new investigator site initiations. Nektar's Phase 1 clinical study of NKTR-255 in patients with relapsed/refractory hematologic malignancies has enrolled slower than anticipated due to challenges caused by the COVID-19 pandemic, and the dose-escalation monotherapy portion of the study is expected to be completed in the first quarter of 2021. For both of these Nektar-run clinical programs, the ongoing COVID-19 pandemic could still impact investigator site initiations and trial enrollment despite our mitigation efforts.

For clinical studies of our proprietary drug candidates being run by our partners, BMS is enrolling patients in each of the BMS-led registration studies and has re-started initiation of new investigator sites following a pause in the initiation of new investigator sites it instituted for all of its studies as a result of the COVID-19 pandemic. Earlier in the summer, BMS extended their timeline estimates by approximately six months for the first data read-outs for the first-line melanoma trial. We will continue to monitor the progress of the BMS-led studies. Our partner Lilly, which is running clinical trials of NKTR-358, has indicated it will likely have delays of at least three to six months following its temporary suspension of recruitment for the ongoing Phase 1b studies in atopic dermatitis and psoriasis as a result of the COVID-19 pandemic. Lilly recently started a Phase 2 study in moderate to severe lupus patients in October and is planning to start an additional Phase 2 study in ulcerative colitis before the end of the year. The rapid development and fluidity of the COVID-19 pandemic preclude any firm estimates as to the ultimate effect this disease will have on our collaborator's clinical trials. As a result, there remains substantial uncertainty as to potential impacts on our collaboration partner studies.

With regard to our IND-enabling research, although the COVID-19 pandemic has caused us to reduce the number of employees working at our sites, a subset of our research-based employees continues to conduct laboratory work in our research facilities (which is permitted under the applicable government ordinances). As a result, we continue to make progress in the identification of new drug candidates.

In an effort to mitigate the negative effects of the COVID-19 pandemic on our clinical trials (both in terms of clinical trial timelines and integrity of clinical study data), we have taken steps to help our clinical trial investigators and their teams continue to provide care and uninterrupted access to their patients. Particularly, in the context of our clinical trials directed to investigational cancer treatments, for example, we are actively working with our study sites to implement measures to prevent study protocol violations, to minimize any disruption of treatment visits, to accommodate for patient visit delays caused by limited access to healthcare facilities, to leverage alternative methods for maintaining clinical trial integrity, and to properly record patient event data that may be influenced by the COVID-19 pandemic. In addition, to the extent that the integrity of individual patient data is negatively affected by the COVID-19 pandemic, we will consider measures to maintain the integrity of the clinical study overall (such as over-enrolling patients into the study and removing all patients originating from an affected study site when performing statistical analyses of study endpoints). Although these measures may have the benefit of preserving the overall integrity of a clinical study, implementing these measures could result in a delay in completing the study.

In this respect, we are also incorporating recent direction and flexibility provided by regulatory authorities, including the United States Food and Drug Administration in its March 18, 2020 Guidance (most recently updated September 21, 2020) entitled "FDA Guidance on Conduct of Clinical Trials of Medicinal Products during COVID-19 Public Health Emergency." This Guidance is continually being updated by FDA and updates can be found on the FDA's website at www.fda.gov. In addition, we

may refer to guidance documents from other regulatory agencies, such as, for example, the European Medicines Agency’s “Implications of coronavirus disease (COVID-19) on methodological aspects of ongoing clinical trials” found on www.ema.europa.eu, which are also continually being updated.

With respect to financing our near-term business needs, as set forth below in “Key Developments and Trends in Liquidity and Capital Resources,” we estimate we have working capital to fund our current business plans through at least the next twelve months.

Key Developments and Trends in Liquidity and Capital Resources

We estimate that we have working capital to fund our current business plans through at least the next twelve months. As of September 30, 2020, we had approximately \$1.2 billion in cash and investments in marketable securities. On April 13, 2020, we repaid the principal and accrued interest of our senior notes totaling \$254.8 million. See Note 1 to our Condensed Consolidated Financial Statements for additional information.

Results of Operations

Three and Nine Months Ended September 30, 2020 and 2019

Revenue (in thousands, except percentages)

| | Three Months Ended September 30, | | Increase/ (Decrease) 2020 vs. 2019 | Percentage Increase/ (Decrease) 2020 vs. 2019 |
|--|----------------------------------|------------------|--|---|
| | 2020 | 2019 | | |
| Product sales | \$ 5,691 | \$ 5,558 | \$ 133 | 2 % |
| Royalty revenue | 12,289 | 10,275 | 2,014 | 20 % |
| Non-cash royalty revenue related to sale of future royalties | 10,422 | 10,264 | 158 | 2 % |
| License, collaboration and other revenue | 1,631 | 3,121 | (1,490) | (48)% |
| Total revenue | <u>\$ 30,033</u> | <u>\$ 29,218</u> | <u>\$ 815</u> | <u>3 %</u> |

| | Nine Months Ended September 30, | | Increase/ (Decrease) 2020 vs. 2019 | Percentage Increase/ (Decrease) 2020 vs. 2019 |
|--|---------------------------------|------------------|--|---|
| | 2020 | 2019 | | |
| Product sales | \$ 14,620 | \$ 14,302 | \$ 318 | 2 % |
| Royalty revenue | 31,411 | 29,008 | 2,403 | 8 % |
| Non-cash royalty revenue related to sale of future royalties | 28,001 | 27,585 | 416 | 2 % |
| License, collaboration and other revenue | 55,421 | 9,860 | 45,561 | >100% |
| Total revenue | <u>\$ 129,453</u> | <u>\$ 80,755</u> | <u>\$ 48,698</u> | <u>60 %</u> |

Our revenue is derived from our collaboration agreements, under which we may receive product sales revenue, royalties, and license fees, as well as development and sales milestones and other contingent payments. We recognize revenue when we transfer promised goods or services to our collaboration partners. The amount of upfront fees received under our license and collaboration agreements allocated to continuing obligations, such as development or manufacturing and supply commitments, is generally recognized as we deliver products or provide development services. 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 timing and amount of products and services expected to be required to fulfill our performance obligations. Given the uncertainties in research and development collaborations, significant judgment is required to make these estimates.

Product Sales

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

Product sales were consistent for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019. We expect product sales for the full year of 2020 to be lower than 2019. At this time, we do not anticipate that effects of the COVID-19 pandemic will impact our product sales.

Royalty Revenue

We receive royalty revenue from certain of our collaboration partners based on their net sales of commercial products. Royalty revenue for the nine months ended September 30, 2020 increased as compared to the nine months ended September 30,

2019 due to increases in the net sales of the underlying commercial products of our collaboration partners. At this time, we cannot estimate the effects of the COVID-19 pandemic on the net sales of the commercial products of our collaboration partners and our resulting royalty revenues.

Non-cash Royalty Revenue Related to Sale of Future Royalties

For a discussion of our Non-cash royalty revenue, please see our discussion below “Non-Cash Royalty Revenue and Non-Cash Interest Expense.”

License, Collaboration and Other Revenue

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

During the three months ended March 31, 2020, we recognized \$25.0 million in license, collaboration and other revenue for the achievement of the first patient, first visit in the registrational muscle-invasive bladder cancer trial under the BMS Collaboration Agreement. During the three months ended June 30, 2020, we recognized \$25.0 million in license, collaboration and other revenue for the milestone for the first patient, first visit in the registrational adjuvant melanoma trial, also under the BMS Collaboration Agreement. Although we did not achieve the first patient, first visit until July 27, 2020, in the adjuvant melanoma trial, we concluded that a reversal of the milestone was not probable as of June 30, 2020. As a result, license, collaboration and other revenue increased during the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019 due to the recognition of these milestones. We expect that our license, collaboration and other revenue will increase significantly in the full year of 2020 compared to 2019 as a result of the recognition of the two milestones under the BMS Collaboration Agreement.

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 Item 1A. Risk Factors for discussion of the risks associated with the complex nature of our collaboration agreements.

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

| | Three Months Ended September 30, | | Increase/ (Decrease) 2020 vs. 2019 | Percentage Increase/ (Decrease) 2020 vs. 2019 |
|----------------------|----------------------------------|----------|--|---|
| | 2020 | 2019 | | |
| Cost of goods sold | \$ 5,570 | \$ 4,927 | \$ 643 | 13 % |
| Product gross profit | 121 | 631 | (510) | (81)% |
| Product gross margin | 2 % | 11 % | | |

| | Nine Months Ended September 30, | | Increase/ (Decrease) 2020 vs. 2019 | Percentage Increase/ (Decrease) 2020 vs. 2019 |
|--------------------------|---------------------------------|---------|--|---|
| | 2020 | 2019 | | |
| Cost of goods sold | \$ 15,154 | 15,385 | \$ (231) | (2)% |
| Product gross profit (1) | (534) | (1,083) | 549 | 51 % |
| Product gross margin | (4)% | (8)% | | |

(1) Percentage change represents improvement, since the negative gross margin has decreased.

Our strategy is to manufacture and supply polymer 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. We have elected to only enter into and maintain those manufacturing relationships associated with long-term collaboration agreements which include multiple sources of revenue, which we view holistically and in aggregate. We have a

predominantly fixed cost base associated with our manufacturing activities. As a result, our product gross profit and margin are significantly impacted by the mix and volume of products sold in each period.

Product gross margin was negative for the nine months ended September 30, 2020 and September 30, 2019. We have a manufacturing arrangement with a partner that includes a fixed price which is less than the fully burdened manufacturing cost for the reagent, and we expect this situation to continue with this partner in future years. In addition to product sales from reagent materials supplied to the partner where our sales are less than our fully burdened manufacturing cost, we also receive royalty revenue from this collaboration. In the three and nine months ended September 30, 2020 and 2019, the royalty revenue from this collaboration exceeded the related negative gross profit.

We expect product gross margin to continue to fluctuate in future periods depending on the level and mix of manufacturing orders from our customers. We currently expect product gross margin to be negative in 2020 as a result of the manufacturing arrangement described above.

Research and Development Expense (in thousands, except percentages)

| | Three Months Ended September 30, | | Increase/ (Decrease) 2020 vs. 2019 | Percentage Increase/ (Decrease) 2020 vs. 2019 |
|----------------------------------|----------------------------------|-----------|--|---|
| | 2020 | 2019 | | |
| Research and development expense | \$ 100,531 | \$ 99,048 | \$ 1,483 | 1 % |

| | Nine Months Ended September 30, | | Increase/ (Decrease) 2020 vs. 2019 | Percentage Increase/ (Decrease) 2020 vs. 2019 |
|----------------------------------|---------------------------------|------------|--|---|
| | 2020 | 2019 | | |
| Research and development expense | \$ 305,954 | \$ 324,197 | \$ (18,243) | (6)% |

Research and development expense consists primarily of clinical study costs, contract manufacturing 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. Where we perform research and development activities under a clinical joint development collaboration, such as our collaboration with BMS, we record the expense reimbursement from our partners as a reduction to research and development expense, and we record our share of our partners' expenses as an increase to research and development expense.

Research and development costs for the three months ended September 30, 2020 were consistent with the three months ended September 30, 2019. Total research and development costs for the nine months ended September 30, 2020 decreased compared to the nine months ended September 30, 2019. The clinical trial costs for our bempegaldesleukin, NKTR-255 and NKR-262 programs increased for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. These costs were offset by decreases in pre-commercial manufacturing costs for NKTR-181 which we incurred during 2019, manufacturing costs for clinical trials materials, and costs for our clinical development program for NKTR-358. As noted above, as a result of our decision to withdraw the NKTR-181 NDA in January 2020, we present all costs related to the wind-down of the NKTR-181 program, including pre-commercial manufacturing activities, in the Impairment of assets and other costs related to terminated program line in our Condensed Consolidated Statements of Operations for the nine months ended September 30, 2020. The decrease in NKTR-358 development costs reflects our completion of our Phase 1 clinical development and drug product development deliverables, for which we were responsible for 100% of costs, to the Phase 1B and Phase 2 development, for which we are responsible for 25% of costs and Lilly is responsible for 75% of costs. Additionally, during the three and nine months ended September 30, 2020, we recorded net reductions to research and development expense for BMS's reimbursements of our costs of \$29.2 million and \$93.8 million, respectively. During the three and nine months ended September 30, 2019, we recorded net reductions to research and development expense for BMS's reimbursements of our costs of \$28.3 million and \$81.4 million, respectively. Under the BMS Collaboration Agreement, BMS generally bears 67.5% of development costs for bempegaldesleukin in combination with Opdivo® and 35% of costs for manufacturing bempegaldesleukin. Please see Note 6 to our Condensed Consolidated Financial Statements for additional information regarding our BMS Collaboration Agreement.

We expect research and development expense to be generally consistent for 2020 compared to 2019. However, excluding the pre-commercial manufacturing costs for NKTR-181 that we incurred in 2019 as discussed above, we expect research and development expense to increase marginally for 2020 compared to 2019 primarily due to advancing our development of bempegaldesleukin under the BMS Collaboration Agreement, as well as studies outside of this agreement, including our Phase 1/2 trial studying bempegaldesleukin and pembrolizumab in NSCLC. In addition, we are collaborating with Lilly to develop NKTR-358, and Lilly is planning additional studies, for which we are responsible for 25% of costs. We are also continuing our Phase 1 dose-escalation studies for NKTR-255 in multiple myeloma and non-Hodgkin lymphoma, and we have initiated a Phase 1 study for NKTR-255 in solid tumors. We are continuing to enroll patients in the expansion phase of the Phase 1/2 study for NKTR-262 in combination with bempegaldesleukin. The timing and amount of our future clinical investments will vary significantly based upon our evaluation of ongoing clinical results and the structure, timing, and scope of potential collaboration partnerships (if any) for these programs.

In addition to our drug candidates that we are evaluating in clinical development during 2020, we believe it is vitally important to continue our substantial investment in a 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 polymer conjugate technology platform to a wide range of molecule classes, including small molecules and large proteins, peptides and antibodies, across multiple therapeutic areas. We plan to continue to advance our most promising early research drug candidates into preclinical development with the objective to advance these early stage research programs to human clinical studies over the next several years.

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

- the number of patients required for a given clinical study design;
- the length of time required to enroll clinical study participants;
- the number and location of sites included in the clinical studies;
- the clinical study designs required by the health authorities (i.e. primary and secondary endpoints as well as the size of the study population 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 drug candidates needed for clinical trials and regulatory submissions;
- the safety and efficacy profile of the drug candidate;
- the use of clinical research organizations to assist with the management of the trials; and
- the costs and timing of, and the ability to secure, approvals from government health authorities.

Furthermore, our strategy includes the potential of entering into collaborations with third parties to participate in the development and commercialization of some of our drug candidates such as those collaborations that we have already completed for bempegaldesleukin, NKTR-358 and MOVANTIK[®]. In certain 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.

As noted above, the evolving situation around the COVID-19 pandemic has had varying impacts on the clinical testing of our proprietary drug candidates depending on the therapeutic indication, geographic distribution of clinical trial sites, the clinical trial stage, and, in certain cases, our partners' general corporate approach to the pandemic. We have experienced delays of approximately three months for earlier stage Nektar-run clinical studies (such as the Phase 1/2 trial studying bempegaldesleukin and pembrolizumab in NSCLC and the Phase 1 trial studying NKTR-255 in patients with relapsed/refractory hematologic malignancies) and given the evolving situation around the COVID-19 pandemic it is possible there could be additional delays in the future. In addition, for certain clinical studies involving our proprietary drug candidates that are run by our partners, study timelines have been delayed at least three to six months and given the evolving situation around the COVID-19 pandemic it is possible there could be additional delays in the future. As a result of these delays and potential delays, we may incur additional costs associated with these clinical trials. At this time, we cannot estimate if such increases would have a material effect on our results of operations or financial position.

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)

| | Three Months Ended September 30, | | Increase/ (Decrease) 2020 vs. 2019 | Percentage Increase/ (Decrease) 2020 vs. 2019 |
|------------------------------------|----------------------------------|-----------|--|---|
| | 2020 | 2019 | | |
| General and administrative expense | \$ 26,982 | \$ 23,983 | \$ 2,999 | 13 % |

| | Nine Months Ended September 30, | | Increase/ (Decrease) 2020 vs. 2019 | Percentage Increase/ (Decrease) 2020 vs. 2019 |
|------------------------------------|---------------------------------|-----------|--|---|
| | 2020 | 2019 | | |
| General and administrative expense | \$ 77,546 | \$ 71,570 | \$ 5,976 | 8 % |

General and administrative expense includes the cost of administrative staffing, finance, legal and initial commercial readiness activities. General and administrative expense increased during the three and nine months ended September 30, 2020 compared with the three and nine months ended September 30, 2019. We expect general and administrative expenses in the full year of 2020 to increase compared to 2019, primarily due to increased personnel costs as we begin a stage appropriate build of our commercial capability to co-commercialize bempedalsleukin with BMS. At this time, we do not anticipate that the effects of the COVID-19 pandemic will materially affect our general and administrative expense.

Impairment of Assets and Other Costs for Terminated Program

On January 14, 2020, the joint FDA Anesthetic Drug Products Advisory Committee and Drug Safety and Risk Management Committee did not recommend approval of our NDA for NKTR-181. As a result, we withdrew our NDA and decided to make no further investments in this program. On February 26, 2020, the Audit Committee of our Board of Directors approved management's plan for the wind-down of Inheris and the NKTR-181 program.

As a result, in the three months ended March 31, 2020, we wrote off \$19.7 million of advance payments to contract manufacturers for commercial batches of NKTR-181. We also incurred \$25.5 million of additional costs, primarily for non-cancellable commitments to our contract manufacturers and certain severance costs.

Interest Expense (in thousands, except percentages)

| | Three Months Ended September 30, | | Increase/ (Decrease) 2020 vs. 2019 | Percentage Increase/ (Decrease) 2020 vs. 2019 |
|------------------|----------------------------------|----------|--|---|
| | 2020 | 2019 | | |
| Interest expense | \$ — | \$ 5,425 | \$ (5,425) | (100)% |

| | Nine Months Ended September 30, | | Increase/ (Decrease) 2020 vs. 2019 | Percentage Increase/ (Decrease) 2020 vs. 2019 |
|------------------|---------------------------------|-----------|--|---|
| | 2020 | 2019 | | |
| Interest expense | \$ 6,851 | \$ 15,882 | \$ (9,031) | (57)% |

Interest expense for the three and nine months ended September 30, 2020 decreased as compared to the three and nine months ended September 30, 2019. In October 2015, we issued \$250.0 million in aggregate principal amount of 7.75% senior secured notes due October 2020. Interest on the 7.75% senior secured notes was calculated based on actual days outstanding over

a 360 day year. On April 13, 2020, we redeemed the senior secured notes at par and therefore repaid the principal of \$250.0 million and accrued interest of \$4.8 million. After the repayment, we incurred no interest expense.

Non-Cash Royalty Revenue and Non-Cash Interest Expense

| | Three Months Ended September 30, | | Increase/ (Decrease) 2020 vs. 2019 | Percentage Increase/ (Decrease) 2020 vs. 2019 |
|--|----------------------------------|-----------|--|---|
| | 2020 | 2019 | | |
| Non-cash royalty revenue related to sale of future royalties | \$ 10,422 | \$ 10,264 | \$ 158 | 2 % |
| Non-cash interest expense on liability related to sale of future royalties | 8,425 | 5,813 | 2,612 | 45 % |

| | Nine Months Ended September 30, | | Increase/ (Decrease) 2020 vs. 2019 | Percentage Increase/ (Decrease) 2020 vs. 2019 |
|--|---------------------------------|-----------|--|---|
| | 2020 | 2019 | | |
| Non-cash royalty revenue related to sale of future royalties | \$ 28,001 | \$ 27,585 | \$ 416 | 2 % |
| Non-cash interest expense on liability related to sale of future royalties | 22,084 | 17,853 | 4,231 | 24 % |

For a discussion of the sale of future royalties for CIMZIA® and MIRCERA®, see Note 4 to our Condensed Consolidated Financial Statements.

As discussed in Note 4, we continue to recognize non-cash royalty revenue for net sales of CIMZIA® and MIRCERA®, which was consistent for the nine months ended September 30, 2020 and September 30, 2019. Non-cash interest expense increased for the three and nine months ended September 30, 2020 compared with the three and nine months ended September 30, 2019 due to an increase in the estimated implicit interest rate over the life of the transaction. When forecasted future revenues rise, this results in an increase to the estimated implicit interest rate over the life of the transaction, which, in turn, increases the prospective effective interest rate in the current and future periods.

We recognized non-cash interest expense at an effective rate of 29% for the three and nine months ended September 30, 2019, reflecting the estimated implicit interest rate over the life of the transaction of approximately 18.7%. During the fourth quarter of 2019, due to sustained increases in the forecasted sales of CIMZIA® and MIRCERA®, we increased our estimated implicit interest rate over the life of the agreement from 18.7% to approximately 19.5%, which resulted in a prospective interest rate of 38%. During the three months ended September 30, 2020, primarily as a result of continued increases in the forecasted sales of CIMZIA®, our estimate of the effective annual interest rate over the life of the agreement increased to 20.2%, which results in a prospective interest rate of 48%.

Over the term of this arrangement, the net proceeds of the transaction of \$114.0 million, consisting of the original proceeds of \$124.0 million, net of \$10.0 million in payments from us to RPI, is amortized as the difference between the non-cash royalty revenue and the non-cash interest expense. To date, we have amortized \$46.4 million of the net proceeds. We periodically assess future non-cash royalty revenues, and we may adjust the prospective effective interest rate based on our best estimates of future non-cash royalty revenue such that future non-cash interest expense will amortize the remaining \$67.6 million of the net proceeds. There are a number of factors that could materially affect our estimated interest rate, in particular, the amount and timing of royalty payments from future net sales of CIMZIA® and MIRCERA®. As a result, future interest rates could differ significantly, and we will adjust any such change in our estimated interest rate prospectively. At this time, we cannot estimate the effects of the COVID-19 pandemic on net sales of CIMZIA® and MIRCERA® and the resulting effects on our non-cash royalty revenue and potential effects on our estimated implicit rate for non-cash interest expense.

Interest Income and Other Income (Expense), net (in thousands, except percentages)

| | Three Months Ended September 30, | | Increase/ (Decrease) 2020 vs. 2019 | Percentage Increase/ (Decrease) 2020 vs. 2019 |
|---|----------------------------------|-----------|--|---|
| | 2020 | 2019 | | |
| Interest income and other income (expense), net | \$ 2,910 | \$ 11,492 | \$ (8,582) | (75)% |

| | Nine Months Ended September 30, | | Increase/ (Decrease) 2020 vs. 2019 | Percentage Increase/ (Decrease) 2020 vs. 2019 |
|---|---------------------------------|-----------|--|---|
| | 2020 | 2019 | | |
| Interest income and other income (expense), net | \$ 16,453 | \$ 35,964 | \$ (19,511) | (54)% |

Interest income and other income (expense) decreased significantly for the three and nine months ended September 30, 2020 compared to the three and nine months ended September 30, 2019 due to decreases in market interest rates and lower investment balances which have been utilized to fund our operations and the repayment of our senior notes on April 13, 2020. The effective interest rate earned on investments which we purchased after the COVID-19 pandemic began has been significantly lower than historical interest rates, and we expect this trend to continue. We expect that our interest income and other income (expense), net will decrease significantly for 2020 compared to 2019 for these same reasons.

Liquidity and Capital Resources

We have financed our operations primarily through revenue from product sales, royalties and strategic collaboration agreements, as well as public offering and private placements of debt and equity securities. At September 30, 2020, we had approximately \$1.2 billion in cash and investments in marketable securities. As noted above, on April 13, 2020, we repaid the principal and accrued interest of our senior notes totaling \$254.8 million.

We estimate that we have working capital to fund our current business plans for the next twelve months. We expect the clinical development of our proprietary drug candidates including bempedalsleukin, NKTR-358, NKTR-262 and NKTR-255 will continue to require significant investment to continue to advance in clinical development with the objective of obtaining regulatory approval or entering into one or more collaboration partnerships. In the past, we have received a number of significant payments from collaboration agreements and other significant transactions. In April 2018, we received a total of \$1.85 billion from BMS including a \$1.0 billion upfront payment and an \$850.0 million premium investment in our common stock. In July 2017, we entered into a collaboration agreement for NKTR-358 with Lilly, under which we received a \$150.0 million upfront payment. In the future, we expect to receive substantial payments from our collaboration agreements with BMS and Lilly and other existing and future collaboration transactions if drug candidates in our pipeline achieve positive clinical or regulatory outcomes. In particular, under the BMS Collaboration Agreement, we are entitled to \$1.455 billion of clinical, regulatory and commercial launch milestones (of which, we have received \$50.0 million). Of the remaining milestones, \$625.0 million are associated with approval and launch of bempedalsleukin in its first indication in the U.S., EU and Japan (which reflects the reduction for the \$25.0 million nonrefundable, creditable milestone for the first patient, first visit in the muscle-invasive bladder cancer trial that BMS paid to us in March 2020). As a result, whether and when bempedalsleukin is approved in any indication will have a significant impact on our future liquidity and capital resources. We have no credit facility or any other sources of committed capital.

In the short term, we do not anticipate that the effects of the COVID-19 pandemic will have a material effect on our results of operations or financial position since we do not generate significant cash flows from recurring revenues and our revenues are generally less affected by shelter-in place or similar orders. However, if delays caused by the COVID-19 pandemic in commencing and enrolling patients in our clinical trials or those run by our partners result in a delay in completing these trials, our ability to file for regulatory approval and commercialize these products (if approved) or enter into collaboration agreements may also be delayed.

Due to the potential for adverse developments in the credit markets, 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. To date we have not experienced any liquidity issues with respect to these securities. We believe that, even allowing for potential liquidity issues with respect to these securities and the effect of the COVID-19 pandemic on the

financial markets, our remaining cash and investments in marketable securities will be sufficient to meet our anticipated cash needs for at least the next twelve months.

Our current business plan is subject to significant uncertainties and risks as a result of, among other factors, clinical and regulatory outcomes for bempegaldesleukin, the sales levels of our products, if and when they are approved, the sales levels for those products for which we are entitled to royalties, clinical program outcomes, whether, when and on what terms we are able to enter into new collaboration transactions, expenses being higher than anticipated, unplanned expenses, cash receipts being lower than anticipated, and the need to satisfy contingent liabilities, including litigation matters and indemnification obligations.

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

Cash flows from operating activities

Cash flows used in operating activities for the nine months ended September 30, 2020 totaled \$214.7 million, which includes \$255.0 million of net operating cash uses as well as \$9.7 million for interest payments on our senior secured notes, partially offset by the receipt of the \$25.0 million milestone payment from BMS for the achievement of the first patient, first visit in the registrational muscle invasive bladder cancer trial and the \$25.0 million milestone payment from BMS for the achievement of the first patient, first visit in the registrational adjuvant melanoma trial.

Cash flows used in operating activities for the nine months ended September 30, 2019 totaled \$203.5 million, which includes \$199.2 million of net operating cash uses as well as \$14.3 million for interest payments on our senior secured notes, partially offset by the receipt of a \$10.0 million sales milestone payment from our collaboration agreement with Baxalta.

We expect that cash flows used in operating activities, excluding upfront, milestone and other contingent payments received, will increase in the full year of 2020 compared to 2019 primarily as a result of increased research and development expenses.

Cash flows from investing activities

We paid \$5.5 million and \$22.6 million for the purchase or construction of property, plant and equipment in the nine months ended September 30, 2020 and 2019, respectively. The decrease for the nine months ended September 30, 2020 compared with the nine months ended September 30, 2019 resulted from the construction of leasehold improvements at our facilities lease in San Francisco during 2019. We expect our capital expenditures in the full year of 2020 to decrease compared with 2019, primarily due to the completion of the construction of these leasehold improvements.

During the nine months ended September 30, 2020, our maturities and sales of investments, net of purchases, totaled \$409.0 million, which we used to redeem our senior notes and accrued interest of \$254.8 million and to fund our operations.

Cash flows from financing activities

We received proceeds from issuance of common stock related to our employee option and stock purchase plans of \$20.7 million and \$18.4 million in the nine months ended September 30, 2020 and 2019, respectively.

As noted above, on April 13, 2020, we repaid the principal of our senior notes totaling \$250.0 million. See Note 1 to our Condensed Consolidated Financial Statements for additional information.

Contractual Obligations

Other than the repayment of our senior notes, there were no material changes outside the ordinary course of business during the nine months ended September 30, 2020 to the summary of contractual obligations included in our Annual Report on Form 10-K for the year ended December 31, 2019 on file with the SEC.

Off-Balance Sheet Arrangements

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

Item 1A. Risk Factors

Investors in Nektar Therapeutics should carefully consider the risks described below before making an investment decision. The risks described below may not be the only ones relating to our company. This description includes any material changes to and supersedes the description of the risk factors associated with our business previously disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019. Additional risks that we currently believe are immaterial may also impair our business operations. Our business, results of operations, financial condition, cash flows and future prospects and the trading price of our common stock could be harmed as a result of any of these risks, and investors may lose all or part of their investment. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2019, including our consolidated financial statements and related notes, and our other filings made from time to time with the SEC.

Risks Related to Our Business

We are highly dependent on the success of bempegaldesleukin, our lead I-O candidate. We are executing a clinical development program for bempegaldesleukin and clinical and regulatory outcomes for bempegaldesleukin, if not successful, will significantly harm our business.

Our future success is highly dependent on our ability to successfully develop, obtain regulatory approval for, and commercialize bempegaldesleukin. In general, most investigational drugs, including I-O drug candidates such as bempegaldesleukin, do not become approved drugs. Accordingly, there is a very meaningful risk that bempegaldesleukin will not succeed in one or more clinical trials sufficient to support one or more regulatory approvals. To date, reported clinical outcomes from bempegaldesleukin have had a significant impact on our market valuation, and business prospects and we expect this to continue in future periods. If one or more clinical studies of bempegaldesleukin are delayed (as a result of, for example, our collaboration partner causing a delay of the initiation of one or more clinical trials for reasons outside of our control) or not successful, it would materially harm our market valuation, prospects, financial condition and results of operations. For example, under the BMS Collaboration Agreement, we are entitled to up to \$1.455 billion in development milestone payments (of which we have received \$50.0 million) that are based upon clinical and regulatory successes from the bempegaldesleukin development program. One or more failures in bempegaldesleukin studies could jeopardize such milestone payments, and any product sales or royalty revenue or commercial milestone payments that we would otherwise be entitled to receive could be reduced, delayed or eliminated.

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

We or our partners may experience delays in clinical trials of drug candidates. We have ongoing trials evaluating bempegaldesleukin, including trials evaluating bempegaldesleukin as a potential combination treatment with BMS's Opdivo® as well as other ongoing and planned combination trials. Our partner Lilly has initiated clinical Phase 1b studies of NKTR-358 for psoriasis and atopic dermatitis, has recently started a Phase 2 study in moderate to severe lupus patients in October and is planning to initiate a Phase 2 study in patients with ulcerative colitis this year. We also continue to enroll patients in a Phase 1/2 study evaluating bempegaldesleukin in combination with NKTR-262 in patients with solid tumors. In addition, we have initiated a Phase 1 clinical study of NKTR-255 in adults with relapsed or refractory non-Hodgkin lymphoma or multiple myeloma. These and other clinical studies may not begin on time, enroll a sufficient number of patients or be completed on schedule, if at all. Clinical trials for any of our product candidates could be delayed for a variety of reasons, including:

- delays in obtaining regulatory authorization to commence a clinical study;
- delays in reaching agreement with applicable regulatory authorities on a clinical study design;
- for product candidates (such as bempegaldesleukin and NKTR-358) partnered with other companies, delays caused by our partner;
- delays caused by the COVID-19 pandemic (see also the risk factor in this Item 1A titled "Our business could be adversely affected by the effects of health epidemics, including the recent COVID-19 pandemic");
- imposition of a clinical hold by the FDA or other health authorities, which may occur at any time including after any inspection of clinical trial operations or trial sites;
- suspension or termination of a clinical study by us, our partners, the FDA or foreign regulatory authorities due to adverse side effects of a drug on subjects in the trial;
- delays in recruiting suitable patients to participate in a trial;
- delays in having patients complete participation in a trial or return for post-treatment follow-up;
- clinical sites dropping out of a trial to the detriment of enrollment rates;

- delays in manufacturing and delivery of sufficient supply of clinical trial materials;
- changes in regulatory authorities policies or guidance applicable to our drug candidates; and
- delays caused by changing standards of care or new treatment options.

If the initiation or completion of any of the planned clinical studies for our drug candidates is delayed for any of the above or other reasons, the regulatory approval process would be delayed and the ability to commercialize and commence sales of these drug candidates could be materially harmed, which could have a material adverse effect on our business, financial condition and results of operations. Clinical study delays could also shorten any commercial periods during which our products have patent protection and may allow our competitors to bring products to market before we do, which could impair our ability to successfully commercialize our product candidates and may harm our business and results of operations.

The outcomes from competitive I-O and combination therapy clinical trials, and the discovery and development of new potential oncology therapies, could have a material and adverse impact on the value of our I-O research and development pipeline.

The research and development of I-O therapies is a very competitive global segment in the biopharmaceutical industry attracting billions of dollars of investment each year. Our clinical trial plans for bempegaldesleukin, NKTR-262, and NKTR-255 face substantial competition from other I-O combination regimens already approved, and many more combination therapies that are either ahead of or in parallel development in patient populations where we are studying our drug candidates. As I-O combination therapies are relatively new approaches in cancer treatment and few have successfully completed late stage development, I-O drug development entails substantial risks and uncertainties that include rapidly changing standards of care, patient enrollment competition, evolving regulatory frameworks to evaluate combination regimens, and varying risk-benefit profiles of competing therapies, any or all of which could have a material and adverse impact on the probability of success of I-O drug candidates.

Our business could be adversely affected by the effects of health epidemics, including the recent COVID-19 pandemic.

Our business could be adversely affected by health epidemics in regions where we have concentrations of clinical trial sites or other business operations, and these health epidemics, including the COVID-19 pandemic, could cause significant disruption in the operations of third-party manufacturers and CROs upon whom we rely. In March 2020, the COVID-19 outbreak was declared a pandemic. Further, the President of the United States declared the COVID-19 pandemic a national emergency, invoking powers under the Stafford Act, the legislation that directs federal emergency disaster response. Similarly, the State of California declared a state of emergency related to the spread of COVID-19, and the San Francisco Department of Public Health announced aggressive recommendations to reduce the spread of the disease. In addition, we have implemented work from home policies for most employees. The effects of the shelter-in-place order and our work from home policies may negatively impact productivity, disrupt our business and delay our clinical programs and timelines, the magnitude of which will depend, in part, on the length and severity of the restrictions and other limitations on our ability to conduct our business in the ordinary course. Although we have taken precautions to avoid the spread of the coronavirus among our employees, it is possible one or more members of our workforce will be diagnosed with COVID-19 as a result of a work-place exposure, which could adversely impact our operations and result in litigation against us. These and similar disruptions in our operations could negatively impact our business, operating results and financial condition.

Quarantines, shelter-in-place and similar government orders designed to slow or moderate the spread of the coronavirus or other infectious diseases, and even the perception that such orders, shutdowns or other restrictions on the conduct of business operations could occur, could impact the availability and productivity of personnel at third-party manufacturing facilities in the United States and other countries, or the availability or cost of materials, any of which could disrupt our supply chain. For example, any manufacturing or supply chain interruptions of our proprietary drugs, or the comparator drugs used in our clinical trials, could adversely affect our ability to conduct ongoing and future clinical trials of our drug product candidates.

In addition, our clinical trials have been and may continue to be affected by the COVID-19 pandemic. Investigator recruitment, clinical site initiation, patient screening and patient enrollment may be delayed due to, for example, prioritization of hospital resources toward the COVID-19 pandemic. Some patients who are successfully enrolled in clinical trials involving our drug candidates may not be able to comply with clinical trial protocols due to, for example, shelter-in-place orders impeding movement, disrupted healthcare services, or health issues for suspected or confirmed COVID-19 status. Similarly, our ability to recruit and retain patients and principal investigators and site staff, all of whom may have heightened risk for COVID-19, could adversely impact our clinical trial operations.

Although we are implementing measures to maintain the integrity of our clinical trials, there is no guarantee that we will prevent all study protocol violations, missed study treatment visits, and other influences that jeopardize reliability and validity of our clinical trial data. If a regulatory authority determines our clinical trial data lacks integrity, there is no guarantee that we will have a remedy to correct or otherwise address the deficiency. Even if such a remedy is identified, the cost for implementing the remedy could be prohibitively expensive, time consuming, or both. As a consequence, a clinical study of our proprietary drug

candidate in which the integrity of the clinical study is questioned or doubted may require lengthy and costly remediation measures (such as, for example, over-enrolling patients into the study or repeating the study), thereby causing substantial harm to our business.

Also, the COVID-19 pandemic could postpone necessary interactions with regulators regarding our drug candidates in development and could delay review or approval of our regulatory submissions.

As a result of the increase of telehealth, work from home, and virtual meetings being necessitated by the COVID-19 pandemic, the risk or disruptions caused by cyber attacks is increased. Safeguards such as firewalls and other security measures that work well when employees are located within our facilities may not work as effectively when those employees are working remotely, and there is no guarantee that these and other cybersecurity safeguards will successfully prevent all cyber attacks. If we, our partners, our suppliers, or our contractors experience a cyberattack, experience data accessibility issues, or encounter communication disruptions, our business may suffer as a result of the loss or theft of our important data, and we may be liable for compromising the protection of personal data.

The spread of COVID-19, which has caused a broad impact globally, may materially affect us economically. While the potential economic impact brought by, and the duration of, the COVID-19 pandemic is difficult to assess or predict, the pandemic could result in significant disruption of global financial markets, reducing our ability to access capital, which could in the future negatively affect our liquidity. In addition, a recession or market correction resulting from the spread of COVID-19 could materially affect our business and the value of our common stock.

The rapid development and fluidity of the COVID-19 pandemic results in a substantial number of individual variables that could cause a significant negative impact on our operations and our business, thereby precluding useful predictions as to how this pandemic will ultimately affect us. Thus, any current assessment of the effects of the COVID-19 pandemic, including the impact of this disease on our clinical trial timelines, is subject to change. We do not yet know the full extent of potential impacts on our business, our clinical trials, healthcare systems or the global economy as a whole. However, these effects could have a material negative impact on our operations and our business.

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

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

Drug development is a highly uncertain scientific and medical endeavor, and failure can unexpectedly occur at any stage of preclinical and clinical development. Typically, there is a high rate of attrition for drug candidates in preclinical and clinical trials due to scientific feasibility, safety, efficacy, changing standards of medical care (including commercialization of a competing therapy in the same or similar indication for which our drug candidate is being studied) and other variables (such as commercial supply challenges). 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 bempegaldesleukin, NKTR-358, NKTR-262, NKTR-255, 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.

We may not elect or be able to take advantage of any expedited development or regulatory review and approval processes available to product candidates granted breakthrough therapy by the FDA.

We intend to evaluate and continue ongoing discussions with the FDA on regulatory strategies that could enable us to take advantage of expedited development pathways for certain of our drug candidates, although we cannot be certain that our drug candidates will qualify for any expedited development pathways or that regulatory authorities will grant, or allow us to maintain, the relevant qualifying designations.

Breakthrough therapy designation is intended to expedite the development and review of drug candidates that are designed to treat serious or life-threatening diseases when preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints, such as substantial treatment effects observed early in clinical development. The designation of a drug candidate as a breakthrough therapy provides potential benefits that include more frequent meetings with FDA to discuss the development plan for the drug candidate and ensure collection of appropriate data needed to support approval; more frequent written correspondence from FDA about such things as

the design of the proposed clinical trials and use of biomarkers; intensive guidance on an efficient drug development program, beginning as early as Phase 1; organizational commitment involving senior managers; and eligibility for rolling review and priority review.

Although bempedalsleukin in combination with Opdivo[®] received breakthrough therapy designation for the treatment of patients with previously untreated unresectable or metastatic melanoma, we may elect not to pursue breakthrough therapy designation for our other drug candidates, and the FDA has broad discretion whether or not to grant these designations.

Accordingly, even if we believe a particular drug candidate is eligible for breakthrough therapy, we cannot be assured that the FDA would decide to grant it. Breakthrough therapy designation does not change the standards for drug approval, and there is no assurance that such designation will result in expedited review or approval or that the approved indication will not be narrower than the indication covered by the breakthrough therapy designation. Thus, even though we have received breakthrough therapy designation, we may not experience a faster development process or review, and, upon any filing seeking regulatory approval, we may not obtain an approval from the FDA.

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

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

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

If we or our contract manufacturers are not able to manufacture and supply sufficient drug quantities meeting applicable quality standards required to support large clinical studies or commercial manufacturing in a timely manner, it could delay our or our collaboration partners' clinical studies or result in a breach of our contractual obligations, which could in turn reduce the potential commercial sales of our or our collaboration partners' products. As a result, we could incur substantial costs and damages and any product sales or royalty revenue that we would otherwise be entitled to receive could be reduced, delayed or eliminated. In most cases, we rely on contract manufacturing organizations to manufacture and supply drug product for our clinical studies and those of our collaboration partners. The manufacturing of drugs 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, and challenges in controlling for all of these variables. These risks and uncertainties are compounded in the presence of the COVID-19 pandemic wherein the facilities and employees responsible for manufacturing drugs for use in clinical trials may be negatively impacted such that there is an insufficient supply of study treatment drugs. 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 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 API or drug products 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. 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.

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

We often face very limited supply of a critical raw material that can only be obtained from a single, or a limited number of, suppliers, which could cause production delays, clinical trial delays, substantial lost revenue opportunities or contract liabilities to third parties. For example, there are only a limited number of qualified suppliers, and in some cases single source suppliers, for the raw materials included in our PEGylation and advanced polymer conjugate drug formulations. Any interruption in supply, diminution in quality of raw materials supplied to us 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.

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

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

We or our partners may not obtain regulatory approval for drug candidates on a timely basis, or at all, or the terms of any approval (which in some countries includes pricing approval) may impose significant restrictions or limitations on use. Drug candidates must undergo rigorous animal and human testing and an extensive review process for safety and efficacy by the FDA and equivalent foreign regulatory authorities. The time required for obtaining regulatory decisions is uncertain and difficult to predict. For example, although the FDA granted a Breakthrough Therapy designation to bempegaldesleukin in combination with Opdivo® for the treatment of patients with previously untreated unresectable or metastatic melanoma, there is no guarantee regulatory approval will follow, if at all, for this or any indication of bempegaldesleukin on a timely basis. The FDA and other U.S. and foreign regulatory authorities have substantial discretion, at any phase of development, to terminate clinical studies, require additional clinical development or other testing, delay or withhold registration and marketing approval and mandate product withdrawals, including recalls. Further, regulatory authorities have the discretion to analyze data using their own methodologies that may differ from those used by us or our partners, which could lead such authorities to arrive at different conclusions regarding the safety or efficacy of a drug candidate. In addition, undesirable side effects caused by our drug candidates could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restricted label or the delay or denial of regulatory approval by regulatory authorities. For example, AstraZeneca is conducting a post-marketing, observational epidemiological study comparing MOVANTIK® to other treatments of opioid-induced constipation (OIC) in patients with chronic, non-cancer pain and the results of this study could at some point in the future negatively impact the labeling, regulatory status, and commercial potential of MOVANTIK®.

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

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

Under our collaboration agreements with various pharmaceutical or biotechnology companies (other than Nektar-run trials under the BMS Collaboration Agreement), our collaboration partner is generally solely responsible for:

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

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

- we have very little control over the timing and level of resources that our collaboration partners dedicate to commercial marketing efforts such as the amount of investment in sales and marketing personnel, general marketing campaigns, direct-to-consumer advertising, product sampling, pricing agreements and rebate strategies with government and private payers, manufacturing and supply of drug product, and other marketing and selling activities that need to be undertaken and well executed for a drug to have the potential to achieve commercial success;
- collaboration partners with commercial rights may choose to devote fewer resources to the marketing of our partnered drugs than they devote to their own drugs or other drugs that they have in-licensed;
- we have very little control over the timing and amount of resources our partners devote to development programs in one or more major markets;
- disagreements with partners could lead to delays in, or termination of, the research, development or commercialization of product candidates or to litigation or arbitration proceedings;
- disputes may arise or escalate in the future with respect to the ownership of rights to technology or intellectual property developed with partners;
- we do not have the ability to unilaterally terminate agreements (or partners may have extension or renewal rights) that we believe are not on commercially reasonable terms or consistent with our current business strategy;
- partners may be unable to pay us as expected;
- 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; and
- partners may respond to natural disasters, such as the COVID-19 pandemic, by ceasing all or some of their development responsibilities (including the responsibility to clinical develop our drug candidates).

Given these risks, the success of our current and future collaboration partnerships is highly unpredictable and can have a substantial negative impact on our business. If the approved drugs fail to achieve commercial success or the drugs in development fail to have positive late stage clinical outcomes sufficient to support regulatory approval in major markets, it could significantly impair our access to capital necessary to fund our research and development efforts for our proprietary drug candidates. If we are unable to obtain sufficient capital resources to advance our drug candidate pipeline, it would negatively impact the value of our business, results of operations and financial condition.

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

As of September 30, 2020, we had cash and investments in marketable securities valued at approximately \$1.2 billion. On April 13, 2020, we redeemed our senior notes at par and therefore repaid the principal of \$250.0 million and accrued interest of \$4.8 million. 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 drug candidates —important examples include bempedalsleukin and NKTR-358;
- if and when we receive potential milestone payments and royalties from our existing collaborations if the drug candidates subject to those collaborations achieve clinical, regulatory or commercial success;
- the progress, timing, cost and results of our clinical development programs;

- the success, progress, timing and costs of our efforts to implement new collaborations, licenses and other transactions that increase our current net cash, such as the sale of additional royalty interests held by us, term loan or other debt arrangements, and the issuance of securities;
- the number of patients, enrollment criteria, primary and secondary endpoints, and the number of clinical studies required by the regulatory authorities in order to consider for approval our drug candidates and those of our collaboration partners;
- our general and administrative expenses, capital expenditures and other uses of cash;
- the sales levels of products marketed by our collaboration partners for which we are entitled to royalties and sales milestone payments — importantly, the levels of success in marketing and selling MOVANTIK® by RedHill Biopharma pursuant to its sublicense from AstraZeneca in the U.S. and ADYNOVATE® by Baxalta (a wholly owned subsidiary of Takeda) globally, as well as MOVENTIG® (the naloxegol brand name in the EU) by Kirin in the EU; and
- disputes concerning patents, proprietary rights, or license and collaboration agreements that negatively impact our receipt of milestone payments or royalties or require us to make significant payments arising from licenses, settlements, adverse judgments or ongoing royalties.

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

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

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

If 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 coverage and payment or reimbursement from third-party payers, such as government programs, including Medicare and Medicaid, managed care providers, private health insurers and other organizations. However, eligibility for coverage does not necessarily signify that a drug candidate will be adequately reimbursed in all cases or at a rate that covers costs related to research, development, manufacture, sale, and distribution. Third-party payers are increasingly challenging the price and cost effectiveness of medical products and services. Therefore, significant uncertainty exists as to the coverage and pricing approvals for, and the payment or reimbursement status of, newly approved healthcare products. Further, due to the COVID-19

pandemic, millions of individuals have lost or will be losing employer-based insurance coverage, which may adversely affect our ability to commercialize our product candidates even if there is adequate coverage and reimbursement from third-party payers.

Moreover, legislation and regulations affecting the pricing of pharmaceuticals may change before regulatory agencies approve our proposed products for marketing and could further limit coverage or pricing approvals for, and reimbursement of, our products from government authorities and third-party payers. For example, Congress passed the Affordable Care Act in 2010 which enacted a number of reforms to expand access to health insurance while also reducing or constraining the growth of healthcare spending, enhancing remedies against fraud and abuse, adding new transparency requirements for healthcare industries, and imposing new taxes on fees on healthcare industry participants, among other policy reforms. Federal agencies, Congress and state legislatures have continued to show interest in implementing cost containment programs to limit the growth of health care costs, including price controls, restrictions on reimbursement and other fundamental changes to the healthcare delivery system. In addition, in recent years, Congress has enacted various laws seeking to reduce the federal debt level and contain healthcare expenditures, and the Medicare and other healthcare programs are frequently identified as potential targets for spending cuts. New government legislation or regulations related to pricing or other fundamental changes to the healthcare delivery system as well as a government or third-party payer decision not to approve pricing for, or provide adequate coverage or reimbursement of, our products hold the potential to severely limit market opportunities of such products.

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

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

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

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

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, substantially 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 numerous significant collaboration agreements and other strategic transaction agreements (e.g., financings and asset divestitures) that contain complex representations and warranties, covenants and indemnification obligations. If we are found to have materially breached such agreements, it could subject us to substantial liabilities and harm our financial condition.

From time to time, we are involved in litigation matters involving the interpretation and application of complex terms and conditions of 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.

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

To the extent we rely on other pharmaceutical or biotechnology companies with established sales, marketing and distribution systems to market our products, we will need to establish and maintain partnership arrangements, and we may not be able to enter into these arrangements on acceptable terms or at all. To the extent that we enter into co-promotion or other arrangements, any revenue we receive will depend upon the efforts of third parties, which may not be successful and over which we have little or no control—important examples of this risk include MOVANTIK[®] partnered with AstraZeneca and ADYNOVATE[®] (previously referred to as BAX 855) partnered with Baxalta (a wholly-owned subsidiary of Takeda). In the event that we market our products without a partner, we would be required to build, either internally or through third-party contracts, 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.

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

We currently have no sales or distribution capabilities. To commercialize any of our drugs that receive regulatory approval for commercialization, we must develop robust internal sales, marketing and distribution capabilities, and manage inventory, supply, labeling, storage, record keeping, and advertising and promotion capabilities, which would be expensive and time consuming, or enter into 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 through partnerships 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 successfully educate adequate numbers of physicians about the potential benefits associated with the use of, and to subsequently 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.

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

We depend on independent clinical investigators, contract research organizations and other third-party service providers to conduct clinical trials for our proprietary product candidates. We rely heavily on these parties for the successful execution of our clinical trials. Though we are ultimately responsible for the results of their activities, many aspects of their activities are beyond our control. For example, we are responsible for ensuring that each of our clinical trials is conducted in accordance with

the general investigational plan and protocols for the trials, but the independent clinical investigators may prioritize other projects over ours or communicate issues regarding our products to us in an untimely manner. Third parties may not complete activities on schedule or may not conduct our clinical trials in accordance with regulatory requirements or our stated protocols. The early termination of any of our clinical trial arrangements, the failure of third parties to comply with the regulations and requirements governing clinical trials or the failure of third parties to properly conduct our clinical trials could hinder or delay the development, approval and commercialization of our product candidates and would adversely affect our business, results of operations and financial condition.

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 nine months ended September 30, 2020, we reported a net loss of \$327.2 million. If and when we achieve profitability depends upon a number of factors, including the timing and recognition of milestone and other contingent payments and royalties received, the timing of revenue under our collaboration agreements, the amount of investments we make in our proprietary product candidates and the regulatory approval and market success of our product candidates. We may not be able to achieve and sustain profitability.

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

- develop drugs utilizing our technologies, either independently or in collaboration with other pharmaceutical or biotechnology companies;
- effectively estimate and manage clinical development costs, particularly the cost of the clinical studies for bempegaldesleukin, NKTR-358, NKTR-262, and NKTR-255;
- 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.

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

There are many competitors for our proprietary product candidates currently in development. For bempegaldesleukin, there are numerous companies engaged in developing immunotherapies to be used alone, or in combination, to treat a wide range of oncology indications targeting both solid and liquid tumors. In particular, we expect to compete with therapies with tumor infiltrating lymphocytes, or TILs, chimeric antigen receptor-expressing T cells, or CAR-T, cytokine-based therapies, and checkpoint inhibitors. Potential competitors in the TIL and CAR-T space include Gilead Sciences, Inc. (through its acquisition of Kite Pharma, Inc.)/NCI, Apeiron Biologics, Philogen S.p.A., Brooklyn ImmunoTherapeutics LLC, Anaveon AG, Adaptimmune LLC, and Novartis AG; potential competitors in the cytokine-based therapies space include Alkermes plc, Altor Bioscience, NantWorks, Neoleukin Therapeutics, Inc., Philogen S.p.A., Roche, Sanofi SA (through its acquisition of Synthorx, Inc.), and Eli Lilly & Co. (through its acquisition of Armo BioSciences); and potential competitors in the checkpoint inhibitor space include GlaxoSmithKline plc (through its acquisition of Tesaro, Inc.), MacroGenics, Inc., Merck, Bristol-Myers Squibb Company, and Roche. For NKTR-358, there are a number of competitors in various stages of clinical development that are working on programs which are designed to correct the underlying immune system imbalance in the body due to autoimmune disease. In particular, we expect to compete with therapies that could be cytokine-based therapies (Symbiotix, LLC, Janssen, AstraZeneca, and Tizona Therapeutics), regulatory T cell therapies (Targazyme, Inc., Caladrius BioSciences, Inc., and Tract Therapeutics, Inc.), or IL-2-based-therapies (Amgen Inc., Celgene Corporation, ILTOO Pharma, Pandion Therapeutics, and Roche). For MOVANTIK[®], there are currently several alternative therapies used to address opioid-induced constipation (OIC) and opioid-induced bowel dysfunction (OBD), including RELISTOR[®] (methylnaltrexone bromide), oral therapy AMITIZA[®] (lubiprostone), and oral and

rectal over-the-counter laxatives and stool softeners such as docusate sodium, senna and milk of magnesia. For ADYNOVATE[®], there is substantial competition from Sanofi's Fc fusion protein ELOCTATE[™] for Hemophilia A treatment, JIVI[®] (antihemophilic factor (recombinant) PEGylated-aucl), an extended half-life Factor VIII for Hemophilia A treatment, approved in the U.S. in August 2018, and marketed by Bayer Healthcare, and, more recently, an extended half-life product from Novo Nordisk. In addition, technologies other than those based on Fc fusion and polymer conjugation approaches (such as gene therapy approaches being developed by BioMarin Pharmaceutical Inc. and others) are being pursued to treat patients with Hemophilia A. 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.

We may not be able to manage our growth effectively, which could adversely affect our operations and financial performance.

The ability to manage and operate our business as we execute our development and growth strategy will require effective planning. Significant rapid growth could strain our management and internal resources, and other problems may arise that could adversely affect our financial performance. We expect that our efforts to grow will place a significant strain on personnel, management systems, infrastructure and other resources. Our ability to effectively manage future growth will also require us to successfully attract, train, motivate, retain and manage new employees and continue to update and improve our operational, financial and management controls and procedures. If we do not manage our growth effectively, our operations and financial performance could be adversely affected.

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

Our business strategy requires us to manage our business to provide for the continued development and potential commercialization of our proprietary and partnered drug candidates. Our strategy also calls for us to undertake increased research and development activities and to manage an increasing number of relationships with partners and other third parties, while simultaneously managing the capital necessary to support this strategy. If we 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.

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 commercial, 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 awards 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.

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.

The price of our common stock has, and may continue to fluctuate significantly, which could result in substantial losses for investors and securities class action and shareholder derivative litigation.

Our stock price is volatile. During the nine months ended September 30, 2020, based on closing prices on the NASDAQ Global Select Market, the closing price of our common stock ranged from \$14.47 to \$27.96 per share. In response to volatility in the price of our common stock in the past, Plaintiffs' securities litigation firms have sought information from us and/or shareholders as part of their investigation into potential securities violations and breaches of duties (among other corporate misconduct allegations). Following their investigations, Plaintiffs' securities litigation firms have often initiated legal action, including the filing of class action lawsuits, derivative lawsuits, and other forms of redress. We expect our stock price to remain volatile and we continue to expect the initiation of legal actions by Plaintiffs' securities litigation firms following share price fluctuations.

- A variety of factors may have a significant effect on the market price of our common stock, including the risks described in this section titled "Risk Factors" and the following:
- announcements of data from, or material developments in, our clinical studies and those of our collaboration partners, including data regarding efficacy and safety, delays in clinical development, regulatory approval or commercial launch – in particular, data from clinical studies of bempegaldesleukin has had a significant impact on our stock price;
- announcements by collaboration partners as to their plans or expectations related to drug candidates and approved drugs in which we have a substantial economic interest;
- announcements regarding terminations or disputes under our collaboration agreements;
- fluctuations in our results of operations;
- developments in patent or other proprietary rights, including intellectual property litigation or entering into intellectual property license agreements and the costs associated with those arrangements;
- announcements of technological innovations or new therapeutic products that may compete with our approved products or products under development;
- announcements of changes in governmental regulation affecting us or our competitors;
- litigation brought against us or third parties to whom we have indemnification obligations;
- public concern as to the safety of drug formulations developed by us or others;
- our financing needs and activities; and
- general market conditions.

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

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

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

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

- limitations on who may call a special meeting of stockholders.

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

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

From time to time, we publish preliminary or interim data from our clinical studies. Preliminary data remain subject to audit confirmation and verification procedures that may result in the final data being materially different from the preliminary data we previously published. Interim data are also subject to the risk that one or more of the clinical outcomes may materially change as patient enrollment continues and more patient data become available. As a result, preliminary and interim data should be viewed with caution until the final data are available. Material adverse changes in the final data could significantly harm our business prospects.

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

Numerous pending and issued U.S. and foreign patent rights and other proprietary rights owned by third parties relate to pharmaceutical compositions, methods of preparation and manufacturing, and methods of use and administration. We cannot predict with any certainty which, if any, patent rights 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 sufficiency of the scope and adequacy of these licenses is very uncertain in view of the 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 to avoid a need to secure a license. If we are required to enter into a license with a third party, our potential economic benefit for the products subject to the license will be diminished. If a license is not available on commercially reasonable terms or at all, we may be prevented from developing and commercializing the drug, which could significantly harm our business, results of operations, and financial condition.

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

The patent positions of pharmaceutical and biotechnology companies, such as ours, are uncertain and involve complex legal and factual issues. We own more than 290 U.S. and 1000 foreign patents and have 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, *inter partes* review, re-examinations 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 prior to the commercialization of the drug. Moreover, even if a patent encompassing a drug has not expired prior to the drug's commercialization, the patent may only provide a short period of protection following the commercialization of products. In addition, our patents may be subject to post grant proceedings, such as *inter partes* review and re-examinations, before the U.S. Patent and Trademark Office (or equivalent proceedings in other jurisdictions), 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 will 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 rely on trade secret protection and other unpatented proprietary rights for important proprietary technologies, and any loss of such rights could harm our business, results of operations and financial condition.

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

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 (or if we cannot secure product liability insurance), 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.

If we or current or future collaborators or service providers fail to comply with healthcare laws and regulations, we or they could be subject to enforcement actions and civil or criminal penalties.

Although we do not currently have any products on the market, once we begin commercializing our drug candidates, we will be subject to additional healthcare statutory and regulatory requirements and enforcement by the federal and state governments of the jurisdictions in which we conduct our business. Healthcare providers, physicians and third-party payers play a primary role in the recommendation and prescription of any drug candidates for which we obtain marketing approval. Our future arrangements with third-party payers and customers may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which we market, sell and distribute our therapeutic candidates for which we obtain marketing approval. Restrictions under applicable federal and state healthcare laws and regulations, include the following:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and willfully soliciting, receiving, offering, or paying remuneration (a term interpreted broadly to include anything of value, including, for example, gifts, discounts, and credits), directly or indirectly, in cash or in kind, to induce or reward, or in return for, either the referral of an individual for, or the purchase, order, or recommendation of, an item or service reimbursable under a federal healthcare program, such as the Medicare and Medicaid programs;
- federal civil and criminal false claims laws and civil monetary penalty laws, such as the U.S. federal False Claims Act (FCA), which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment to Medicare, Medicaid, or other third-party payers that are false or fraudulent, or making a false statement or record material to payment of a false claim or avoiding, decreasing, or concealing an obligation to pay money owed to the federal government. In addition, the government may assert that a claim including items and services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the FCA;
- provisions of the federal Health Insurance Portability and Accountability Act of 1996 (HIPAA), which created new federal criminal statutes, referred to as the "HIPAA All-Payer Fraud Prohibition," that prohibit knowingly and willfully executing a scheme to defraud any healthcare benefit program and making false statements relating to healthcare matters;

- federal transparency laws, including the federal Physician Payment Sunshine Act, which require manufacturers of certain drugs and biologics to track and disclose payments and other transfers of value they make to U.S. physicians (currently defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals as well as physician ownership and investment interests in the manufacturer, and that such information is subsequently made publicly available in a searchable format on a CMS website, effective January 1, 2022, these reporting obligations will extend to include transfers of value made to certain non-physician assistants and nurse practitioners;
- provisions of HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act and its implementing regulations, which imposes certain requirements relating to the privacy, security and transmission of individually identifiable health information; and
- state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payer, including commercial insurers, state transparency reporting and compliance laws; and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and which may not have the same effect, thus complicating compliance efforts.

Ensuring that our future business arrangements with third parties comply with applicable healthcare laws and regulations could involve substantial costs. If our operations are found to be in violation of any such requirements, we may be subject to penalties, including administrative, civil or criminal penalties, imprisonment, monetary damages, the curtailment or restructuring of our operations, or exclusion from participation in government contracting, healthcare reimbursement or other government programs, including Medicare and Medicaid, any of which could adversely affect financial results. Although effective compliance programs can mitigate the risk of investigation and prosecution for violations of these laws, these risks cannot be entirely eliminated. Any action against us for an alleged or suspected violation could cause us to incur significant legal expenses and could divert our management's attention from the operation of our business, even if our defense is successful. In addition, achieving and sustaining compliance with applicable laws and regulations may be costly to us in terms of money, time and resources.

Disruptions to the normal functioning of the FDA and other government agencies could hinder their ability to perform and carry out important roles and activities on which the operation of our business relies, which could negatively impact our business.

The ability of the FDA to review and approve new products can be affected by a variety of factors, including government budget and funding levels, ability to hire and retain key personnel and accept the payment of user fees, and statutory, regulatory, and policy changes. Average review times at the agency have fluctuated in recent years as a result. In addition, government funding of other agencies on which our operations may rely is subject to the political process, which is inherently fluid and unpredictable. In response to the COVID-19 pandemic, on March 10, 2020 the FDA announced its intention to postpone most inspections of foreign manufacturing facilities while local, national and international conditions warrant. Since March 2020, foreign and domestic inspections by FDA have largely been on hold with FDA announcing plans in July 2020 to resume prioritized domestic inspections. Regulatory authorities outside the U.S. may adopt similar restrictions or other policy measures in response to the COVID-19 pandemic and may experience delays in their regulatory activities.

Disruptions at the FDA and other agencies may also slow the time necessary for new drugs to be reviewed and/or approved by necessary government agencies, which would adversely affect our business. For example, over the last several years the U.S. government has shut down several times and certain regulatory agencies, such as the FDA, have had to furlough critical FDA and other government employees and stop critical activities. Additionally, as of June 23, 2020, the FDA noted it is continuing to ensure timely reviews of applications for medical products during the COVID-19 pandemic in line with its user fee performance goals; however, FDA may not be able to continue its current pace and review timelines could be extended. If a prolonged government shutdown occurs, it could significantly impact the ability of the FDA to timely review and process our regulatory submissions, which could have a material adverse effect on our business. Further, future shutdowns of other government agencies, such as the SEC, may also impact our business through review of our public filings and our ability to access the public markets.

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

From time to time, third parties have asserted, and may in the future assert, that we or our partners infringe their proprietary rights, such as patents and trade secrets, or have otherwise breached our obligations to them. A third party often bases its assertions on a claim that its patents cover our technology platform or drug candidates or that we have misappropriated its confidential or proprietary information. Similar assertions of infringement could be based on future patents that may issue to third

parties. In certain of our agreements with our partners, we are obligated to indemnify and hold harmless our collaboration partners from intellectual property infringement, product liability and certain other claims, which could cause us to incur substantial costs and liability if we are called upon to defend ourselves and our partners against any claims. If a third party obtains injunctive or other equitable relief against us or our partners, they could effectively prevent us, or our partners, from developing or commercializing, or deriving revenue from, certain drugs or drug candidates in the U.S. and abroad. Costs associated with litigation, substantial damage claims, indemnification claims or royalties paid for licenses from third parties could have a material adverse effect on our business, financial condition and results of operations.

We are involved in legal proceedings where we or other third parties are enforcing or seeking intellectual property rights, invalidating or limiting patent rights that have already been allowed or issued, or otherwise asserting proprietary rights through one or more potential legal remedies. For example, we are currently involved in German litigation proceedings whereby we and Bayer Healthcare LLC are seeking at least co-ownership rights in certain of each other's patent filings related to PEGylated Factor VIII products. We believe that Bayer's claims to an ownership interest in these is without merit and we are vigorously defending our exclusive ownership rights to this intellectual property. These German litigation proceedings are currently stayed pending the outcome of ongoing mediation efforts. In the U.S., Bayer filed a complaint against Baxalta and Nektar alleging the ADYNOVATE® product infringes a Bayer patent. Although the U.S. court dismissed all of Bayer's claims against Nektar and Nektar was removed as a defendant, a jury found the Bayer patent was valid and infringed, and awarded Bayer damages, the responsibility of which are borne fully by Baxalta. This damages award does not impact our royalties from sales of ADYNOVATE® under our collaboration with Baxalta and Baxalta is currently appealing the decision. In other U.S. proceedings, Nektar and Baxalta filed complaints against Bayer Healthcare alleging Bayer's JIVI® product infringes several Nektar patents. A jury trial in this proceeding is scheduled to begin in September 2020. In addition, in response to notices AstraZeneca and we received from the generic companies, Apotex (Apotex Inc. and Apotex Corp.), MSN Laboratories Pvt. Ltd., and Aurobindo Pharma USA INC. alerting us that they had filed abbreviated new drug applications (ANDAs) with the FDA to market a generic version of MOVANTIK® (Paragraph IV Certifications), AstraZeneca and we together filed patent infringement suits against each of these generic companies. In these Paragraph IV Certifications, all three generic companies only alleged one patent, U.S. Patent No. 9,012,469, is invalid, unenforceable and/or not infringed by the manufacture, use or sale of their respective generic products. At this time, none of the other five Orange Book listed patents associated with MOVANTIK® are being challenged by these generics companies. In addition, on March 18, 2020, Aether Therapeutics Inc. filed a complaint against AstraZeneca, Nektar and Daiichi-Sanko, Inc. alleging MOVANTIK® infringes U.S. Patent Nos. 6,713,488, 8,748,448, 8,883,817 and 9,061,024. Also, on June 5, 2020, UCB Pharma S.A. and Celltech R&D Limited (collectively UCB) served notice of a Declaratory Judgment of Patent Invalidity proceeding filed in the United States District Court for the District of Delaware seeking a declaration of invalidity of specified U.S. patents owned by Nektar and licensed to UCB. UCB is also pursuing similar actions in other jurisdictions. We are also regularly involved in opposition proceedings at the European Patent Office and in *inter partes* review and re-examination proceedings at the U.S. Patent and Trademark Office where third parties seek to invalidate or limit the scope of our allowed patent applications or issued patents covering (among other things) our drugs and platform technologies.

We are involved in legal proceedings other than those related to intellectual property. For example, on October 30, 2018, we and certain of our executives were named in a putative securities class action complaint filed in the U.S. District Court for the Northern District of California (U.S. District Court in California), which complaint was subsequently amended on May 15, 2019. Also, on February 13, 2019, and February 18, 2019, shareholder derivative complaints were filed in the U.S. District Court for the District of Delaware naming the CEO, CFO and certain members of our board of directors. These class action and shareholder derivative actions assert, among other things, that for a period beginning at least from November 11, 2017 through October 2, 2018, our stock was inflated due to alleged misrepresentations about the efficacy and safety of bempegaldesleukin. On July 13, 2020, the U.S. District Court in California granted Nektar's motion to dismiss all claims in this securities class action filing, stating (among other things) that the amended complaint failed "to adequately allege that any of the statements . . . identified by Plaintiffs were false or misleading." Following the motion to dismiss, on August 10, 2020, the class action plaintiffs filed a second consolidated class action complaint, and the matter remains pending.

In addition, on August 19, 2019, we and certain of our executives were named in a putative securities class action complaint filed in U.S. District Court in California, which complaint was subsequently amended on January 24, 2020. Also, on February 11, 2020, and on February 20, 2020, shareholder derivative complaints were filed in U.S. District Court in California naming the CEO, CFO and certain members of our board of directors, which derivative complaints were consolidated and subsequently amended on July 1, 2020. The class action and shareholder derivative complaints assert, among other things, that for a period between February 15, 2019 and August 8, 2019, inclusive, our stock was inflated due to an alleged failure to disclose a reduction in the planned number of bempegaldesleukin clinical trials and a bempegaldesleukin manufacturing issue.

The cost to us in initiating or defending any litigation or other proceeding, even if resolved in our favor, could be substantial, and litigation would divert our management's attention. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could delay our research and development efforts or result in financial implications either in

terms of seeking license arrangements or payment of damages or royalties. There is no guarantee that our insurance coverage for damages resulting from a litigation or the settlement thereof (including the putative securities class action lawsuits and shareholder derivative lawsuits) is sufficient, thereby resulting in substantial financial risk to the Company.

All of the securities class action lawsuits and derivative complaints are in the early stages. Accordingly, we cannot reasonably estimate a potential future loss or a range of potential future losses. However, an unfavorable resolution could potentially have a material adverse effect on our business, financial condition, and results of operations or prospects, and potentially result in paying monetary damages. We have recorded no liability for these matters in our Condensed Consolidated Balance Sheets at either September 30, 2020 or December 31, 2019.

We significantly rely on information technology systems, and any failure, inadequacy, interruption, breach, or security lapse of that technology within our internal computer systems, or those of our partners, vendors, CROs, CMOs or other contractors or consultants, may result in a material disruption of our development programs and our operations.

As part of our business, we collect, store and transmit large amounts of confidential information, proprietary data, intellectual property and personal data. Despite the implementation of security measures, our internal computer systems and those of our partners, vendors, contract research organizations (CROs), contract manufacturing organizations (CMOs) and other contractors and consultants are vulnerable to loss, damage, denial-of-service, unauthorized access, or misappropriation. Such cybersecurity breaches may be the result of unauthorized activity by our employees and contractors, as well as by third parties who use cyberattack techniques involving malware, hacking and phishing, among others. Our information technology systems, and those of our partners, vendors, CROs, CMOs or other contractors or consultants are also vulnerable to natural disasters, terrorism, war and telecommunication and electrical failures. Any such compromise or disruption, no matter the origin, may cause an interruption of our operations. For instance, the loss of preclinical data or data from any clinical trial involving our product candidates could result in delays in our development and regulatory filing efforts and significantly increase our costs. In addition, the loss, corruption or unauthorized disclosure of our trade secrets, personal data or other proprietary or sensitive information could compromise the commercial viability of one or more of our programs, which would negatively affect our business. Also, the costs to us to investigate and mitigate cybersecurity incidents could be significant.

If we are found in violation of privacy and data protection laws, we may be required to pay penalties, be subjected to scrutiny by regulators or governmental entities, or be suspended from participation in government healthcare programs, which may adversely affect our business, financial condition and results of operations.

Our business is subject to many laws and regulations intended to protect the privacy and data of individuals participating in our clinical trials and our employees, among others. For example, with regard to individuals participating in our clinical trials, these laws and regulations govern the safeguarding the privacy, integrity, availability, security and transmission of individually identifiable health information. In addition to federal laws and regulations in the United States, such as the HIPAA requirements relating to the privacy, security and transmission of individually identifiable health information, many state and foreign laws also govern the privacy and security of health information. These laws often differ from each other in significant ways, thus complicating compliance efforts. The global data protection landscape is rapidly evolving, and implementation standards and enforcement practices are likely to remain uncertain for the foreseeable future.

In the United States, California recently enacted the California Consumer Privacy Act (CCPA), which took effect on January 1, 2020. The CCPA gives California residents expanded rights to access and delete their personal information, opt out of certain personal information sharing, and receive detailed information about how their personal information is used. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. The CCPA has increased our compliance costs and may increase our potential liability. The CCPA has prompted a number of proposals for new federal and state privacy legislation. If passed, these proposals could increase our potential liability, increase our compliance costs and adversely affect our business.

The European Regulation 2016/679, known as the General Data Protection Regulation (GDPR), and the implementing legislation of EU Member States, apply to the collection and processing of personal data, including health-related information, by companies located in the EU, or in certain circumstances, by companies located outside of the EU and processing personal information of individuals located in the EU. These laws impose strict obligations on the ability to process personal data, including health-related information, in particular in relation to their collection, use, disclosure and transfer. These include several requirements relating to, for example, (i) obtaining, in some situations, the consent of the individuals to whom the personal data relates, (ii) the information provided to the individuals about how their personal information is used, and (iii) ensuring the security and confidentiality of the personal data. The GDPR prohibits the transfer of personal data to countries outside of the European Economic Area (EEA), such as the United States, which are not considered by the European Commission to provide an adequate

level of data protection. Potential pecuniary fines for noncompliant companies may be up to the greater of €20 million or 4% of annual global revenue.

To the extent that we are found liable for the inappropriate collection, storage, use or disclosure of protected information of individuals (such as employees and or clinical patients protected by any privacy or data protection law), we could be subject to reputational harm, monetary fines (such as those imposed by the GDPR and CCPA), civil suits, civil penalties or criminal sanctions and requirements to disclose the breach, and the development of our product candidates could be delayed. In addition, we continue to be subject to new and evolving data protection laws and regulations from a variety of jurisdictions, and there is a risk that our systems and processes for managing and protecting data may be found to be inadequate, which could materially adversely affect our business, financial condition and results of operations.

The United Kingdom's withdrawal from the European Union (EU) may have a negative effect on global economic conditions, access to patient markets, and regulatory certainty, which could adversely affect our operations.

On January 31, 2020, the United Kingdom (UK) withdrew from the EU (Brexit), thereby triggering a transition period that is set to end on December 31, 2020, during which the UK and the EU will negotiate their future relationship.

However, the terms of the withdrawal have yet to be fully negotiated. The implementation period began February 1, 2020 and will continue until December 31, 2020. During this 11-month period, the UK will continue to follow all of the EU's rules and its trading relationship will remain the same. However, regulations (including financial laws and regulations, tax and free trade agreements, intellectual property rights, data protection laws, supply chain logistics, environmental, health and safety laws and regulations, medicine licensing and regulations, immigration laws and employment laws) have yet to be addressed. This lack of clarity on future UK laws and regulations and their interaction with EU laws and regulations may negatively impact foreign direct investment in the UK, increase costs, depress economic activity, and restrict access to capital. The uncertainty concerning the UK's legal, political, and economic relationship with the EU after Brexit may be a source of instability in the international markets, create significant currency fluctuations, and/or otherwise adversely affect trading agreements or similar cross-border co-operation arrangements (whether economic, tax, fiscal, legal, regulatory or otherwise) beyond the date of Brexit.

These developments, or the perception that any of them could occur, may have a significant adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and limit the ability of key market participants to operate in certain financial markets. In particular, it could also lead to a period of considerable uncertainty in relation to the UK financial and banking markets, as well as on the regulatory process in Europe. Asset valuations, currency exchange rates, and credit ratings may also be subject to increased market volatility.

If the UK and the EU are unable to negotiate acceptable agreements or if other EU Member States pursue withdrawal, barrier-free access between the UK and other EU Member States or among the European Economic Area overall could be diminished or eliminated. The long-term effects of Brexit will depend on any agreements (or lack thereof) between the UK and the EU and, in particular, any arrangements for the UK to retain access to EU markets either during a transitional period or more permanently.

There is currently considerable uncertainty on regulatory processes in Europe and the European Economic Area. The lack of clarity about which EU rules and regulations the UK would replace or replicate, such as rules and regulations relating to trade (including the importation and exportation of pharmaceuticals), clinical research, and intellectual property, increases the risk that our clinical trials being carried out in UK are delayed or disrupted. Further, depending on which rules and regulations the UK ultimately adopts, our business could be negatively affected.

Global economic conditions may negatively affect us and may magnify certain risks that affect our business.

Our operations and performance have been, and may continue to be, affected by global economic conditions, including, for example, adverse global economic conditions resulting from the COVID-19 pandemic. See also the risk factor in this Item 1A titled "*Our business could be adversely affected by the effects of health epidemics, including the recent COVID-19 pandemic.*" As a result of global economic conditions, some third-party payers may delay or be unable to satisfy their reimbursement obligations. Job losses or other economic hardships may also affect patients' ability to afford healthcare as a result of increased co-pay or deductible obligations, greater cost sensitivity to existing co-pay or deductible obligations, lost healthcare insurance coverage or for other reasons. We believe such conditions have led and could continue to lead to reduced demand for our and our collaboration partners' drug products, which could have a material adverse effect on our product sales, business and results of operations.

Further, with rising international trade tensions, our business may be adversely affected following new or increased tariffs that result in the increased global clinical trial costs as a result of international transportation of clinical drug supplies, as well as the costs of materials and products imported into the U.S. Tariffs, trade restrictions or sanctions imposed by the U.S. or

other countries could increase the prices of our and our collaboration partners' drug products, affect our and our collaboration partners' ability to commercialize such drug products, or create adverse tax consequences in the U.S. or other countries. As a result, changes in international trade policy, changes in trade agreements and the imposition of tariffs or sanctions by the U.S. or other countries could materially adversely affect our results of operations and financial condition.

Our business could be negatively impacted by corporate citizenship and sustainability matters.

There is an increased focus from certain investors, employees, and other stakeholders concerning corporate citizenship and sustainability matters, which include environmental concerns and social investments. We could fail to meet, or be perceived to fail to meet, the expectations of these certain investors, employees and other stakeholders concerning corporate citizenship and sustainability matters, thereby resulting in a negative impact to our business.

Our operations may involve hazardous materials and are subject to environmental, health, and safety laws and regulations. Compliance with these laws and regulations is costly, and we may incur substantial liability arising from our activities involving the use of hazardous materials.

As a research-based biopharmaceutical company with significant research and development and manufacturing operations, we are subject to extensive environmental, health, and safety laws and regulations, including those governing the use of hazardous materials. Our research and development and manufacturing activities involve the controlled use of chemicals, radioactive compounds, and other hazardous materials. The cost of compliance with environmental, health, and safety regulations is substantial. If an accident involving these materials or an environmental discharge were to occur, we could be held liable for any resulting damages, or face regulatory actions, which could exceed our resources or insurance coverage.

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 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 collaboration partners and important vendors and suppliers to us or our collaboration partners may also be subject to catastrophic events, such as earthquakes, floods, hurricanes, tornadoes and pandemics any of which could harm our business (including, for example, by disrupting supply chains important to the success of 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.

Critical Accounting Policies and Estimates

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

We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. We evaluate our estimates on an ongoing basis. Actual results may differ from those estimates under different assumptions or conditions. Other than as the result of the adoption of the new credit impairment accounting guidance as described in Note 1 to our Condensed Consolidated Financial Statements, there have been no material changes to our critical accounting policies and estimates discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our market risks at September 30, 2020 have not changed materially from those discussed in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2019 on file with the SEC.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

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

Changes in Internal Control Over Financial Reporting

We continuously seek to improve the efficiency and effectiveness of our internal controls. This results in refinements to processes throughout the Company. However, there was no change in our internal control over financial reporting that occurred in the three months ended September 30, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Specifically, despite the fact that most of our employees are working remotely due to the COVID-19 pandemic, we do not believe that our adjustments to how we work have materially impacted our internal controls over financial reporting. We continue to monitor and assess the potential impact of the COVID-19 pandemic, and the related shelter-in-place requirements, on our internal controls and strive to minimize the impact on our internal control design and operating effectiveness.

Limitations on the Effectiveness of Controls

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

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None, including no purchases of any class of our equity securities by us or any affiliate pursuant to any publicly announced repurchase plan in the three months ended September 30, 2020.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

| <u>Exhibit Number</u> | <u>Description of Documents</u> |
|-----------------------|---|
| 3.1(1) | Certificate of Incorporation of Inhale Therapeutic Systems (Delaware), Inc. |
| 3.2(2) | Certificate of Amendment of the Amended Certificate of Incorporation of Inhale Therapeutic Systems, Inc. |
| 3.3(3) | Certificate of Ownership and Merger of Nektar Therapeutics. |
| 3.4(4) | Certificate of Ownership and Merger of Nektar Therapeutics AL, Corporation with and into Nektar Therapeutics. |
| 3.5(5) | Amended and Restated Bylaws of Nektar Therapeutics. |
| 31.1(6) | Certification of Nektar Therapeutics' principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a). |
| 31.2(6) | Certification of Nektar Therapeutics' principal financial officer required by Rule 13a-14(a) or Rule 15d-14(a). |
| 32.1* | Section 1350 Certifications. |
| 101.SCH(6) | Inline XBRL Taxonomy Extension Schema Document. |
| 101.CAL(6) | Inline XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.LAB(6) | Inline XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE(6) | Inline XBRL Taxonomy Extension Presentation Linkbase Document. |
| 101.DEF(6) | Inline XBRL Taxonomy Extension Definition Linkbase Document. |
| 104(6) | Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101). |

1. Incorporated by reference to Exhibit 3.1 to Nektar Therapeutics' Quarterly Report on Form 10-Q, for the quarter ended June 30, 1998.

2. Incorporated by reference to Exhibit 3.3 to Nektar Therapeutics' Quarterly Report on Form 10-Q, for the quarter ended June 30, 2000.

3. Incorporated by reference to Exhibit 3.1 to Nektar Therapeutics' Current Report on Form 8-K, filed with the SEC on January 23, 2003.

4. Incorporated by reference to Exhibit 3.6 to Nektar Therapeutics' Annual Report on Form 10-K, for the year ended December 31, 2009.

5. Incorporated by reference to Exhibit 3.1 to Nektar Therapeutics' Current Report on Form 8-K, filed with the SEC on December 17, 2019.

6. Filed herewith.

* 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.

++ Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of 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.

By: /s/ GIL M. LABRUCHERIE

Gil M. Labrucherie
Senior Vice President, Chief Operating Officer, and Chief Financial Officer

Date: November 5, 2020

By: /s/ JILLIAN B. THOMSEN

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

Date: November 5, 2020

CERTIFICATIONS

I, Howard W. Robin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 30, 2020 of Nektar Therapeutics;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/ HOWARD W. ROBIN

Howard W. Robin
Chief Executive Officer, President and Director

CERTIFICATIONS

I, Gil M. Labrucherie, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 30, 2020 of Nektar Therapeutics;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/ GIL M. LABRUCHERIE

Gil M. Labrucherie
Senior Vice President, Chief Operating Officer, and Chief
Financial Officer

SECTION 1350 CERTIFICATIONS*

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

1. The Company’s Quarterly Report on Form 10-Q for the three months ended September 30, 2020, to which this Certification is attached as Exhibit 32.1 (the “Periodic Report”), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2020

/s/ HOWARD W. ROBIN

Howard W. Robin
Chief Executive Officer, President and Director

/s/ GIL M. LABRUCHERIE

Gil M. Labrucherie
**Senior Vice President, Chief Operating Officer, and Chief
Financial Officer**

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