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

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2023**

**OR**

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

**For the transition period from to**

**Commission File Number: 000-30319**

# INNOVIVA, INC.

(Exact Name of Registrant as Specified in its Charter)

| **Delaware** | **94-3265960** |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

**1350 Old Bayshore Highway Suite 400**
**Burlingame, CA 94010**
(Address of Principal Executive Offices)

**(650) 238-9600**
(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, par value $0.01 per share | INVA | The 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 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 in Rule 12b-2 of the Act). Yes ☐ No ☒

The number of shares of registrant's common stock outstanding on April 20, 2023 was 65,504,384.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**INNOVIVA, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
(In thousands, except per share data)

| | March 31, 2023 (unaudited) | December 31, 2022 * |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 144,049 | $ 291,049 |
| Accounts receivable, net | 15,490 | 9,401 |
| Receivables from collaboration arrangement | 60,314 | 54,672 |
| Inventory | 49,653 | 55,897 |
| Prepaid expenses | 24,119 | 29,559 |
| Other current assets | 2,821 | 2,933 |
| Total current assets | 296,446 | 443,511 |
| Property and equipment, net | 180 | 170 |
| Equity method investments | 54,971 | 39,154 |
| Equity and long-term investments | 400,894 | 363,859 |
| Capitalized fees paid, net | 94,151 | 97,607 |
| Right-of-use assets | 2,973 | 3,265 |
| Goodwill | 27,946 | 26,713 |
| Intangible assets | 248,314 | 252,919 |
| Other assets | 3,893 | 4,299 |
| Total assets | $ 1,129,768 | $ 1,231,497 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 5,933 | $ 2,939 |
| Accrued personnel-related expenses | 4,223 | 8,022 |
| Accrued interest payable | 833 | 4,359 |
| Deferred revenue | 2,094 | 2,094 |
| Convertible subordinated notes due 2023, net of issuance costs | — | 96,193 |
| Income tax payable | 154 | 154 |
| Other accrued liabilities | 24,900 | 21,207 |
| Total current liabilities | 38,137 | 134,968 |
| Long-term debt, net of discount and issuance costs | 444,692 | 444,180 |
| Other long-term liabilities | 70,133 | 70,918 |
| Deferred tax liabilities, net | 5,392 | 5,771 |
| Income tax payable, long-term | 9,921 | 9,872 |
| Commitments and contingencies (Note 12) | | |
| Stockholders' equity: | | |
| Preferred stock: $0.01 par value, 230 shares authorized, no shares issued and outstanding | — | — |
| Common stock: $0.01 par value, 200,000 shares authorized, 65,824 and 69,188 issued and outstanding as of March 31, 2023 and December 31, 2022, respectively | 659 | 692 |
| Treasury stock: at cost, 32,005 shares as of March 31, 2023 and December 31, 2022, respectively | (393,829) | (393,829) |
| Additional paid-in capital | 1,124,709 | 1,163,836 |
| Accumulated deficit | (170,046) | (204,911) |
| Total stockholders' equity | 561,493 | 565,788 |
| Total liabilities and stockholders' equity | $ 1,129,768 | $ 1,231,497 |

*Condensed consolidated balance sheet as of December 31, 2022 has been derived from audited consolidated financial statements.

*See accompanying notes to condensed consolidated financial statements.*

**INNOVIVA, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
(In thousands, except per share data)
(Unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| | **2023** | **2022** |
| Revenue: | | |
| Royalty revenue, net of amortization of capitalized fees paid of $3,456 in the three months ended March 31, 2023 and 2022 | $ 56,858 | $ 90,059 |
| Net product sales | 11,514 | — |
| License revenue | 8,000 | — |
| Total revenue | 76,372 | 90,059 |
| Expenses: | | |
| Cost of products sold (inclusive of amortization of inventory fair value adjustments, excluding depreciation and amortization of intangible assets) | 8,749 | — |
| Cost of license revenue | 1,600 | — |
| Selling, general and administrative | 19,735 | 6,492 |
| Research and development | 12,588 | 5,838 |
| Amortization of acquired intangible assets | 3,805 | — |
| Loss on debt extinguishment | — | 20,662 |
| Changes in fair values of equity method investments, net | (15,817) | 11,950 |
| Changes in fair values of other equity and long-term investments, net | 2,164 | (2,539) |
| Interest and dividend income | (3,365) | (322) |
| Interest expense | 4,427 | 3,010 |
| Other expense, net | 1,346 | 250 |
| Total expenses | 35,232 | 45,341 |
| Income before income taxes | 41,140 | 44,718 |
| Income tax expense, net | 6,275 | 6,860 |
| Net income | 34,865 | 37,858 |
| Net income attributable to noncontrolling interests | — | 22,085 |
| Net income attributable to Innoviva stockholders | $ 34,865 | $ 15,773 |
| Basic net income per share attributable to Innoviva stockholders | $ 0.51 | $ 0.23 |
| Diluted net income per share attributable to Innoviva stockholders | $ 0.42 | $ 0.20 |
| Shares used to compute Innoviva basic and diluted net income per share: | | |
| Shares used to compute basic net income per share | 67,786 | 69,544 |
| Shares used to compute diluted net income per share | 89,788 | 93,730 |

*See accompanying notes to condensed consolidated financial statements.*

**INNOVIVA, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
(In thousands)
(Unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2023 | 2022 |
| Net income | $ 34,865 | $ 37,858 |
| Comprehensive income | 34,865 | 37,858 |
| Comprehensive income attributable to noncontrolling interests | — | 22,085 |
| Comprehensive income attributable to Innoviva stockholders | $ 34,865 | $ 15,773 |

*See accompanying notes to condensed consolidated financial statements.*

**INNOVIVA, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
(In thousands)
(Unaudited)

| | Three Months Ended March 31, 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Treasury Stock | | Total Stockholders' Equity |
| | Shares | Amount | | | Shares | Amount | |
| **Balance as of January 1, 2023** | 69,188 | $ 692 | $ 1,163,836 | $ (204,911) | 32,005 | $ (393,829) | $ 565,788 |
| Issuance of common stock units and stock awards, net of repurchase of shares to satisfy tax withholding | 55 | 1 | (24) | — | — | — | (23) |
| Repurchase of common stock | (3,419) | (34) | (40,701) | — | — | — | (40,735) |
| Stock-based compensation | — | — | 1,598 | — | — | — | 1,598 |
| Net income | — | — | — | 34,865 | — | — | 34,865 |
| **Balance as of March 31, 2023** | 65,824 | $ 659 | $ 1,124,709 | $ (170,046) | 32,005 | $ (393,829) | $ 561,493 |

| | Three Months Ended March 31, 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Treasury Stock | | Noncontrolling Interest | Total Stockholders' Equity |
| | Shares | Amount | | | Shares | Amount | | |
| **Balance as of January 1, 2022** | 69,566 | $ 696 | $ 1,264,024 | $ (456,148) | 32,005 | $ (393,829) | $ 111,192 | $ 525,935 |
| Cumulative adjustment due to adoption of ASU 2020-06 | — | — | (65,361) | 37,238 | — | — | — | (28,123) |
| Distributions to noncontrolling interests | — | — | — | — | — | — | (6,507) | (6,507) |
| Fair value of noncontrolling interests in a consolidated variable interest entity | — | — | — | — | — | — | 38,471 | 38,471 |
| Exercise of stock options and issuance of common stock units and stock awards, net of repurchase of shares to satisfy tax withholding | 28 | — | 214 | — | — | — | — | 214 |
| Stock-based compensation | — | — | 620 | — | — | — | 334 | 954 |
| Capped call options associated with convertible senior notes due 2028 | — | — | (16,585) | — | — | — | — | (16,585) |
| Net income | — | — | — | 15,773 | — | — | 22,085 | 37,858 |
| **Balance as of March 31, 2022** | 69,594 | $ 696 | $ 1,182,912 | $ (403,137) | 32,005 | $ (393,829) | $ 165,575 | $ 552,217 |

*See accompanying notes to condensed consolidated financial statements.*

**INNOVIVA, INC.**
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**
(In thousands)
(Unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2023 | 2022 |
| **Cash flows from operating activities** | | |
| Net income | $ 34,865 | $ 37,858 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Deferred income taxes | (812) | 6,860 |
| Amortization of capitalized fees and depreciation of property and equipment | 3,479 | 3,501 |
| Amortization of acquired intangible assets | 3,805 | — |
| Inventory fair value step-up adjustment included in cost of products sold | 6,842 | — |
| Stock-based compensation | 1,598 | 954 |
| Amortization of debt discount and issuance costs | 523 | 377 |
| Changes in fair values of equity method investments, net | (15,817) | 11,950 |
| Changes in fair values of other equity and long-term investments, net | 2,164 | (2,539) |
| Loss on extinguishment of debt | — | 20,662 |
| Accrued interest income added to long-term investments | (1,482) | — |
| Other non-cash items | (2,062) | 280 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (6,089) | — |
| Receivables from collaboration arrangement | (5,642) | 17,196 |
| Inventory | (598) | — |
| Prepaid expenses | 5,440 | 1,345 |
| Other assets | 518 | 99 |
| Accounts payable | 2,994 | 198 |
| Accrued personnel-related expenses and other accrued liabilities | (565) | 2,116 |
| Accrued interest payable | (3,526) | (2,755) |
| Income tax payable | 49 | — |
| Net cash provided by operating activities | 25,684 | 98,102 |
| **Cash flows from investing activities** | | |
| Purchases of equity method investments | — | (45,000) |
| Purchases of equity and long-term investments | (35,689) | (11,217) |
| Purchases of equity investments managed by ISP Fund LP | (3,891) | (2,015) |
| Sales of equity investments managed by ISP Fund LP | 1,289 | 24,281 |
| Purchases and sales of other investments managed by ISP Fund LP, net | 2,602 | (132,266) |
| Purchases of property and equipment | (33) | (9) |
| Cash acquired through the consolidation of Entasis | — | 23,070 |
| Net cash used in investing activities | (35,722) | (143,156) |
| **Cash flows from financing activities** | | |
| Distributions to noncontrolling interests | — | (6,507) |
| Repurchase of common stock | (40,735) | — |
| Repurchase of shares to satisfy tax withholding | (23) | (46) |
| Proceeds from issuances of common stock, net | — | 260 |
| Payment for repurchase of convertible subordinated notes due 2023 | (96,204) | (165,131) |
| Purchases of capped call options associated with convertible senior notes due 2028 | — | (21,037) |
| Proceeds from issuance of convertible senior notes due 2028, net of issuance costs | — | 252,792 |
| Net cash (used in) provided by financing activities | (136,962) | 60,331 |
| **Net (decrease) increase in cash and cash equivalents** | (147,000) | 15,277 |
| **Cash and cash equivalents at beginning of period** | 291,049 | 201,525 |
| **Cash and cash equivalents at end of period** | $ 144,049 | $ 216,802 |

| | Three Months Ended March 31, | |
|---|---|---|
| | 2023 | 2022 |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Cash paid for interest | $ 6,202 | $ 5,411 |
| **Supplemental Disclosure of Non-cash Investing and Financing Activities:** | | |
| Adoption of ASU 2020-06 | $ — | $ 28,123 |
| Right-of-use asset obtained through the consolidation of Entasis Therapeutics Holdings, Inc. | $ — | $ 3,289 |

*See accompanying notes to condensed consolidated financial statements.*

## 1. Description of Operations and Summary of Significant Accounting Policies

### *Description of Operations*

Innoviva, Inc. (and where context requires, together with its subsidiaries referred to as "Innoviva", the "Company", or "we" and other similar pronouns) is a company with a portfolio of royalties and innovative healthcare assets. Our royalty portfolio contains respiratory assets partnered with Glaxo Group Limited ("GSK"), including RELVAR®/BREO® ELLIPTA® (fluticasone furoate/vilanterol, "FF/VI") and ANORO® ELLIPTA® (umeclidinium bromide/ vilanterol, "UMEC/VI"), and up until July 2022, TRELEGY® ELLIPTA® (the combination FF/UMEC/VI). We sold our 15% ownership interest in Theravance Respiratory Company, LLC ("TRC") on July 20, 2022, and are no longer entitled to receive royalties on sales of TRELEGY® ELLIPTA® products. Under the Long-Acting Beta2 Agonist ("LABA") Collaboration Agreement, Innoviva is entitled to receive royalties from GSK on sales of RELVAR®/BREO® ELLIPTA® as follows: 15% on the first $3.0 billion of annual global net sales and 5% for all annual global net sales above $3.0 billion; and royalties from the sales of ANORO® ELLIPTA®, which tier upward at a range from 6.5% to 10%.

We expanded our portfolio of royalties and innovative healthcare assets through the acquisition of Entasis Therapeutics Holdings Inc. ("Entasis") on July 11, 2022 and the acquisition of La Jolla Pharmaceutical Company ("La Jolla") on August 22, 2022. Our commercial and marketed products include GIAPREZA® (angiotensin II), approved to increase blood pressure in adults with septic or other distributive shock, and XERAVA® (eravacycline) for the treatment of complicated intra-abdominal infections in adults. Our development pipeline includes medicines for the treatment of bacterial infections, such as our lead asset sulbactam-durlobactam ("SUL-DUR"). As such, we have a wholly owned robust infectious disease and hospital operating platform, as well as other assets in these areas, such as a large equity stake in Armata Pharmaceuticals, a leader in bacteriophage development with potential use across a range of infectious and other serious diseases. We also have economic interests in other healthcare companies.

### *Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. The unaudited condensed consolidated financial statements have been prepared on the same basis as audited consolidated financial statements and, in our opinion, include all adjustments, consisting of all normal recurring adjustments, necessary for the fair presentation of our financial position, results of operations, comprehensive income and cash flows. The interim results are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2023, or any other periods.

The accompanying unaudited condensed consolidated financial statements include the accounts of Innoviva, our wholly-owned subsidiaries, and certain variable interest entities ("VIEs") for which we are the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation. For consolidated entities where we own or are exposed to less than 100% of the economics, we record net income attributable to noncontrolling interest in our unaudited condensed consolidated statements of income equal to the percentage of the economic or ownership interest retained in such entities by the respective noncontrolling parties. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the Securities and Exchange Commission ("SEC") on February 28, 2023, and as amended on March 20, 2023.

***Presentation Reclassification***

Amounts in equity and long-term investments and changes in fair value of equity and long-term investments, net, reported in the Company's comparative financial statements have been reclassified to conform to the current year presentation. These reclassifications had no net effect on the net income or net cash flows as previously reported.

***Factors Affecting Comparability***

Our historical financial condition and results of operations for the periods presented may not be comparable, either between periods or going forward due to the factors below and as discussed in Note 5, "Consolidated Entities and Acquisitions".

- Accounting consolidation of Entasis on February 17, 2022 and purchase of remaining noncontrolling interest in Entasis on July 11, 2022;
- Sale of our 15% ownership interest in Theravance Respiratory Company, LLC ("TRC") on July 20, 2022, and
- Acquisition of La Jolla on August 22, 2022.

***Use of Management's Estimates***

The preparation of unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. Management evaluates its significant accounting policies and estimates on an ongoing basis. We base our estimates on historical experience and other relevant assumptions that we believe to be reasonable under the circumstances. These estimates also form the basis for making judgments about the carrying values of assets and liabilities when these values are not readily apparent from other sources.

***Concentrations of Credit Risk and of Significant Suppliers and Partner***

Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and equity and long-term investments. Although we deposit our cash with multiple financial institutions, our deposits, at times, may exceed federally insured limits.

We are dependent on third-party manufacturers to supply active pharmaceutical ingredients ("API") and drug products for research and development and commercial programs. These programs could be adversely affected by significant interruption in the supply of API or drug products.

Currently, we derive most of our revenues from GSK and our near-term success depends in large part on GSK's ability to successfully develop and commercialize the products in the respiratory programs partnered with GSK. Our near-term success depends in large part upon the performance by GSK of its commercial obligations under the GSK Agreements and the commercial success of RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA®. If GSK does not devote sufficient resources to the commercialization or development of these products, is unsuccessful in its efforts, or chooses to reprioritize its commercial programs, our business would be materially harmed. GSK is responsible for all clinical and other product development, regulatory, manufacturing and commercialization activities for products developed under the GSK Agreements, including RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA®. Our quarterly royalty revenues may fluctuate due to a variety of factors, many of which are outside of our control. Our royalty revenues under the GSK Agreements may not meet our analysts' or investors' expectations due to a number of important factors.

We also started recognizing revenue from product sales as a result of our acquisition of La Jolla. Hospitals and other healthcare organizations generally purchase our products through a network of specialty distributors. These specialty distributors, which are located in the U.S., are considered our customers for accounting purposes. We do not believe that the loss of one of these distributors would significantly impact our ability to distribute our products, as we expect that sales volume would be absorbed by new or remaining distributors. Three of our customers each account for 32%, 31% and 30%, respectively, of our net product sales for the three months ended March 31, 2023. These same customers account for 38%, 23% and 36%, respectively, of our receivables from net product sales, which are included in "Accounts receivables, net" in our unaudited consolidated balance sheet as of March 31, 2023.

Refer to Item 1A. "Risk Factors" disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

***Segment Reporting***

We operate in a single segment, which is to provide capital return to stockholders by maximizing the potential value of our portfolio of royalties and innovative healthcare assets. Our Chief Operating Decision Maker ("CODM") is our Chief Executive Officer. The CODM allocates resources and evaluates the performance of Innoviva at the consolidated level using information about our revenues, operating results and other key financial data as needed. Our revenues are generated primarily from our collaborative arrangements and royalty payments from GSK, located in Great Britain. Refer to Note 3, "Revenue Recognition", for more information on our revenues for the periods presented. We also generate revenue from net sales of GIAPREZA® and XERAVA®. Our long-term assets are located within the United States.

***Variable Interest Entities***

The primary beneficiary of a variable interest entity ("VIE') is required to consolidate the assets and liabilities of the VIE. When we obtain a variable interest in another entity, we assess at the inception of the relationship and upon occurrence of certain significant events whether the entity is a VIE and, if so, whether we are the primary beneficiary of the VIE based on our power to direct the activities of the VIE that most significantly impact the VIE's economic performance and our obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

To assess whether we have the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, we consider all the facts and circumstances, including our role in establishing the VIE and our ongoing rights and responsibilities. This assessment includes identifying the activities that most significantly impact the VIE's economic performance and identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE (management and representation on the Board of Directors) and have the right to unilaterally remove those decision-makers are deemed to have the power to direct the activities of a VIE.

To assess whether we have the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, we consider all of our economic interests that are deemed to be variable interests in the VIE. This assessment requires us to apply judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE.

***Business Combination***

When we acquire an entity in a business combination, we recognize the fair value of all assets acquired, liabilities assumed, and any non-controlling interest in the acquiree and establish the acquisition date as the fair value measurement point. We recognize and measure goodwill as of the acquisition date, as the excess of the fair value of the consideration paid over the fair value of the identified net assets acquired. Acquisition-related expenses and related restructuring costs are expensed as incurred.

Several valuation methods may be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, we typically use the income method. This method starts with a forecast of all of the expected future net cash flows for each asset. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset's life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory, or economic barriers to entry. Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives.

***Cash and Cash Equivalents***

We consider all highly liquid investments purchased with a maturity of three months or less on the date of purchase to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value.

***Accounts Receivable***

Accounts receivable are recorded net of estimates for prompt-pay discounts, chargebacks, returns and rebates. Allowances for prompt-pay discounts and chargebacks are based on contractual terms. We estimate the allowance for credit losses based on existing contractual payment terms, actual payment patterns of customers and individual customer circumstances.

***Inventory***

Inventory is stated at the lower of cost or estimated net realizable value on a first in, first out basis. We periodically analyze inventory levels and write down inventory as cost of products sold when the following occurs: inventory has become obsolete, inventory has a cost basis in excess of its estimated net realizable value, or inventory quantities are in excess of expected product sales.

***Goodwill and Intangible Assets***

Goodwill is recognized as the excess of the purchase consideration of an acquired entity over the fair value assigned to assets acquired and liabilities assumed in a business combination. Goodwill and intangible assets with an indefinite useful life are not amortized and are tested for impairment at least annually on the first day of December of each year or more frequently if indicators for potential impairment exist or whenever events or changes in circumstances indicate that the asset's carrying asset amount may not be recoverable. Intangible assets with definite useful lives are amortized on a straight-line basis over their respective remaining useful lives and are tested for impairment only if indicators for potential impairment exist or whenever events or changes in circumstances indicate that the asset's carrying amount may not be recoverable. Significant judgment may be involved in determining if an indicator of impairment has occurred.

***Operating Leases***

Right-of-use assets represent our right to use an underlying asset over the lease term and include any lease payments made prior to the lease commencement date and are reduced by lease incentives. Lease liabilities represent the present value of the total lease payments over the lease term, calculated using an estimated incremental borrowing rate. Lease expense is recognized on a straight-line basis over the expected lease term.

***Equity and Long-Term Investments***

We invest from time to time in equity and debt securities of private or public companies. If we determine that we have control over these companies under either voting or VIE models, we consolidate them in our unaudited condensed consolidated financial statements. If we determine that we do not have control over these companies under either voting or VIE models, we then determine if we have an ability to exercise significant influence via voting interests, board representation or other business relationships.

We may account for the investments where we exercise significant influence using either an equity method of accounting or at fair value by electing the fair value option under Accounting Standards Codification ("ASC") Topic 825, *Financial Instruments*. If the fair value option is applied to an investment that would otherwise be accounted for under the equity method, we apply it to all our financial interests in the same entity (equity and debt, including guarantees) that are eligible items. All gains and losses from fair value changes, unrealized and realized, are presented as changes in fair values of equity method investments, net, and changes in fair values of equity and long-term investments, net, within the unaudited condensed consolidated statements of income.

If we conclude that we do not have an ability to exercise significant influence over an investee, we may elect to account for the security without a readily determinable fair value using the measurement alternative method under ASC 321, *Investments - Equity Securities*. This measurement alternative method allows us to measure the equity investment at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

We also invest in ISP Fund LP, which investments consist of money market funds, trading and equity and debt securities in the healthcare, pharmaceutical and biotechnology industries. Pursuant to the Partnership Agreement entered in December 2020, we became a limited partner of this partnership, and our contributions are subject to a 36-month lock-up period which restriction prevents us from having control and access to the contributions and related investments. These investments are classified as long-term investments in the unaudited condensed consolidated balance sheets.

***Revenue Recognition***

We apply the guidance on principal versus agent considerations under ASC Topic 606, *Revenue from Contracts with Customers*, to determine the appropriate treatment for the transactions between us and third parties. The classification of transactions under our arrangements is determined based on the nature and contractual terms of the arrangement along with the nature of the operations of the participants. Any consideration related to activities in which we are considered the principal, which includes being in control of the good or service before such good or service is transferred to the customer, are accounted for as product sales.

Revenue is recognized when our customer obtains control of promised goods or services, in an amount that reflects the consideration which we expect to receive in exchange for those goods or services. Revenue is recognized through a five-step process: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price for the contract; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue as a performance obligation is satisfied.

*Royalty Revenue*

We recognize the royalty revenue on net sales of products with respect to which we have contractual royalty rights in the period in which the royalties are earned. The net sales reports provided by our partner are based on its methodology and assumptions to estimate rebates and returns, which it monitors and adjusts regularly in light of contractual and legal obligations, historical trends, past experience and projected market conditions. Our partner may make significant adjustments to its sales based on actual results recorded, which could cause our royalty revenue to fluctuate. We conduct periodic royalty audits to evaluate the information provided by our partner. Royalties are recognized net of amortization of capitalized fees associated with any approval and launch milestone payments made to GSK.

*Revenue from Product Sales*

Revenue from product sales is recognized when our customers obtain control of the product and is recorded at the transaction price, net of estimates for variable consideration consisting of chargebacks, discounts, returns and rebates. Variable consideration is estimated using the expected-value amount method, which is the sum of probability-weighted amounts in a range of possible consideration amounts. Actual amounts of consideration ultimately received may differ from our estimates. If actual results vary materially from our estimates, we will adjust these estimates, which will affect revenue from product sales and earnings in the period such estimates are adjusted. These items may include:

- Chargebacks: Chargebacks are discounts we provide to distributors in the event that the sales prices to end users are below the distributors' acquisition price. This may occur due to a direct contract with a health system, a group purchasing organization ("GPO") agreement or a sale to a government facility. Chargebacks are estimated based on known chargeback rates and recorded as a reduction of revenue on delivery to our customers.
- Discounts: We offer customers various forms of incentives and consideration, including prompt-pay and other discounts. We estimate discounts primarily based on contractual terms. These discounts are recorded as a reduction of revenue on delivery to our customers.
- Returns: We offer customers a limited right of return, generally for damaged or expired product. We estimate returns based on an internal analysis, which includes actual experience. The estimates for returns are recorded as a reduction of revenue on delivery to our customers.
- Rebates: We participate in Medicaid rebate programs, which provide assistance to certain low-income patients based on each individual state's guidelines regarding eligibility and services. Under the Medicaid rebate programs, we pay a rebate to each participating state, generally within three months after the quarter in which product was sold. Additionally, we may offer customer incentives and consideration in the form of volume-based or other rebates. The estimates for rebates are recorded as a reduction of revenue on delivery to our customers.

We continue to assess our estimates of variable consideration as we accumulate additional historical data and will adjust these estimates accordingly.

*License Revenue*

At the inception of a licensing arrangement that includes development and regulatory milestone payments, we evaluate whether the milestones are considered probable of being achieved and estimate the amount to be included in the transaction price. We generally include these milestone payments in the transaction price when they are achieved because there is considerable uncertainty in the research and development processes that trigger receipt of these payments under our agreements. Similarly, we include approval milestone payments in the transaction price once the product is approved by the applicable regulatory agency.

***Research and Development Expenses***

Research and development expenses are recognized in the period that services are rendered or goods are received. Research and development expenses consist of salaries and benefits, laboratory supplies, facilities and other overhead costs, research-related manufacturing costs, contract service and clinical-related service costs performed by third party research organizations, research institutions and other outside service providers. Non-refundable prepayments for goods or services that will be used or rendered for future research and development activities are deferred and capitalized. Such amounts are recognized as an expense as the related goods are delivered or the related services are performed. We also utilize significant judgment and estimates to record accruals for estimated ongoing research costs based on the progress of the studies and progress of research manufacturing activities.

***Interest Expense on Deferred Royalty Obligation***

Interest expense related to the deferred royalty obligation is recognized over the expected repayment term of the deferred royalty obligation using the effective interest method. The assumptions used in determining the expected repayment term of the deferred royalty obligation require us to make estimates that could impact the effective interest rate. Each reporting period, we estimate the expected repayment term of the deferred royalty obligation based on forecasted net sales of GIAPREZA®. Changes in interest expense resulting from changes in the effective interest rate, if any, are recorded on a prospective basis. Refer to Note 11, “Debt” for more information.

**2. Net Income Per Share**

Basic net income per share attributable to Innoviva stockholders is computed by dividing net income attributable to Innoviva stockholders by the weighted-average number of shares of common stock outstanding. Diluted net income per share attributable to Innoviva stockholders is computed by dividing net income attributable to Innoviva stockholders by the weighted-average number of shares of common stock and dilutive potential common stock equivalents then outstanding. Dilutive potential common stock equivalents include the assumed exercise, vesting and issuance of employee stock awards using the treasury stock method, as well as common stock issuable upon assumed conversion of our convertible subordinated notes due 2023 (the “2023 Notes”) up until its maturity date on January 15, 2023, our convertible senior notes due 2025 (the “2025 Notes”) and our convertible senior notes due 2028 (the “2028 Notes”) using the if-converted method.

The following table shows the computation of basic and diluted net income per share for the three months ended March 31, 2023 and 2022:

| (In thousands except per share data) | Three Months Ended March 31, 2023 | 2022 |
|---|---|---|
| Numerator: | | |
| Net income attributable to Innoviva stockholders, basic | $ 34,865 | $ 15,773 |
| Add: interest expense on 2023 Notes, net of tax effect | 81 | 1,021 |
| Add: interest expense on 2025 Notes, net of tax effect | 1,169 | 1,164 |
| Add: interest expense on 2028 Notes, net of tax effect | 1,459 | 384 |
| Net income attributable to Innoviva stockholders, diluted | $ 37,574 | $ 18,342 |
| Denominator: | | |
| Weighted-average shares used to compute basic net income per share attributable to Innoviva stockholders | 67,786 | 69,544 |
| Dilutive effect of 2023 Notes | 757 | 10,155 |
| Dilutive effect of 2025 Notes | 11,150 | 11,150 |
| Dilutive effect of 2028 Notes | 9,956 | 2,765 |
| Dilutive effect of options and awards granted under equity incentive plan and employee stock purchase plan | 139 | 116 |
| Weighted-average shares used to compute diluted net income per share attributable to Innoviva stockholders | 89,788 | 93,730 |
| Net income per share attributable to Innoviva stockholders | | |
| Basic | $ 0.51 | $ 0.23 |
| Diluted | $ 0.42 | $ 0.20 |

***Anti-Dilutive Securities***

The following common stock equivalents were not included in the computation of diluted net income per share because their effect was anti-dilutive for the periods presented:

| (In thousands) | Three Months Ended March 31, 2023 | 2022 |
|---|---|---|
| Outstanding options and awards granted under equity incentive plan and employee stock purchase plan | 1,326 | 386 |
| Outstanding stock warrant | 591 | — |
| Total | 1,917 | 386 |

**3. Revenue Recognition**

***Net Revenue from Collaboration Arrangement***

On July 13, 2022, Innoviva's wholly-owned subsidiary, Innoviva TRC Holdings, LLC ("ITH") entered into an equity purchase agreement ("TRC Equity Purchase Agreement") with Royalty Pharma Investments 2019 ICAV ("Royalty Pharma") to sell our ownership interest in TRC. As a result of the sale of our ownership interest in TRC, which was consummated on July 20, 2022, we are no longer entitled to receive 15% of royalty payments made by GSK stemming from sales of TRELEGY® ELLIPTA®. We retained our royalty rights with respect to RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA®.

Net revenue recognized under our GSK Agreements was as follows:

| (In thousands) | Three Months Ended March 31, 2023 | 2022 |
|---|---|---|
| Royalties - RELVAR/BREO | $ 50,883 | $ 55,764 |
| Royalties - ANORO | 9,431 | 8,442 |
| Royalties - TRELEGY | — | 29,309 |
| Total royalties | 60,314 | 93,515 |
| Less: amortization of capitalized fees paid | (3,456) | (3,456) |
| Total net royalty revenue | $ 56,858 | $ 90,059 |

***Net Product Sales***

Our net product sales were $11.5 million, consisting of net sales of GIAPREZA® and XERAVA® for $9.0 million and $2.5 million, respectively, for the three months ended March 31, 2023. We derived over 99% of our net product sales for the period from customers located in the U.S.

***License Revenue***

Refer to the out-license agreement with Everest in Note 4, “License and Collaboration Arrangements”.

**4. License and Collaboration Arrangements**

***Out-License Agreements***

*Zai Lab*

Entasis entered into a license and collaboration agreement with Zai Lab (Shanghai) Co., Ltd. (“Zai Lab”) (Nasdaq: ZLAB), pursuant to which Zai Lab licensed exclusive rights to durlobactam and SUL-DUR, in the Asia-Pacific region (“the Zai Agreement”). Under the terms of the Zai Agreement, Zai Lab will fund most of the registrational clinical trial costs in China for SUL-DUR, with the exception of Phase 3 patient drug supply of licensed products. Zai Lab will conduct development activities and plan and obtain regulatory approval in a specified number of countries in the Asia-Pacific region beyond China after receipt of regulatory approval of a licensed product in China. Zai Lab is also solely responsible for commercializing licensed products in the Asia-Pacific region and will commercialize licensed products for which it has obtained regulatory approval. We are obligated to supply Zai Lab with the licensed products for clinical development and, if the licensed product is approved, for commercial use for a certain period unless Zai Lab notifies otherwise. Zai Lab may take over manufacturing responsibilities for its own commercialization activities within a specified time period following the effective date of the Zai Agreement.

We are eligible to receive up to an aggregate of $91.0 million in research and development support payments and development, regulatory and sales milestone payments related to SUL-DUR, imipenem and other combinations with the licensed products. Zai Lab will pay us a tiered royalty equal to from a high-single digit to low-double digit percentage based on annual net sales of licensed products in the territory, subject to specified reductions for the market entry of competing products, loss of patent coverage of licensed products and for payments owed to third parties for additional rights necessary to commercialize licensed products in the territory. During the three months ended March 31, 2023, no revenue was recognized under the Zai Agreement. Payments received for research support and reimbursable clinical trial costs are recorded as a reduction to research and development expense during the period in which the qualifying expenses are incurred. Such amounts recorded for the three months ended March 31, 2023 and 2022 are not material.

*GARDP*

Entasis entered into a collaboration agreement with the Global Antibiotic Research and Development Partnership ("GARDP") for the development, manufacture and commercialization of the product candidate zoliflodacin in certain countries ("the GARDP Collaboration Agreement"). Under the terms of the GARDP Collaboration Agreement, GARDP will use commercially reasonable endeavors to perform and fully fund the Phase 3 registrational trial, including the manufacture and supply of the product candidate containing zoliflodacin, in uncomplicated gonorrhea. We recorded reimbursements from GARDP under this agreement as reduction to research and development expense. Relevant amounts for the three months ended March 31, 2023 and 2022 are not material.

In addition, under the GARDP Collaboration Agreement, GARDP was granted a worldwide, fully paid, exclusive and royalty-free license, with the right to sublicense, to use our zoliflodacin technology in connection with GARDP's development, manufacture and commercialization of zoliflodacin in low-income and specified middle-income countries. We retained commercial rights in all other countries worldwide, including the major markets in North America, Europe and Asia-Pacific. We also retained the right to use and grant licenses to our zoliflodacin technology to perform our obligations under the GARDP Collaboration Agreement and for any purpose other than gonorrhea or community-acquired indications. If we believe that the results of the Phase 3 registrational trial of zoliflodacin would be supportive of an application for marketing approval, we are obligated to use our best efforts to file an application for marketing approval with the FDA within six months of the completion of the trial and to use commercially reasonable endeavors to file an application for marketing approval with the European Medicines Agency ("EMA"). Each party is responsible for using commercially reasonable efforts to obtain marketing authorizations for the product candidate in their respective territories.

*PAION AG*

Pursuant to the PAION AG ("PAION") License, La Jolla granted PAION an exclusive license to commercialize GIAPREZA® and XERAVA® in the European Economic Area, the United Kingdom and Switzerland (collectively, the "PAION Territory"). We are entitled to receive potential commercial milestone payments of up to $109.5 million and double-digit tiered royalty payments. Royalties payable in a given jurisdiction under the PAION License will be subject to reduction on account of generic competition and after patent expiration in that jurisdiction. Pursuant to the PAION License, PAION will be solely responsible for the future development and commercialization of GIAPREZA® and XERAVA® in the PAION Territory. PAION is required to use commercially reasonable efforts to commercialize GIAPREZA® and XERAVA® in the PAION Territory. We have not recognized any revenue from PAION related to commercial milestones from the date of acquisition of La Jolla to March 31, 2023. Royalty revenue recognized under this agreement for the three months ended March 31, 2023 was not material.

La Jolla also entered into the PAION commercial supply agreement (the "PAION Supply Agreement") whereby La Jolla will supply PAION a minimum quantity of GIAPREZA® and XERAVA® through July 13, 2024. The PAION supply agreement will automatically renew until the earlier of July 13, 2027, or until a new supply agreement is executed. During the initial term of the supply agreement, we will be reimbursed for direct and certain indirect manufacturing costs at cost. We have not recognized any cost reimbursements under this agreement for the three months ended March 31, 2023.

*Everest Medicines Limited*

Pursuant to the Everest Medicines Limited ("Everest") License, La Jolla granted Everest an exclusive license to develop and commercialize XERAVA® for the treatment of complicated intra-abdominal infections ("cIAI") and other indications in mainland China, Taiwan, Hong Kong, Macau, South Korea, Singapore, the Malaysian Federation, the Kingdom of Thailand, the Republic of Indonesia, the Socialist Republic of Vietnam and the Republic of the Philippines (collectively, the "Everest Territory"). We are eligible to receive an additional $8.0 million regulatory milestone payment and up to an aggregate of $20.0 million in sales milestone payments. The regulatory milestone was achieved during the three months ended March 31, 2023, and, as a result, we recognized $8.0 million in license revenue in our unaudited condensed consolidated statement of income for the period.

We are also entitled to receive tiered royalties from Everest at percentages in the low double digits on sales, if any, in the Everest Territory of products containing eravacycline. Royalties are payable with respect to each jurisdiction in the Everest Territory until the latest to occur of: (i) the last-to-expire of specified patent rights in such jurisdiction in the Everest Territory; (ii) expiration of marketing or regulatory exclusivity in such jurisdiction in the Everest Territory; or (iii) 10 years after the first commercial sale of a product in such jurisdiction in the Everest Territory. Royalty revenue recognized under this agreement for the three months ended March 31, 2023 was not material.

La Jolla also entered into the Everest commercial supply agreement (the "Everest Supply Agreement") whereby La Jolla will supply Everest a minimum quantity of XERAVA® through December 31, 2023 and will transfer to Everest certain XERAVA®-related manufacturing know-how. We will be reimbursed for direct and certain indirect manufacturing costs at 110% of cost through December 31, 2023. We initially recognized a $2.8 million partial prepayment for XERAVA® as deferred revenue, of which, no revenue was recognized for the three months ended March 31, 2023.

***In-License Agreements***

*George Washington University*

Pursuant to the George Washington University ("GW") License, GW exclusively licensed to La Jolla certain intellectual property rights relating to GIAPREZA®, including the exclusive rights to certain issued patents and patent applications covering GIAPREZA®. Under the GW License, we are obligated to use commercially reasonable efforts to develop, commercialize, market and sell GIAPREZA®. We are obligated to pay a 6% royalty on net sales of GIAPREZA® and 15% on payments received from sublicensees. The obligation to pay royalties under this agreement extends through the last-to-expire patent covering GIAPREZA®. Amounts recognized under this agreement for the three months ended March 31, 2023 were not material.

*Harvard University*

Pursuant to the Harvard University ("Harvard") License, Harvard exclusively licensed to La Jolla certain intellectual property rights relating to tetracycline-based products, including XERAVA®, including the exclusive rights to certain issued patents and patent applications covering such products. Under the Harvard License, we are obligated to use commercially reasonable efforts to develop, commercialize, market and sell tetracycline-based products, including XERAVA®. For each product covered by the Harvard License, we are obligated to make certain payments for the following: (i) up to approximately $15.1 million upon the achievement of certain clinical development and regulatory milestones; (ii) a 5% royalty on direct U.S. net sales of XERAVA®; (iii) a single-digit tiered royalty on direct ex-U.S. net sales of XERAVA®, starting at a minimum royalty rate of 4.5%, with step-ups to a maximum royalty of 7.5% based on the achievement of annual net product sales thresholds; and (iv) 20% on payments received from sublicensees. The obligation to pay royalties under this agreement extends through the last-to-expire patent covering tetracycline-based products, including XERAVA®. For the three months ended March 31, 2023, we recognized $1.6 million in cost of license revenue under this agreement as a result of the license revenue we earned under the out-licensing agreement with Everest for the same period.

*Paratek Pharmaceuticals, Inc.*

Pursuant to the Paratek Pharmaceuticals, Inc. ("Paratek") License, Paratek non-exclusively licensed to La Jolla certain intellectual property rights relating to XERAVA®, including non-exclusive rights to certain issued patents and patent applications covering XERAVA®. We are obligated to pay Paratek a 2.25% royalty based on direct U.S. net sales of XERAVA®. Our obligation to pay royalties with respect to the licensed product is retroactive to the date of the first commercial sale of XERAVA® and shall continue until there are no longer any valid claims of the Paratek patents, which will expire in October 2023. Amounts recognized under this agreement for the three months ended March 31, 2023 were not material.

**5. Consolidated Entities and Acquisitions**

***Consolidated Entities***

*Theravance Respiratory Company, LLC*

Up until July 20, 2022, we consolidated TRC under the VIE model as we determined that TRC was a VIE and we were the primary beneficiary of the entity because we had the power to direct the economically significant activities of TRC and the obligation to absorb losses of, or the right to receive benefits from, TRC. We held 15% ownership interest of TRC. The primary source of revenue for TRC is the royalties generated from the net sales of TRELEGY® ELLIPTA® by GSK.

As discussed in Note 3, "Revenue Recognition", on July 13, 2022, ITH entered into the TRC Equity Purchase Agreement to sell our ownership interest in TRC. Upon the closing of the transaction on July 20, 2022, we received $277.5 million in cash from Royalty Pharma. We are also entitled to receive up to $50.0 million in contingent sales-based milestone payments in the future. As part of the closing of the transaction, we also received our portion of TRC's remaining cash balance of $4.4 million from Royalty Pharma rather than through a cash distribution from TRC.

Prior to the closing of the transaction and as part of the agreement, TRC distributed its ownership interests and investments in InCarda Therapeutics, Inc. (“InCarda"), ImaginAb, Inc. (“ImaginAb”), Gate Neurosciences, Inc. (“Gate") and Nanolive SA (“Nanolive”), which had a total carrying value of $39.4 million, to ITH.

The summarized financial information of TRC for the three months ended March 31, 2022 are presented as follows:

| (In thousands) | Three Months Ended March 31, 2022 |
|---|---|
| Royalty revenue | $ 29,309 |
| Operating expenses | 198 |
| Income from operations | 29,111 |
| Income tax expense, net | 1 |
| Changes in fair values of equity and long-term investments | 429 |
| Net income | $ 29,541 |

*ISP Fund LP*

In December 2020, Innoviva Strategic Partners LLC, our wholly owned subsidiary (“Strategic Partners”), contributed $300.0 million to ISP Fund LP (the "Partnership") for investing in “long” positions in the healthcare, pharmaceutical and biotechnology sectors and became a limited partner. The general partner of the Partnership ("General Partner") is an affiliate of Sarissa Capital.

The Partnership Agreement provides for Sarissa Capital to receive management fees from the Partnership, payable quarterly in advance, measured based on the Net Asset Value of Strategic Partners’ capital account in the Partnership. In addition, General Partner is entitled to an annual performance fee based on the Net Profits of the Partnership during the annual measurement period.

The Partnership Agreement includes a lock-up period of thirty-six months after which Strategic Partners is entitled to make withdrawals from the Partnership as of such lock-up expiration date and each anniversary thereafter, subject to certain limitations.

In May 2021, Strategic Partners received a distribution of $110.0 million from the Partnership to provide funding to Innoviva for a strategic repurchase of shares held by GSK. On March 30, 2022, Strategic Partners made an additional capital contribution of $110.0 million to the Partnership pursuant to the letter agreement entered into between Strategic Partners, the Partnership and Sarissa Capital Fund GP LP on May 20, 2021. The capital contribution is subject to a 36-month lock up period from the contribution date.

We consolidate ISP Fund LP under the VIE model as we have determined that ISP Fund LP is a VIE and we are the primary beneficiary of the entity via our related party relationships with Sarissa Capital entities. Our maximum exposure to loss is equal to the amount we invested in the entity.

As of March 31, 2023, we held approximately 100% of the economic interest of the Partnership. As of March 31, 2023 and December 31, 2022, total assets of the Partnership were $318.5 million and $320.6 million, respectively, of which the majority was attributable to equity, debt and long-term investments. As of March 31, 2023 and December 31, 2022, total liabilities were $4.1 million and $1.6 million, respectively. The partnership’s assets can only be used to settle its own obligations. During the three months ended March 31, 2023 and 2022, we recorded $0.5 million and $0.3 million, respectively, of net investment-related expenses incurred by the Partnership, and $4.1 million of net negative changes and $2.1 million of net positive changes, respectively, in fair values of equity and long-term investments in the unaudited condensed consolidated statements of income.

***Acquisitions***

*Entasis Therapeutics Holdings Inc.*

We started investing in Entasis in 2020 as part of our capital allocation strategy of deploying cash generated from royalty income and investing in different life sciences companies. Entasis is an advanced, late clinical-stage biopharmaceutical company focused on the discovery and development of novel antibacterial products. Effective in June 2020, after certain conditions were met with respect to the sales of Entasis equity shares, Innoviva had the right to designate two members to Entasis’ board. Our investments in Entasis consisted of shares of common stock and warrants to purchase shares of Entasis common stock.

The fair value of Entasis' common stock was measured based on its closing market price at each balance sheet date. We used the Black-Scholes-Merton pricing model to estimate the fair value of the warrants.

On February 17, 2022, Innoviva Strategic Opportunities, LLC ("ISO") entered into a securities purchase agreement with Entasis pursuant to which ISO purchased a convertible promissory note for a total purchase price of $15.0 million. The note bore an annual interest rate of 0.59% and matured and became payable on August 18, 2022 unless it was converted at a conversion price of $1.48 before the maturity date. With this financing, we determined that we had both (i) the power to direct the economically significant activities of Entasis and (ii) the obligation to absorb the losses, or the right to receive the benefits, that could potentially be significant to Entasis and therefore, we were the primary beneficiary of Entasis. Accordingly, we consolidated Entasis' financial position and results of operations effective on February 17, 2022. Our equity ownership interest remained at 59.9% as of February 17, 2022, and the fair values of our holdings of Entasis common stock and warrants were remeasured and estimated at $64.5 million and $31.4 million, respectively.

The remeasurement resulted in a $7.8 million loss in the first quarter of 2022 which was included in changes in fair values of equity method investments, net in the unaudited condensed consolidated statement of income for the period.

We completed our acquisition of Entasis' minority interest on July 11, 2022. No payments were made toward the convertible promissory note through the date of acquisition of Entasis. In connection with the acquisition, all of the Entasis warrants were replaced with Innoviva warrants (the "Replacement Warrants") of equivalent value and bearing the same terms. The Replacement Warrants are classified as equity.

We recognized the difference between the acquisition price and the carrying value of the acquired minority interest on July 11, 2022 in our additional paid-in capital.

The fair values assigned to assets acquired and liabilities assumed as of February 17, 2022 were based on management's best estimates and assumptions. After the acquisition in July 2022, we adjusted the purchase price allocation based on new and additional information related to product sales forecast provided by Entasis and deferred tax liabilities.

In February 2023, we recorded a measurement period adjustment of $1.2 million increase in goodwill, primarily related to a decrease in intangible assets of $0.8 million and an increase in deferred tax liabilities of $0.4 million. The measurement period adjustment did not impact the consolidated net income for the three months ended March 31, 2023 and 2022.

The following table represents the adjusted fair values of the assets acquired and liabilities assumed by us in the transaction:

| **(In thousands)** | **February 17, 2022** |
|---|---|
| Cash and cash equivalents | $ 23,070 |
| Prepaid expenses | 5,554 |
| Other current assets | 1,959 |
| Property and equipment, net | 185 |
| Right-of-use assets | 959 |
| Goodwill | 11,493 |
| Intangible assets | 106,700 |
| Other assets | 302 |
| Total assets acquired | $ 150,222 |
| | |
| Accounts payable | $ 1,583 |
| Accrued personnel-related expenses | 1,058 |
| Other current liabilities | 5,096 |
| Deferred tax liabilities | 7,769 |
| Total liabilities assumed | $ 15,506 |
| | |
| Total assets acquired, net | $ 134,716 |

The goodwill arising from the acquisition of Entasis is primarily attributable to Entasis' assembled workforce and the value associated with growing our business more efficiently. The goodwill from this acquisition is not expected to be deductible for tax purposes.

Refer to Note 7, “Goodwill and Intangible Assets” for more discussion on the intangible assets recognized as part of this acquisition.

As a result of the consolidation, we recognized a non-controlling interest of $38.5 million as of February 17, 2022. Our consolidated net income for the three months ended March 31, 2022 included the net loss since the consolidation date of $4.5 million for Entasis.

*La Jolla Pharmaceutical Company*

On August 22, 2022, ISO acquired La Jolla for a total consideration of $206.6 million. ISO acquired La Jolla at a price of $6.23 per share. La Jolla is dedicated to the commercialization of innovative therapies that improve outcomes in patients suffering from life-threatening diseases. La Jolla brings to Innoviva an established product portfolio, including GIAPREZA® (angiotensin II), approved to increase blood pressure in adults with septic or other distributive shock and XERAVA® (eravacycline) for the treatment of complicated intra-abdominal infections (cIAIs).

The fair values assigned to assets acquired and liabilities assumed are based on management’s best estimates and assumptions as of August 22, 2022. We have completed a preliminary valuation and expect to finalize it as soon as practicable, but no later than one year from the acquisition date. The purchase accounting for this transaction is not yet finalized.

We incurred approximately $5.3 million in acquisition-related costs in connection with this acquisition during the year ended December 31, 2022.

The following table summarizes the preliminary allocation of the fair values assigned to the assets acquired and liabilities assumed as of the date of the acquisition:

| **(In thousands)** | **August 22, 2022** |
|---|---|
| Cash and cash equivalents | $ 47,415 |
| Short-term marketable securities | 471 |
| Accounts receivable | 5,876 |
| Inventory | 66,200 |
| Prepaid expenses | 1,261 |
| Other current assets | 907 |
| Property and equipment, net | 13 |
| Right-of-use assets | 226 |
| Goodwill | 16,453 |
| Intangible assets | 151,000 |
| Other assets | 710 |
| Total assets acquired | $ 290,532 |
| | |
| Accounts payable | $ 1,237 |
| Deferred revenue, current | 2,849 |
| Other accrued liabilities | 11,362 |
| Other long-term liabilities | 65,944 |
| Deferred tax liabilities | 2,581 |
| Total liabilities assumed | $ 83,973 |
| | |
| Total assets acquired, net | $ 206,559 |

The goodwill arising from the acquisition of La Jolla is primarily attributable to La Jolla’s assembled workforce and the value associated with leveraging the workforce to develop and commercialize new drug products in the future and growing our business more efficiently. The goodwill from this acquisition is not expected to be deductible for tax purposes.

Refer to Note 7, “Goodwill and Intangible Assets” for more discussion on the intangible assets recognized as part of this acquisition.

***Pro Forma Financial Information***

The following table presents certain unaudited pro-forma financial information for the three months ended March 31, 2022 as if the consolidation of Entasis and La Jolla occurred on January 1, 2021. The unaudited pro forma financial information is presented for informational purposes only, and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place on January 1, 2021, or of results that may occur in the future. The unaudited pro forma financial information combines the historical results of the Entasis and La Jolla with the Company's consolidated historical results and includes certain adjustments including, but not limited to, fair value adjustments to equity investments in Entasis' common stock and warrants, fair value adjustments to inventory, amortization of intangible assets, and interest expense on deferred royalty obligations and acquisition-related costs.

| (In thousands) | Three Months Ended March 31, 2022 |
|---|---|
| Revenue | $ 100,483 |
| Net income | $ 32,576 |
| Net income attributable to Innoviva stockholders | $ 13,555 |

**6. Equity and Long-term Investments and Fair Value Measurements**

***Equity Investment in Armata***

During the first quarter of 2020, Innoviva acquired 8,710,800 shares of common stock as well as warrants to purchase 8,710,800 additional shares of common stock of Armata Pharmaceuticals, Inc. ("Armata") for approximately $25.0 million in cash. Armata is a clinical stage biotechnology company focused on precisely targeted bacteriophage therapeutics for antibiotic-resistant infections.

During the first quarter of 2021, ISO entered into a securities purchase agreement with Armata to acquire 6,153,847 shares of Armata common stock and warrants to purchase 6,153,847 additional shares of Armata common stock for approximately $20.0 million. Armata also entered into a voting agreement with the Company and ISO, pursuant to which the Company and ISO agreed not to vote or take any action by written consent with respect to any common shares held by the Company and ISO that represent, in the aggregate, more than 49.5% of the total number of shares of Armata's common stock for voting on the matters related to election or removal of Armata's board members. The voting agreement will expire the earlier of the second anniversary of the agreement effective date and approval by the FDA of any of Armata's product candidates for marketing and commercial distribution. During the fourth quarter of 2021, ISO also purchased an additional 1,212,122 shares of Armata common stock for approximately $4.0 million.

On February 9, 2022, ISO entered into a securities purchase agreement with Armata to acquire 9,000,000 shares of Armata common stock and warrants to purchase 4,500,000 additional shares of common stock with an exercise price of $5.00 per share for $45.0 million. The investment closed in two tranches on February 9, 2022 and March 31, 2022. The investment is intended to aid Armata in advancing its clinical pipeline and strengthening its bacteriophage platform. On February 9, 2022, Armata also entered a second amended and restated voting agreement with the Company and ISO, pursuant to which the Company and ISO agreed not to vote or take any action by written consent with respect to any common shares held by the Company and ISO that represent, in the aggregate, more than 49.5% of the total number of shares of Armata's common stock for voting on the matters related to election or removal of Armata's board members or amend the bylaws of Armata to reduce the maximum number of directors or set the number of directors who may serve on the board of Armata. The voting agreement will expire the earlier of the second anniversary of the agreement effective date and approval by the FDA of any of Armata's product candidates for marketing and commercial distribution. In addition, as of February 9, 2022, Armata entered into an amended and restated investor rights agreement with the Company and ISO, pursuant to which for as long as the Company and ISO hold at least 12.5% of the outstanding shares of Armata's common stock on a fully-diluted, the Company and ISO shall have the right to designate two directors to Armata's board of directors, and for so long as the Company and ISO hold at least 8%, but less than 12.5%, of the outstanding shares of Armata's common stock on a fully-diluted basis, the Company and ISO shall have the right to designate one director to Armata's board of directors, subject to certain conditions and qualifications set forth in the amended and restated investor rights agreement. As of March 31, 2023, three of the eight members of Armata's board of directors are also members of the board of directors of Innoviva. As of March 31, 2023 and December 31, 2022, the Company and ISO owned approximately 69.4%, of Armata's common stock.

On January 10, 2023, we entered into a Secured Convertible Credit Agreement (the “Credit Agreement”) with Armata, under which we extended a one-year convertible note (the "Armata Convertible Note") in an aggregate amount of $30.0 million at an interest rate of 8.0% per annum. Pursuant to the Credit Agreement, the balance on the Armata Convertible Note, including all accrued and unpaid interest thereon, will convert into shares of Armata's common stock upon the occurrence of a qualified financing, as defined in the Credit Agreement. Any portion of the balance on the Armata Convertible Note, including all accrued and unpaid interest thereon, may also be converted into shares of Armata's common stock at our option once a registration statement covering the resale of such securities has been declared effective by the SEC. The Armata Convertible Note is secured by substantially all of the assets of Armata and its domestic and foreign material subsidiaries.

The investments in Armata's common stock and warrants provide Innoviva and ISO the ability to have significant influence, but not control over Armata’s operations. Armata’s business and affairs are managed under the direction of its board of directors, which Innoviva and ISO do not control. Based on our evaluation, we determined that Armata is a VIE, but Innoviva and ISO are not the primary beneficiary of the VIE. We have not provided financial or other support that we were not previously contractually required to provide during the periods presented. Our maximum exposure to loss is equal to the amount we invested in the entity.

We account for Armata’s common stock and warrants under the equity method using the fair value option. The fair value of Armata’s common stock is measured based on its closing market price. The warrants purchased in 2020, 2021 and 2022 have an exercise price of $2.87, $3.25 and $5.00 per share, respectively. All warrants are exercisable immediately within five years from the issuance date of the warrants and include a cashless exercise option. We use the Black-Scholes-Merton pricing model to estimate the fair value of these warrants with the following input assumptions: Armata’s closing market price on the valuation date, the risk-free interest rate computed based on the U.S. Treasury yield, the remaining contractual term as the expected term, and the expected stock price volatility calculated based on the historical volatility of the common stock of Armata and its peer companies. We account for the Armata Convertible Note as a trading security, measured at fair value using a Monte Carlo simulation model with the probability of certain qualified events and the assumptions of risk-free rate, volatility of stock price and timing of certain qualified events.

As of March 31, 2023, the fair values of our holdings of Armata common stock, warrants and the Armata Convertible Note were estimated at $41.9 million, $13.1 million and $32.8 million, respectively. As of December 31, 2022, the fair values of our holdings of Armata common stock and warrants were estimated at $31.1 million and $8.1 million, respectively. For the Armata common stock and warrants, we recorded $15.8 million in unrealized gain and $4.2 million in unrealized loss for the three months ended March 31, 2023 and 2022, respectively, as changes in fair values of equity method investments, net, in the unaudited condensed consolidated statements of income. For the Armata Convertible Note, we recorded $2.8 million unrealized gain as changes in fair values of equity and long-term investments, net in the unaudited condensed consolidated statement of income for the three months ended March 31, 2023.

The summarized financial information, including the portion we do not own, is presented for Armata on a one quarter lag as follows:

*Income Statement Information*

| | Three Months Ended December 31, | |
|---|---|---|
| **(In thousands)** | **2022** | **2021** |
| Revenue | $ 1,051 | $ 989 |
| Loss from operations | $ (10,328) | $ (6,048) |
| Net loss | $ (10,314) | $ (6,047) |

***Equity Investment in InCarda***

During the third quarter of 2020, TRC purchased 20,469,432 shares of Series C preferred stock and a warrant to purchase 5,117,358 additional shares of Series C preferred stock of InCarda Therapeutics, Inc. ("InCarda") (the "InCarda 2020 Warrant") for $15.8 million, which included $0.8 million of transaction costs. InCarda is a privately held biopharmaceutical company focused on developing inhaled therapies for cardiovascular diseases. The investment is intended to fund the ongoing clinical development of InRhythm™ (flecainide for inhalation), InCarda's lead program, for the treatment of a recent-onset episode of paroxysmal atrial fibrillation. On July 20, 2022, under the terms of the TRC Equity Purchase Agreement, TRC transferred to Innoviva's wholly-owned subsidiary, Innoviva TRC Holdings, LLC ("ITH") all of TRC's ownership interests and investments in InCarda. ITH has the right to designate one member to InCarda's board of directors. As of March 31, 2023, one of InCarda's eight board members was designated by ITH. We did not exercise the InCarda 2020 Warrant which expired in March 2023 and wrote off its carrying value of $0.1 million during the three months ended March 31, 2023.

On March 9, 2022, TRC entered into a Note and Warrant Purchase Agreement (the "InCarda Agreement") with InCarda to acquire a convertible promissory note (the "InCarda Convertible Note") and warrants (the "InCarda 2022 Warrant") for $0.7 million. The InCarda 2022 Warrant expires on March 9, 2027 and is measured at fair value.

On June 15, 2022, the principal amount and the accrued interest of the InCarda Convertible Note were converted into equity securities. In addition, TRC participated in InCarda's Series D preferred stock financing by investing $2.3 million. In connection with the new round of financing, InCarda recapitalized its equity structure resulting in TRC owning 4,093,886 shares of InCarda's common stock, 37,350 shares of its Series A-1 preferred stock, 20,469,432 shares of its Series C preferred stock, 8,771,780 shares of its Series D-1 preferred stock, 3,369,802 shares of its Series D-2 preferred stock, a warrant to purchase 5,117,358 shares of its Series C preferred stock at $0.73 per share and a warrant to purchase 2,490,033 shares of its Series D-1 preferred stock at $0.20 per share.

As of March 31, 2023 and December 31, 2022, we held 9% of InCarda equity ownership. Our investment in InCarda does not provide us with the ability to control or have significant influence over InCarda's operations. Based on our evaluation, we determined that InCarda is a VIE, but we are not the primary beneficiary of the VIE. We have not provided financial or other support that we were not previously contractually required to provide during the periods presented. Our maximum exposure to loss is equal to the amount we invested in the entity.

We account for our investments in InCarda under the measurement alternative. Under the measurement alternative, the equity investment is initially recorded at its allocated cost, but the carrying value may be adjusted through earnings upon an impairment or when there is an observable price change involving the same or a similar investment with the same issuer. Due to InCarda's equity recapitalization in the second quarter of 2022, TRC reassessed the value of its investments in InCarda using the Option Pricing Model Backsolve valuation methodology. Key assumptions used in the valuation model included an expected holding period of two years, a risk-free interest rate of 3.2%, a dividend yield of 0.0% and an estimated volatility of 122.0%. The estimated volatility was calculated based on the historical volatility of a selected peer group of public companies comparable to InCarda. We recognized an impairment charge of $9.0 million during the second quarter of 2022.

As of March 31, 2023, we recorded $6.8 million in fair value of InCarda's Series C preferred stock and $0.5 million in fair value of Series D warrants (the "InCarda Preferred Stock Warrants"). As of December 31, 2022, we recorded $6.8 million in fair value of InCarda's Series C preferred stock and $0.6 million in fair value of the InCarda Preferred Stock Warrants. As of March 31, 2023 and December 31, 2022, we recognized $3.2 million for InCarda's Series D-1 preferred stock, Series D-2 preferred stock, and common stock using the measurement alternative. During the three months ended March 31, 2023 and 2022, we recorded $0.1 million in net unrealized loss and $0.6 million in net unrealized gain, respectively, as changes in fair values of equity and long-term investments, net in the unaudited condensed consolidated statements of income.

***Equity Investment in ImaginAb***

On March 18, 2021, TRC entered into a securities purchase agreement with ImaginAb, to purchase 4,051,724 shares of ImaginAb Series C preferred stock for $4.7 million. On the same day, TRC also entered into a securities purchase agreement with one of ImaginAb's common stockholders to purchase 4,097,157 shares of ImaginAb common stock for $1.3 million. ImaginAb is a privately held biotechnology company focused on clinically managing cancer and autoimmune diseases via molecular imaging. $0.4 million was incurred for investment due diligence costs and execution and recorded as part of the equity investment in the condensed consolidated balance sheets.

On July 20, 2022, under the terms of the TRC Equity Purchase Agreement, TRC transferred to ITH all of TRC's ownership interests and investments in ImaginAb.

On March 14, 2023, ITH entered into a securities purchase agreement with ImaginAb to purchase 270,568 shares of ImaginAb Series C-2 preferred stock for $0.6 million. As of March 31, 2023, one of ImaginAb's six board members was designated by ITH. As of March 31, 2023 and December 31, 2022, we held 12.6% and 12.7%, respectively, of ImaginAb equity ownership.

Our investment in ImaginAb does not provide us with the ability to control or have significant influence over ImaginAb's operations. Based on our evaluation, we determined that ImaginAb is a VIE, but we are not the primary beneficiary of the VIE. We have not provided financial or other support that we were not previously contractually required to provide during the periods presented. Our maximum exposure to loss is equal to the amount we invested in the entity.

Because ImaginAb's equity securities are not publicly traded and do not have a readily determinable fair value, we account for our investment in ImaginAb's Series C preferred stock, Series C-2 preferred stock and common stock using the measurement alternative. As of March 31, 2023 and December 31, 2022, $7.0 million and $6.4 million, respectively, was recorded as equity and long-term investments in the unaudited condensed consolidated balance sheets and there was no change to the fair value of our investment.

***Convertible Promissory Note in Gate Neurosciences***

On November 24, 2021, TRC entered into a Convertible Promissory Note Purchase Agreement with Gate to acquire a convertible promissory note (the "Gate Convertible Note") with a principal amount of $15.0 million. Gate is a privately held biopharmaceutical company focused on developing the next generation of targeted nervous system therapies, leveraging precision medicine approaches to develop breakthrough drugs for psychiatric and neurologic diseases. The investment is intended to fund Gate's ongoing development and research. The Gate Convertible Note bears an annual interest rate of 8% and will convert into shares of common stock of Gate upon a qualified event or into shares of shadow preferred stock of Gate ("Shadow Preferred") upon a qualified financing. A qualifying event can be a qualified initial price offering, a qualified merger, or a merger with a special-purpose acquisition company ("SPAC"). Shadow Preferred means preferred stock having identical rights, preferences and restrictions as the preferred stock that would be issued in a qualified financing.

The number of common stock shares to be issued in a qualified event shall be equal to the amount due on the conversion date divided by the lesser of a capped conversion price (the "Capped Conversion Price") and the qualified event price (the "Qualified Event Price"). The Capped Conversion Price is calculated as $50.0 million divided by the number of shares of common stock outstanding at such time on a fully diluted basis. The Qualified Event Price is the price per share determined by the qualified event. A qualified financing is a sale or series of sales of preferred stock where (i) at least 50 percent of counterparties are not existing shareholders, (ii) net proceeds to Gate are at least $35.0 million, and (iii) the stated or implied equity valuation of Gate is at least $80.0 million.

On July 20, 2022, under the terms of the TRC Equity Purchase Agreement, TRC transferred to ITH all of TRC's debt investments in Gate.

On February 2, 2023, ITH entered into a Note Amendment Agreement (the "Note Amendment Agreement") with Gate to amend the Gate Convertible Note. Pursuant to the Note Amendment Agreement, the principal amount of the Gate Convertible Note was increased from $15.0 million to $21.5 million, which represents the original principal, accrued interest as of the amendment date and additional cash investment of $5.0 million. All other material terms of the Gate Convertible Note were unchanged.

We have accounted for the Gate Convertible Note as a trading security, measured at fair value using a Monte Carlo simulation model with the probability of certain qualified events and the assumptions of equity value of Gate, risk-free rate, expected stock price, volatility of its peer companies, and the time until a financing is raised. As of March 31, 2023 and December 31, 2022, the fair value of the Gate Convertible Note was estimated at $21.5 million and $15.7 million, respectively, and recorded as equity and long-term investments in the unaudited condensed consolidated balance sheets. We recorded $0.7 million and $0.2 million unrealized loss, respectively, as changes in fair values of equity and long-term investments, net in the unaudited condensed consolidated statement of income for the three months ended March 31, 2023 and 2022, respectively.

***Equity Investment in Nanolive***

On February 18, 2022, TRC entered into an investment and shareholders agreement with Nanolive to purchase 18,750,000 shares of Nanolive Series C preferred stock for $9.8 million (equivalent to 9.0 million CHF). Nanolive SA is a Swiss privately held life sciences company focused on developing breakthrough imaging solutions that accelerate research in growth industries such as drug discovery and cell therapy. $0.7 million was incurred for investment due diligence costs and execution and recorded as part of the equity and long-term investment in the condensed consolidated balance sheets. On July 20, 2022, under the terms of the TRC Equity Purchase Agreement, TRC transferred to ITH all of TRC's ownership interests and investments in Nanolive. ITH has the right to designate one member to Nanolive's board. ITH also has the right to designate another member, who will be mutually acceptable to ITH and another majority common stockholder, to Nanolive's board. As of March 31, 2023, one of Innoviva designees is serving on Nanolive's seven-member board. As of March 31, 2023 and December 31, 2022, we held 15.3% and 15.5%, respectively, of Nanolive equity ownership.

Our investment in Nanolive does not provide us with the ability to control or have significant influence over Nanolive's operations. Based on our evaluation, we determined that Nanolive is a VIE, but we are not the primary beneficiary of the VIE. We have not provided financial or other support that we were not previously contractually required to provide during the periods presented. Our maximum exposure to loss is equal to the amount we invested in the entity.

Because Nanolive's equity securities are not publicly traded and do not have a readily determinable fair value, we account for our investment in Nanolive's Series C preferred stock using the measurement alternative. As of March 31, 2023 and December 31, 2022, $10.6 million was recorded as equity and long-term investments in the unaudited condensed consolidated balance sheets and there was no change to the fair value of our investment.

***Available-for-Sale Securities***

The estimated fair value of available-for-sale securities is based on quoted market prices for these or similar investments that were based on prices obtained from a commercial pricing service. Available-for-sale securities are summarized below:

| | March 31, 2023 | | | |
|---|---|---|---|---|
| **(In thousands)** | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Estimated Fair Value** |
| Money market funds[(1)] | $ 75,426 | $ — | $ — | $ 75,426 |
| Total | $ 75,426 | $ — | $ — | $ 75,426 |

(1) Money market funds are included in cash and cash equivalents in the condensed consolidated balance sheets.

| | December 31, 2022 | | | |
|---|---|---|---|---|
| **(In thousands)** | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Estimated Fair Value** |
| Money market funds [(1)] | $ 263,469 | $ — | $ — | $ 263,469 |
| Total | $ 263,469 | $ — | $ — | $ 263,469 |

(1) Money market funds are included in cash and cash equivalents in the condensed consolidated balance sheets.

As of March 31, 2023, all investments were money market funds, and there was no credit loss recognized.

***Fair Value Measurements***

Our available-for-sale securities, equity and long-term investments and contingent value rights are measured at fair value on a recurring basis and our debt is carried at amortized cost basis.

| Types of Instruments (In thousands) | Estimated Fair Value Measurements as of March 31, 2023 Using: Quoted Price in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 | Total |
|---|---|---|---|---|
| *Assets* | | | | |
| Money market funds | $ 75,426 | $ — | $ — | $ 75,426 |
| Investments held by ISP Fund LP [1] | 262,852 | — | 2,036 | 264,888 |
| Equity investment - Armata Common Stock | 41,878 | — | — | 41,878 |
| Equity investment - Armata Warrants | — | 13,093 | — | 13,093 |
| Convertible debt investment - Armata Note | — | — | 32,838 | 32,838 |
| Convertible debt investment - Gate Note | — | — | 21,500 | 21,500 |
| Total assets measured at estimated fair value | $ 380,156 | $ 13,093 | $ 56,374 | $ 449,623 |
| *Liabilities* | | | | |
| Debt | | | | |
| 2025 Notes | $ — | $ 185,522 | $ — | $ 185,522 |
| 2028 Notes | — | 204,705 | — | 204,705 |
| Total fair value of debt | $ — | $ 390,227 | $ — | $ 390,227 |
| Contingent value rights | — | — | 595 | 595 |
| Total liabilities measured at estimated fair value | $ — | $ 390,227 | $ 595 | $ 390,822 |

(1) The investments held by ISP Fund LP consisted of $264.9 million in equity investments, which included $24.6 million in money market funds, and $53.6 million receivable from the maturity of convertible notes. Our total capital contribution of $300 million is subject to a 36-month lock-up period from the date of such capital contributions.

| Types of Instruments (In thousands) | Estimated Fair Value Measurements as of December 31, 2022 Using: Quoted Price in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 | Total |
|---|---|---|---|---|
| *Assets* | | | | |
| Money market funds | $ 263,469 | $ — | $ — | $ 263,469 |
| Investments held by ISP Fund LP (1) | 265,982 | — | 54,578 | 320,560 |
| Equity investment - Armata Common Stock | 31,095 | — | — | 31,095 |
| Equity investment - Armata Warrants | — | 8,059 | — | 8,059 |
| Equity investment - InCarda Warrants | — | — | 605 | 605 |
| Convertible debt investment - Gate Note | — | — | 15,700 | 15,700 |
| Total assets measured at estimated fair value | $ 560,546 | $ 8,059 | $ 70,883 | $ 639,488 |
| *Liabilities* | | | | |
| Debt | | | | |
| 2023 Notes | $ — | $ 96,089 | $ — | $ 96,089 |
| 2025 Notes | — | 197,807 | — | 197,807 |
| 2028 Notes | — | 211,768 | — | 211,768 |
| Total fair value of debt | $ — | $ 505,664 | $ — | $ 505,664 |
| Contingent value rights | — | — | 595 | 595 |
| Total liabilities at estimated fair value | $ — | $ 505,664 | $ 595 | $ 506,259 |

(1) The investments held by ISP Fund LP consisted of $295.4 million equity investments, which included private placement positions and convertible notes of $54.6 million, and $25.1 million in money market funds. Our total capital contributions of $300.0 million is subject to a 36-month lock-up period from the date of such capital contributions.

The fair values of our equity investments in Armata's common stock and publicly traded investments held by ISP Fund LP are based on the quoted prices in active markets and are classified as Level 1 financial instruments. The fair values of the warrants in Armata classified within Level 2 are based upon observable inputs that may include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications.

InCarda's certain equity securities, the Gate Convertible Note, the Armata Convertible Note, private placement positions and convertible notes held by ISP Fund LP, and contingent value rights are classified as Level 3 financial instruments as these securities are not publicly traded and the assumptions used in the valuation model for valuing these securities are based on significant unobservable and observable inputs including those of publicly traded peer companies.

The fair values of our 2025 Notes and 2028 Notes are based on recent trading prices of the respective instruments. The fair values of our 2023 Notes, which were fully paid off in January 2023, were also measured based on their trading prices.

## 7. Goodwill and Intangible Assets

Goodwill and intangible assets acquired are recognized at fair value as of the acquisition date. The carrying amount of goodwill as of March 31, 2023 was $27.9 million. We have not recognized any impairment losses related to goodwill during the periods presented.

Intangible assets with definite lives are amortized over their estimated useful lives. The carrying basis and accumulated amortization of recognized intangible assets as of March 31, 2023 and December 31, 2022 were as follows:

| | March 31, 2023 | | | |
|---|---|---|---|---|
| (In thousands) | Useful Life (Years) | Gross Amount | Accumulated Amortization | Net Carrying Amount |
| Marketed products | 8-10 | $ 151,000 | $ (9,386) | $ 141,614 |
| In-process research and development | | 71,300 | — | $ 71,300 |
| Collaboration agreement | | 35,400 | — | $ 35,400 |
| Total | | $ 257,700 | $ (9,386) | $ 248,314 |

| | December 31, 2022 | | | |
|---|---|---|---|---|
| (In thousands) | Useful Life (Years) | Gross Amount | Accumulated Amortization | Net Carrying Amount |
| Marketed products | 8-10 | $ 151,000 | $ (5,581) | $ 145,419 |
| In-process research and development | | 72,100 | — | $ 72,100 |
| Collaboration agreement | | 35,400 | — | $ 35,400 |
| Total | | $ 258,500 | $ (5,581) | $ 252,919 |

Intangible assets recognized as a result of the acquisition of Entasis amounted to $106.7 million, which consist of Entasis' in-process research and development related to its antibacterial therapeutic product candidates and a collaboration agreement amounting to $71.3 million and $35.4 million, respectively. The useful lives of these intangible assets will be determined upon commercialization of the underlying product candidates; thus, no amortization expense of determinable assets was recognized for the three months ended March 31, 2023.

Intangible assets recognized as a result of the acquisition of La Jolla amounting to $151.0 million pertain to product rights and developed technologies on La Jolla's currently marketed products. These are intangible assets with determinable lives and are amortized over their estimated useful lives. We recognized amortization expense of $3.8 million for the period through March 31, 2023. Future amortization expense is expected to be $11.6 million for the remainder of 2023, $15.4 million for each of the years from 2024 to 2027 and $68.4 million thereafter.

## 8. Balance Sheet Components

### *Inventory*

Inventory consisted of the following:

| (in thousands) | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Raw materials | $ 5,757 | $ 5,757 |
| Work-in-progress | 22,539 | 25,052 |
| Finished goods | 21,357 | 25,088 |
| Total inventory | $ 49,653 | $ 55,897 |

As of March 31, 2023, total inventory included net fair value adjustments resulting from the acquisition of La Jolla of approximately $42.7 million, which will be amortized and recognized as cost of products sold when sales occur in future periods. The fair value adjustments recorded as part of cost of products sold amounted to $6.8 million for the three months ended March 31, 2023.

***Other Accrued Liabilities***

Other accrued liabilities consisted of the following:

| (in thousands) | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Accrued contract manufacturing expenses | $ 5,357 | $ 8,382 |
| Accrued clinical expenses | 948 | 692 |
| Accrued research expenses | 317 | 349 |
| Accrued professional services | 5,863 | 3,977 |
| Current portion of lease liabilities | 1,266 | 1,316 |
| Current portion of deferred royalty obligations | 3,228 | 2,639 |
| Accrued license fees and royalties | 2,352 | 943 |
| Other | 5,569 | 2,909 |
| Total other accrued liabilities | $ 24,900 | $ 21,207 |

Amount in "Other" as of March 31, 2023 includes $3.8 million in ISP Fund LP's liability for unsettled securities transactions.

***Other Long-term Liabilities***

Other long-term liabilities consisted of the following:

| (in thousands) | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Long-term portion of deferred royalty obligation | $ 67,130 | $ 67,947 |
| Long-term portion of lease liabilities | 2,101 | $ 2,376 |
| Contingent value rights liability | 595 | 595 |
| Other | 307 | — |
| Total other long-term liabilities | $ 70,133 | $ 70,918 |

**9. Stock-Based Compensation**

***Stock- Based Compensation Expense***

The following table summarizes stock-based compensation expense:

| | Three Months Ended March 31, | |
|---|---|---|
| (In thousands) | 2023 | 2022 |
| Selling, general and administrative | $ 1,152 | $ 788 |
| Research and development | 446 | 166 |
| Total | $ 1,598 | $ 954 |

***Valuation Assumptions***

Black-Scholes-Merton assumptions used in calculating the estimated value of stock options granted by Innoviva on the date of grant were as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2023 | 2022 |
| Risk-free interest rate | 3.7% - 4.0% | 1.6% |
| Expected term (in years) | 5.16 - 6.11 | 6.11 |
| Volatility | 38.1% - 38.5% | 40.5% |
| Dividend yield | 0.0% | 0.0% |
| Weighted-average estimated fair value of stock options granted | $5.40 - $5.42 | $7.73 |

**10. Stockholders' Equity**

On October 31, 2022, our board of directors authorized a new share repurchase program under which we may repurchase up to $100.0 million of our outstanding shares of common stock. The timing and amount of any share repurchases under the share repurchase program will be determined by our management in its discretion based on ongoing assessments of the capital needs of the business, the market price of our common stock, prevailing stock prices, general market conditions and other considerations. Share repurchases under the program may be made through a variety of methods, which may include open market purchases, privately negotiated transactions, in block trades, accelerated share repurchase transactions, exchange transactions, or any combination thereof or by other means in accordance with federal securities laws. This program has no termination date, may be suspended or discontinued at any time at our discretion, and does not obligate us to acquire any amount of common stock. For the three months ended March 31, 2023, we have repurchased 3,419,476 shares in the open market at an average price of $11.79 per share for a total amount of approximately $40.3 million. All the repurchased shares were retired. Subsequent to March 31, 2023 and through May 2, 2023, we have repurchased 524,863 shares in the open market at an average price of $11.70 per share for a total amount of approximately $6.1 million.

**11. Debt**

Our debt consists of the following:

| (In thousands) | March 31, 2023 | December 31, 2022 |
|---|---|---|
| 2023 Notes | $ — | $ 96,204 |
| 2025 Notes | 192,500 | 192,500 |
| 2028 Notes | 261,000 | 261,000 |
| Total debt | 453,500 | 549,704 |
| Less: Unamortized debt discount and issuance costs | (8,808) | (9,331) |
| Total debt, net | $ 444,692 | $ 540,373 |
| Less: Current portion of long-term debt, net | — | 96,193 |
| Total long-term debt, net | $ 444,692 | $ 444,180 |

***Convertible Subordinated Notes Due 2023***

In January 2013, we completed an underwritten public offering of $287.5 million aggregate principal amount of our 2023 Notes, which matured on January 15, 2023.

The remaining balance of the 2023 Notes in the amount of $96.2 million was fully paid upon the maturity date in January 2023.

The following table sets forth total interest expense recognized related to the 2023 Notes:

| | Three Months Ended March 31, | |
|---|---|---|
| (In thousands) | 2023 | 2022 |
| Contractual interest expense | $ 85 | $ 1,084 |
| Amortization of debt issuance costs | 11 | 122 |
| Total interest and amortization expense | $ 96 | $ 1,206 |

***Convertible Senior Notes Due 2025***

On August 7, 2017, we completed a private placement of $192.5 million aggregate principal amount of our 2025 Notes. The proceeds include the 2025 Notes sold pursuant to the $17.5 million over-allotment option granted by us to the initial purchasers, which option was exercised in full. The 2025 Notes were sold in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The 2025 Notes are senior unsecured obligations and bear interest at a rate of 2.5% per year, payable semi-annually in arrears on February 15 and August 15 of each year, beginning on February 15, 2018.

The 2025 Notes are convertible, based on the applicable conversion rate, into cash, shares of our common stock or a combination thereof, at our election. The initial conversion rate for the 2025 Notes is 57.9240 shares of our common stock per $1,000 principal amount of the 2025 Notes (which is equivalent to an initial conversion price of approximately $17.26 per share), representing a 30.0% conversion premium over the last reported sale price of the Company's common stock on August 1, 2017, which was $13.28 per share. The conversion rate is subject to customary anti-dilution adjustments in certain circumstances. The 2025 Notes will mature on August 15, 2025, unless repurchased or converted in accordance with their terms prior to such date. Prior to February 15, 2025, the 2025 Notes will be convertible at the option of the holders only upon the occurrence of specified events and during certain periods, as described below. From, and including, February 15, 2025, until the close of business on the second scheduled trading day immediately preceding the maturity date, the 2025 Notes will be convertible at any time.

Holders of the 2025 Notes may convert all or a portion of their 2025 Notes prior to the close of business on February 15, 2025 only under the following circumstances:

- after September 30, 2017, if our closing common stock price for at least 20 days out of the most recent 30 consecutive trading days of the preceding quarter is greater than 130% of the current conversion price of the 2025 Notes;
- for five consecutive business days, if the average trading price per $1,000 of Notes during the prior 10 consecutive trading days is less than 98% of the product of our closing common stock price and the conversion rate of the 2025 Notes on such day; and,
- upon the occurrence of specified corporate events, including certain distributions, the occurrence of a fundamental changes (as defined in the indenture governing the 2025 Notes) or a transaction resulting in our common stock converting into other securities or property or assets.

On or after February 15, 2025, holders of the 2025 Notes may convert their 2025 Notes at any time until the close of business on the second scheduled trading day immediately preceding the maturity date of the 2025 Notes.

In the event of default or a fundamental change (as defined above), holders of the 2025 Notes may require us to repurchase all or a portion of their 2025 Notes at price equal to 100% of the principal amount of the 2025 Notes, plus any accrued and unpaid interest.

The annual effective interest rate on the 2025 Notes is 2.88%.

Our outstanding 2025 Notes balances consisted of the following:

| (In thousands) | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Principal | $ 192,500 | $ 192,500 |
| Debt discount and issuance costs, net | (1,741) | (1,917) |
| Net carrying amount | $ 190,759 | $ 190,583 |

The following table sets forth total interest expense recognized related to the 2025 Notes for the three months ended March 31, 2023 and 2022:

| | Three Months Ended March 31, | |
|---|---|---|
| (In thousands) | 2023 | 2022 |
| Contractual interest expense | $ 1,203 | $ 1,203 |
| Amortization of debt issuance costs | 176 | 171 |
| Total interest and amortization expense | $ 1,379 | $ 1,374 |

***Convertible Senior Notes Due 2028***

In March 2022, we completed a private placement of $261.0 million aggregate principal amount of our 2028 Notes, which will mature on March 15, 2028. The proceeds include the 2028 Notes sold pursuant to the $45.0 million over-allotment option granted by us to the initial purchasers, of which $36.0 million was exercised. The 2028 Notes were sold in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act.

The net proceeds from the sale of the $261.0 million aggregate principal amount of 2028 Notes were approximately $252.6 million after deducting the initial purchasers' discounts and commissions and our estimated offering expenses. We used approximately $21.0 million of the net proceeds from the offering to fund the cost of entering into the capped call transactions described below. In addition, we used $165.6 million of the remaining net proceeds to repurchase $144.8 million aggregate principal amount of the 2023 Notes in separate and individually negotiated transactions with certain holders of the 2023 Notes, which closed concurrently with the issuance of the 2028 Notes. We expect to use the remaining net proceeds for general corporate purposes.

The 2028 Notes bear interest at an annual rate of 2.125% that is payable semi-annually in arrears in cash on March 15 and September 15 of each year, beginning on September 15, 2022.

The 2028 Notes are convertible, based on the applicable conversion rate, into cash, shares of our common stock or a combination thereof, at our election. The initial conversion rate was 38.1432 shares per $1,000 principal amount of the 2028 Notes, subject to customary anti-dilution adjustment in certain circumstances, which represented an initial conversion price of approximately $26.22 per share.

Prior to September 15, 2027, the 2028 Notes will be convertible at the option of the holders only upon the occurrence of specified events and during certain periods, and will be convertible on or after September 15, 2027, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date of the 2028 Notes.

Holders of the 2028 Notes may convert all or a portion of their 2028 Notes prior to the close of business on September 15, 2027, only under the following circumstances:

- after March 31, 2022, if our closing common stock price for at least 20 days out of the most recent 30 consecutive trading days of the preceding quarter is greater than 130% of the current conversion price of the 2028 Notes;
- for five consecutive business days, if the average trading price per $1,000 of Notes during the prior 10 consecutive trading days is less than 98% of the product of our closing common stock price and the conversion rate of the 2028 Notes on such day; and,
- upon the occurrence of specified corporate events, including certain distributions, the occurrence of a fundamental changes (as defined in the indenture governing the 2028 Notes) or a transaction resulting in our common stock converting into other securities or property or assets.

On or after September 15, 2027, holders of the 2028 Notes may convert their 2028 Notes at any time until the close of the business on the second day immediately preceding the maturity date of the 2028 Notes.

The 2028 Notes will be redeemable, in whole or in part, at our option at any time, and from time to time, on or after March 20, 2025, and on or before the 75th scheduled trading day immediately before the maturity date but only if the last reported sale price per share of our common stock exceeds 130% of the conversion price for a specified period of time. The redemption price will be equal to the principal amount of the 2028 Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. In addition, calling any 2028 Note for redemption will constitute a make-whole fundamental change (as defined in the indenture governing the 2028 Notes) with respect to that 2028 Note, in which case the conversion rate applicable to the conversion of that 2028 Note will be increased in certain circumstances if it is converted after it is called for redemption.

If we undergo a fundamental change, subject to certain conditions, holders may require us to purchase for cash all or any portion of their 2028 Notes. The fundamental change purchase price will be 100% of the principal amount of the 2028 Notes to be purchased plus any accrued and unpaid interest to, but excluding, the fundamental change purchase date.

The indenture governing the 2028 Notes contains customary terms and covenants, including a merger covenant and that upon certain events of default occurring and continuing, either the Trustee or the holders of at least 25% of the aggregate principal amount of the outstanding Notes may declare 100% of the principal of, and accrued and unpaid interest, if any, on, all the Notes to be due and payable immediately.

In connection with the offering of the 2028 Notes, we entered into privately negotiated capped call transactions. The cap price of the capped call transaction is initially $33.9850 per share and is subject to certain adjustments under the terms of the capped call transactions. The capped call transactions cover, subject to customary adjustments, the number of shares of common stock initially underlying the 2028 Notes. The capped call transactions are expected generally to reduce potential dilution to our common stock upon conversion of the 2028 Notes or at our election (subject to certain conditions) offset any cash payments we are required to make in excess of the aggregate principal amount of converted 2028 Notes, as the case may be, with such reduction or offset subject to a cap.

The annual effective interest rate on the 2028 Notes is 2.70%.

Our outstanding 2028 Notes balance consisted of the following:

| (In thousands) | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Principal | $ 261,000 | $ 261,000 |
| Debt issuance costs, net | (7,067) | (7,403) |
| Net carrying amount | $ 253,933 | $ 253,597 |

The following table sets forth total interest expense recognized related to the 2028 Notes:

| | Three Months Ended March 31, | |
|---|---|---|
| (In thousands) | 2023 | 2022 |
| Contractual interest expense | $ 1,387 | $ 346 |
| Amortization of debt issuance costs | 335 | 84 |
| Total interest and amortization expense | $ 1,722 | $ 430 |

***Debt Maturities***

The aggregate scheduled maturities of our convertible debt as of March 31, 2023 were as follows:

| (In thousands) | March 31, 2023 |
|---|---|
| Years ending December 31: | |
| Remainder of 2023 | $ — |
| 2024 | — |
| 2025 | 192,500 |
| 2026 | — |
| 2027 | — |
| Thereafter | 261,000 |
| Total | $ 453,500 |

***Deferred Royalty Obligation***

As part of our acquisition of La Jolla, we recorded the fair value of its deferred royalty obligation in connection with La Jolla's royalty financing agreement ("La Jolla Royalty Agreement") with HealthCare Royalty Partners ("HCR"). Under the terms of the La Jolla Royalty Agreement, HCR is entitled to receive quarterly royalties on worldwide net sales of GIAPREZA® until either January 1, 2031 or when the maximum aggregate royalty payments have been made, whichever occurs first. Quarterly payments to HCR under the Royalty Agreement start at a maximum royalty rate, with step-downs based on the achievement of annual net product sales thresholds. The current maximum royalty rate is 14%. Starting January 1, 2024, the maximum royalty rate may increase by an additional 4%, if an agreed-upon cumulative net product sales threshold has not been met. The La Jolla Royalty Agreement is subject to maximum aggregate royalty payments to HCR of $225.0 million.

For the three months ended March 31, 2023, we recognized interest expense of $1.2 million. The carrying value of the deferred royalty obligation as of March 31, 2023 was $70.3 million, $67.1 million of which was classified as part of other long-term liabilities and the remaining $3.2 million was classified as other accrued liabilities in the condensed consolidated balance sheet. The carrying value of the deferred royalty obligation as of December 31, 2022 was $70.6 million, $67.9 million of which was classified as part of other long-term liabilities and the remaining $2.7 million was classified as other accrued liabilities in the condensed

consolidated balance sheet. During the three months ended March 31, 2023, we made royalty payments to HCR of $1.4 million. The deferred royalty obligation was valued using Level 3 inputs, and its carrying value as of March 31, 2023 approximates fair value. The fair value of the deferred royalty obligation was calculated as the discounted deferred royalty obligations based on risk-adjusted revenue projections for GIAPREZA®. The annual effective interest rate of the deferred royalty obligation for the current period is 7.19%.

Under the terms of the La Jolla Royalty Agreement, if we are unable to meet certain obligations, including the obligation to use commercially reasonable and diligent efforts to commercialize GIAPREZA®, HCR would have the right to terminate the La Jolla Royalty Agreement and demand payment of either $125.0 million or $225.0 million (depending on which obligation we have failed to meet) less aggregate royalties already paid to HCR. As of March 31, 2023, inclusive of the aggregate royalties paid to HCR by La Jolla under the La Jolla Royalty Agreement prior to our acquisition, La Jolla paid $14.1 million of aggregate royalties to HCR. In the event that we fail to pay such amount if and when due in a timely manner, HCR would have the right to foreclose on the GIAPREZA®-related assets. HCR has no recourse against any asset other than GIAPREZA®.

Certain contract provisions within the La Jolla Royalty Agreement that could result in an acceleration of amounts due under the La Jolla Royalty Agreement are recognized as embedded derivatives that require bifurcation from the deferred royalty obligation and fair value recognition. We determined the fair value of each derivative by assessing the probability of each event occurring, as well as the potential repayment amounts and timing of such repayments that would result under various scenarios. As a result of this assessment, we determined that the fair value of the embedded derivatives is immaterial and, therefore, not recognized as of March 31, 2023 and December 31, 2022. We estimate the fair value of the embedded derivatives for each reporting period until either the features lapse or the La Jolla Royalty Agreement is terminated, whichever occurs first. Any material change in the fair value of the embedded derivatives will be recorded as either a gain or loss in the unaudited condensed consolidated statements of income.

**12. Commitments and Contingencies**

***Operating Lease***

We have operating leases for our corporate headquarters, office spaces and laboratory facilities.

The components of lease cost are as follows:

| (In thousands) | Three Months Ended March 31, 2023 |
|---|---|
| Straight line operating lease costs | $ 357 |
| Variable lease costs | 48 |
| Total lease costs | $ 405 |

As of March 31, 2023, our operating leases have weighted-average remaining term of approximately 2.6 years and the weighted average discount rate on our operating lease liabilities was 7.6%.

We have not presented the comparative information above as our operating lease in the first quarter of 2022 was not material.

Future minimum payments on our operating leases as of March 31, 2023 were as follows:

| (In thousands) | March 31, 2023 |
|---|---|
| Years ending December 31: | |
| Remainder of 2023 | $ 1,152 |
| 2024 | 1,269 |
| 2025 | 1,289 |
| Total undiscounted lease payments | 3,710 |
| Less: imputed interest | (342) |
| Total operating lease liabilities | $ 3,368 |

***Legal Proceedings***

From time to time, the Company is involved in legal proceedings in the ordinary course of its business. We are not currently a party to any material legal proceedings except as discussed below.

On February 15, 2022, La Jolla received a paragraph IV notice of certification (the "Notice Letter") from Gland Pharma Limited ("Gland") advising that Gland had submitted an Abbreviated New Drug Application ("ANDA") to the FDA seeking approval to manufacture, use or sell a generic version of GIAPREZA® in the U.S. prior to the expiration of U.S. Patent Nos.: 9,220,745; 9,572,856; 9,867,863; 10,028,995; 10,335,451; 10,493,124; 10,500,247; 10,548,943; 11,096,983; and 11,219,662 (the "GIAPREZA® Patents"), which are listed in the FDA's Approved Drug Products with Therapeutic Equivalence Evaluations (the "Orange Book"). The Notice Letter alleges that the GIAPREZA® Patents are invalid, unenforceable and/or will not be infringed by the commercial manufacture, use or sale of the generic product described in Gland's ANDA.

On March 29, 2022, La Jolla filed a complaint for patent infringement of the GIAPREZA® Patents against Gland and certain related entities in the United States District Court for the District of New Jersey in response to Gland's ANDA filing. In accordance with the Hatch-Waxman Act, because GIAPREZA® is a new chemical entity and La Jolla filed a complaint for patent infringement within 45 days of receipt of the Notice Letter, the FDA cannot approve Gland's ANDA any earlier than 7.5 years from the approval of the GIAPREZA® NDA unless the District Court finds that all of the asserted claims of the patents-in-suit are invalid, unenforceable and/or not infringed. We intend to vigorously enforce our intellectual property rights relating to GIAPREZA®.

Given the early stage of this matter, we cannot reasonably estimate a potential future loss or a range of potential future losses, if any, and have not recorded a contingent liability accrual as of March 31, 2023.

***Indemnification***

In the ordinary course of business, we may provide indemnifications of varying scope and terms to vendors, directors, officers, and other parties with respect to certain matters, including, but not limited to, losses arising out of breach of such agreements, services to be provided by us, our negligence or willful misconduct, violations of law, or intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with directors and certain officers and employees that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers, or employees. No material demands have been made upon us to provide indemnification under such agreements, and thus, there are no claims that we are aware of that could have a material effect on our unaudited condensed consolidated financial statements. We also maintain director and officer insurance, which may cover certain liabilities arising from our obligation to indemnify our directors. To date, we have not incurred any material costs and have not accrued any material liabilities in the condensed consolidated financial statements as a result of these provisions.

**13. Income Taxes**

We recorded a provision for income tax expense of $6.3 million and $6.9 million for the three months ended March 31, 2023 and 2022, respectively. The Company's effective income tax rate for the three months ended March 31, 2023 and 2022 was 15.3%. The income tax expense for the three months ended March 31, 2023 and 2022 was determined based upon estimates of the Company's effective income tax rates in various jurisdictions. Our effective tax rate for the three months ended March 31, 2023 was lower than the benefit computed at the U.S. federal statutory income tax rate due primarily to non-deductible expenses.

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

### Forward-Looking Statements

The information in this Quarterly Report on Form 10-Q contains 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. Such forward-looking statements involve substantial risks, uncertainties, and assumptions. All statements contained herein, other than statements of historical fact, including, without limitation, statements regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans, intentions, expectations, goals and objectives may be forward-looking statements. The words "anticipates," "believes," "could," "designed," "estimates," "expects," "goal," "intends," "may," "objective," "plans," "projects," "pursuing," "will," "would" and similar expressions (including the negatives thereof) are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions, expectations or objectives disclosed in our forward-looking statements and the assumptions underlying our forward-looking statements may prove incorrect. Therefore, you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions, expectations and objectives disclosed in the forward-looking statements that we make. All written and verbal forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

Important factors that we believe could cause actual results or events to differ materially from our forward-looking statements include, but are not limited to, risks related to: lower than expected future royalty revenue from respiratory products partnered with GSK, the commercialization of RELVAR®/BREO® ELLIPTA®, ANORO® ELLIPTA®, GIAPREZA®and XERAVA® in the jurisdictions in which these products have been approved; the strategies, plans and objectives of the Company (including the Company's growth strategy and corporate development initiatives); the timing, manner, and amount of potential capital returns to shareholders; the status and timing of clinical studies, data analysis and communication of results; the potential benefits and mechanisms of action of product candidates; expectations for product candidates through development and commercialization; the timing of regulatory approval of product candidates; and projections of revenue, expenses and other financial items; the impact of the novel coronavirus ("COVID-19"); the timing, manner and amount of capital deployment, including potential capital returns to stockholders; and risks related to the Company's growth strategy and risks discussed in "Risk Factors" in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the Securities and Exchange Commission ("SEC") on February 28, 2023, and as amended on March 20, 2023 ("2022 Form 10-K"), and Item 1A of Part II of our Quarterly Reports on Form 10-Q and below in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Item 2 of Part I. All forward-looking statements in this Quarterly Report on Form 10-Q are based on current expectations as of the date hereof and we do not assume any obligation to update any forward-looking statements on account of new information, future events or otherwise, except as required by law.

We encourage you to read our unaudited condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q. We also encourage you to read Item 1A of Part I of our 2022 Form 10-K and Item 1A of Part II of our Quarterly Reports on Form 10-Q entitled "Risk Factors," which contain a more complete discussion of the risks and uncertainties associated with our business. In addition to the risks described above and in Item 1A of Part I of our 2022 Form 10-K and Item 1A of Part II of this report, other unknown or unpredictable factors also could affect our results. Therefore, the information in this report should be read together with other reports and documents that we file with the SEC from time to time, including on Form 10-K, Form 10-Q and Form 8-K, which may supplement, modify, supersede or update those risk factors. As a result of these factors, we cannot assure you that the forward-looking statements in this report will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all.

### OVERVIEW

### Executive Summary

Innoviva, Inc. (and where context requires, together with its subsidiaries referred to as "Innoviva", the "Company", or "we" and other similar pronouns) is a company with a portfolio of royalties and innovative healthcare assets. Our royalty portfolio contains respiratory assets partnered with Glaxo Group Limited ("GSK"), including RELVAR®/BREO® ELLIPTA® (fluticasone furoate/vilanterol, "FF/VI") and ANORO® ELLIPTA® (umeclidinium bromide/ vilanterol, "UMEC/VI"), and up until July 2022,

TRELEGY® ELLIPTA® (the combination FF/UMEC/VI). We sold our 15% ownership interest in Theravance Respiratory Company, LLC ("TRC") on July 20, 2022, and are no longer entitled to receive royalties on sales of TRELEGY® ELLIPTA® products. Under the Long-Acting Beta2 Agonist ("LABA") Collaboration Agreement, Innoviva is entitled to receive royalties from GSK on sales of RELVAR®/BREO® ELLIPTA® as follows: 15% on the first $3.0 billion of annual global net sales and 5% for all annual global net sales above $3.0 billion; and royalties from the sales of ANORO® ELLIPTA®, which tier upward at a range from 6.5% to 10%.

We expanded our portfolio of royalties and innovative healthcare assets through the acquisition of Entasis Therapeutics Holdings Inc. ("Entasis") on July 11, 2022 and the acquisition of La Jolla Pharmaceutical Company ("La Jolla") on August 22, 2022. Our commercial and marketed products include GIAPREZA® (angiotensin II), approved to increase blood pressure in adults with septic or other distributive shock, and XERAVA® (eravacycline) approved for the treatment of complicated intra-abdominal infections in adults. Our development pipeline includes medicines for the treatment of bacterial infections, such as our lead asset sulbactam-durlobactam ("SUL-DUR"). As such, we have a wholly owned robust infectious disease and hospital operating platform, as well as other assets in these areas, such as a large equity stake in Armata Pharmaceuticals, a leader in bacteriophage development with potential use across a range of infectious and other serious diseases. We also have economic interests in other healthcare companies.

Our corporate strategy is currently focused on increasing stockholder value by, among other things, maximizing the potential value of our respiratory assets partnered with GSK, optimizing our operations and augmenting capital allocation. We continue to diversify our royalty management business through actively pursuing opportunistic acquisitions of promising companies and assets in the healthcare industry and enhancing the returns on our capital. In particular, our recent acquisitions of Entasis and La Jolla created a robust hospital and infectious disease platform.

**First Quarter 2023 and Recent Highlights:**

***GSK Net Sales***

- First quarter 2023 net sales of RELVAR®/BREO® ELLIPTA® by GSK were $339.2 million with $122.4 million in net sales from the U.S. market and $216.8 million from non-U.S. markets.

- First quarter 2023 net sales of ANORO® ELLIPTA® by GSK were $145.1 million with $62.2 million net sales from the U.S. market and $82.9 million from non-U.S. markets.

***Corporate Updates***

- Innoviva's recently established subsidiary, Innoviva Specialty Therapeutics, which integrated Entasis and La Jolla and, in conjunction with these affiliates, markets GIAPREZA® and XERAVA® as well as advances the development and commercialization of SUL-DUR and zoliflodacin.

- On January 10, 2023, the Company's wholly owned subsidiary, Innoviva Strategic Opportunities LLC, invested $30.0 million in a convertible promissory note of Armata Pharmaceuticals, Inc. to support the clinical development of its multiple innovative bacteriophage assets as well as advanced biologics cGMP manufacturing capabilities.

- On February 2, 2023, the Company's wholly owned subsidiary, Innoviva TRC Holding LLC, invested $5.0 million in a convertible promissory note of Gate Neurosciences Inc. to support the clinical development of its differentiated pipeline of neuropsychiatric therapeutics.

- During the first quarter of 2023, Innoviva repurchased approximately 3.4 million shares of its outstanding common stock for $40.3 million.

- In January 2023, Innoviva paid off the remaining principal balance of $96.2 million of the 2023 Notes.

***Clinical Updates***

- On April 17, 2023, the FDA's Antimicrobial Drugs Advisory Committee ("AMDAC") unanimously voted 12-0 in support of approval of SUL-DUR based on a favorable benefit-risk assessment for the treatment of adults with hospital-acquired bacterial pneumonia ("HABP") and ventilator-associated bacterial pneumonia ("VABP") caused by susceptible strains of *Acinetobacter baumannii-calcoaceticus* complex (Acinetobacter). The SUL-DUR New Drug Application ("NDA"), filed by Entasis was accepted and granted Priority Review by the FDA in November 2022, with a Prescription Drug User Fee Act ("PDUFA") target action date of May 29, 2023.

- Phase 3 Zoliflodacin study on track to complete enrollment in second half of 2023. Zoliflodacin is a novel, first-in-class oral antibiotic in development for the treatment of uncomplicated gonorrhea.

**Collaboration Arrangement with GSK**

***LABA Collaboration***

In November 2002, we entered into the LABA collaboration with GSK to develop and commercialize once-daily LABA products for the treatment of chronic obstructive pulmonary disorder ("COPD") and asthma (the "LABA Collaboration Agreement"). For the treatment of COPD, the collaboration has developed three combination products:

- RELVAR®/BREO® ELLIPTA® ("FF/VI") (BREO® ELLIPTA® is the proprietary name in the U.S. and Canada and RELVAR® ELLIPTA® is the proprietary name outside the U.S. and Canada), a once-daily combination medicine consisting of a LABA, vilanterol (VI), and an inhaled corticosteroid ("ICS"), fluticasone furoate ("FF"),

- ANORO® ELLIPTA® ("UMEC/VI"), a once-daily medicine combining a long-acting muscarinic antagonist ("LAMA"), umeclidinium bromide ("UMEC"), with a LABA, vilanterol (VI), and

- TRELEGY® ELLIPTA® (the combination FF/UMEC/VI), a once-daily combination medicine consisting of an ICS, LAMA and LABA.

As a result of the launch and approval of RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA® in the U.S., Japan and Europe, in accordance with the LABA Collaboration Agreement, we paid milestone fees to GSK totaling $220.0 million during the year ended December 31, 2014. Although we have no further milestone payment obligations to GSK pursuant to the LABA Collaboration Agreement, we continue to have ongoing commercialization activities under the LABA Collaboration Agreement, including participation in the joint steering committee that are expected to continue over the life of the agreement. The milestone fees paid to GSK were recognized as capitalized fees, which are being amortized over their estimated useful lives commencing upon the commercial launch of the products.

As mentioned above, on July 20, 2022, we sold our ownership interest in TRC, which received royalty payments from GSK stemming from sales of TRELEGY® ELLIPTA®. We retained our royalty rights with respect to RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA®.

**Critical Accounting Policies and Estimates**

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported revenue generated and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe there have been no significant changes in our critical accounting policies as described in the Form 10-K for the year ended December 31, 2022 filed with the SEC on February 28, 2023, and as amended on March 20, 2023.

**Factors Affecting Comparability**

Our historical financial condition and results of operations for the periods presented may not be comparable, either between periods or going forward due to the factors described below.

- Accounting consolidation of Entasis on February 17, 2022 and purchase of remaining minority interest in Entasis on July 11, 2022,
- Sale of our 15% ownership interest in Theravance Respiratory Company, LLC ("TRC") on July 20, 2022, and
- Acquisition of La Jolla on August 22, 2022.

Refer to Note 5, "Consolidated Entities and Acquisitions" to our accompanying unaudited consolidated financial statement for more information.

**Results of Operations**

***Net Revenue***

Royalty Revenue

Total royalty revenue, net, as compared to the prior year period, was as follows:

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| **(In thousands)** | **2023** | **2022** | **$** | **%** |
| Royalties - RELVAR/BREO | $ 50,883 | $ 55,764 | $ (4,881) | (9)% |
| Royalties - ANORO | 9,431 | 8,442 | 989 | 12% |
| Royalties - TRELEGY | — | 29,309 | (29,309) | (100)% |
| Total royalties | 60,314 | 93,515 | (33,201) | (36)% |
| Less: amortization of capitalized fees paid | (3,456) | (3,456) | — | * |
| Total net royalty revenue | $ 56,858 | $ 90,059 | $ (33,201) | (37)% |

*Not Meaningful

Total net royalty revenue decreased to $56.9 million for the three months ended March 31, 2023, compared to $90.1 million for the same period a year ago. The decrease of total net royalty revenue for the three months ended March 31, 2023, compared to the same period a year ago was primarily due to the sale of our ownership interest in TRC, which received royalties stemming from sales of TRELEGY® ELLIPTA®. For the three months ended March 31, 2023, there was a decrease in the net sales of RELVAR®/BREO® ELLIPTA® due to pricing pressures in the U.S. market and foreign currency rate changes.

Net Product Sales

Net product sales we recognized for the three months ended March 31, 2023 was $11.5 million, consisting of net sales of GIAPREZA® and XERAVA® for $9.0 million and $2.5 million, respectively.

License Revenue

We recognized $8.0 million in license revenue for the three months ended March 31, 2023 as a result of achievement of a regulatory milestone under our license agreement with Everest.

***Research and Development***

Research and development expenses, as compared to the prior year period, were as follows:

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| **(In thousands)** | **2023** | **2022** | **$** | **%** |
| Research and development | $ 12,588 | $ 5,838 | $ 6,750 | 116% |

Research and development expenses consist of the following:

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| **(in thousands)** | **2023** | **2022** | **$** | **%** |
| Compensation and related personnel costs | $ 3,472 | $ 1,897 | $ 1,575 | 83% |
| External services | 8,147 | 3,617 | 4,530 | 125% |
| Facilities related | 616 | 252 | 364 | 144% |
| Other | 353 | 72 | 281 | 390% |
| Total research and development expense | $ 12,588 | $ 5,838 | $ 6,750 | 116% |

Research and development expenses, which are mainly attributable to Entasis' product development efforts for SUL-DUR, were $12.6 million, for the three months ended March 31, 2023. Research and development expenses for the three months ended March 31, 2022 were attributable to the product development efforts of Entasis from February 17, 2022 to March 31, 2022.

***Selling, General & Administrative***

Selling, general and administrative expenses, as compared to the prior year period, were as follows:

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| **(In thousands)** | **2023** | **2022** | **$** | **%** |
| Selling, general and administrative | $ 19,735 | $ 6,492 | $ 13,243 | * |

*Not Meaningful

Selling, general and administrative expenses increased for the three months ended March 31, 2023, compared to the same period in 2022 mainly due to the consolidation of Entasis' operating expenses starting February 17, 2022 and the consolidation of La Jolla's operating expenses starting August 22, 2022.

***Interest and dividend income and other expense, net***

Interest and dividend income and other expense, net, as compared to the prior year period, were as follows:

| | Three Months Ended March 31, | | Change | |
|---|---|---|---|---|
| **(In thousands)** | **2023** | **2022** | **$** | **%** |
| Interest and dividend income | $ (3,365) | $ (322) | $ (3,043) | * |
| Other expense, net | 1,346 | 250 | 1,096 | * |

*Not Meaningful

Interest and dividend income increased for the three months ended March 31, 2023, compared to the same periods a year ago due to higher interest rates and higher average balances of our cash equivalents, money market funds and other interest-bearing investments.

Other expense, net, was primarily expenses incurred by ISP Fund LP.

***Interest Expense***

Interest expense, as compared to the prior year period, was as follows:

| (In thousands) | Three Months Ended March 31, 2023 | 2022 | Change $ | Change % |
|---|---|---|---|---|
| Interest expense | $ 4,427 | $ 3,010 | $ 1,417 | 47% |

The interest expense included the contractual interest expense and the amortization of debt issuance costs for our 2023 Notes, 2025 Notes and 2028 Notes, as well as effective interest expense on our deferred royalty obligation. Interest expense for the three months ended March 31, 2023 included the amount on the 2023 Notes until the notes were fully paid off on January 15, 2023. Interest expense for the three months ended March 31, 2022 included the amount on the 2028 Notes from March 7, 2022, the date of issuance, through March 31, 2022. The increase for the three months ended March 31, 2023, compared to March 31, 2022, was mainly due to interest expense on our deferred royalty obligation and a higher average debt balance.

***Loss on Debt Extinguishment***

We recognized a loss of $20.7 million due to the total premium payment of $20.4 million and the write-off of $0.3 million debt issuance costs in connection with the repurchase of $144.8 million aggregate principal amount of our 2023 Notes in March 2022.

***Changes in Fair Values of Equity Method Investments and Equity and Long-Term Investments***

Changes in fair values of equity and long-term investments, as compared to the prior year period, were as follows:

| (In thousands) | Three Months Ended March 31, 2023 | 2022 | Change $ | Change % |
|---|---|---|---|---|
| Changes in fair values of equity method investments, net | $ (15,817) | $ 11,950 | $ (27,767) | * |
| Changes in fair values of other equity and long-term investments, net | 2,164 | $ (2,539) | 4,703 | * |

*Not Meaningful

The changes in fair values of equity method investments for the three months ended March 31, 2023 posted a gain compared to a loss position during the same period in 2022 mainly due to Armata's higher stock price in 2023. The changes in fair values of other equity and long-term investments primarily reflected the realized gains and losses and net unrealized gains and losses in our strategic investments in InCarda, Gate, and those investments managed by ISP Fund LP.

***Provision for Income Taxes***

We recorded a provision for income tax expense of $6.3 million for the three March 31, 2023, compared to provision for income tax expense of $6.9 million for the three months ended March 31, 2022. The effective income tax rate for the three months ended March 31, 2023 and 2022 was 15.3%.

***Net Income Attributable to Noncontrolling Interest***

Net income attributable to noncontrolling interest for the three months ended March 31, 2022 represented $25.1 million for the 85% share of net income in Theravance Respiratory Company, LLC for Theravance Biopharma and $3.0 million for the 40% share of net loss in Entasis Therapeutics Holdings, Inc.

There is no noncontrolling interest in any of our subsidiaries in 2023.

**Liquidity and Capital Resources**

***Liquidity***

Since our inception, we have financed our operations primarily through private placements and public offerings of equity and debt securities and payments received under collaboration arrangement. For the three months ended March 31, 2023, we generated gross royalty revenues from GSK of $60.3 million, net product sales of $11.5 million and license revenue of $8.0 million. Net cash and cash equivalents totaled $144.0 million, royalties receivables from GSK totaled $60.3 million and accounts receivable associated with our product sales and license revenue totaled $15.5 million as of March 31, 2023.

**Adequacy of Cash Resources to Meet Future Needs**

We believe that our cash and cash equivalents will be sufficient to meet our anticipated debt service and operating needs, as well our ongoing share repurchase program, for at least the next 12 months based upon current operating plans and financial forecasts. Our long-term capital requirements will depend on many factors including the amount of our royalty revenues, sales growth of our currently marketed products, timing of regulatory approval of our product candidates and outcome of our acquisitions and strategic investments. If our current operating plans and financial forecasts change, we may require additional funding sooner in the form of public or private equity offerings or debt financings. Furthermore, if in our view favorable financing opportunities arise, we may seek additional funding in the form of public or private equity offerings or debt financings at any time. However, future financing may not be available in amounts or on terms acceptable to us, if at all. This could leave us without adequate financial resources to fund our operations as currently planned. In addition, from time to time we may restructure or reduce our debt, including through privately negotiated repurchases, tender offers, redemptions, amendments, or otherwise, all allowable with the terms of our debt agreements.

***Cash Flows***

Cash flows, as compared to the prior year period, were as follows:

| | Three Months Ended March 31, | | |
|---|---|---|---|
| (In thousands) | 2023 | 2022 | Change |
| Net cash provided by operating activities | $ 25,684 | $ 98,102 | $ (72,418) |
| Net cash used in investing activities | $ (35,722) | $ (143,156) | $ 107,434 |
| Net cash (used in) provided by financing activities | $ (136,962) | $ 60,331 | $ (197,293) |

***Cash Flows from Operating Activities***

Net cash provided by operating activities for the three months ended March 31, 2023 was $25.7 million, consisting primarily of our net income of $34.9 million, adjusted for net non-cash items, which included $13.7 million of net changes in fair value of our investments, $6.8 million of amortization of inventory fair value step-up adjustment, $3.5 million of amortization of capitalized fees and depreciation of property and equipment and $3.8 million of amortization of acquired intangible assets partially offset by increases of $6.1 million in accounts receivable, $5.6 million in receivables from collaboration arrangement and decreases of $3.5 million in accrued interest payable.

Net cash provided by operating activities for the three months ended March 31, 2022 was $98.1 million, consisting primarily of our net income of $37.9 million, adjusted for net non-cash items such as $6.9 million of deferred income tax, $3.5 million of depreciation and amortization, $20.7 million of loss on extinguishment of debt, and $9.4 million decrease in the fair value of our equity and long-term investments and a decrease in receivables from collaborative arrangements of $17.2 million, offset by a reduction of accrued interest payable of $2.8 million.

***Cash Flows from Investing Activities***

Net cash used in investing activities for the three months ended March 31, 2023 of $35.7 million primarily consisted of $35.7 million in purchases of equity and other long-term investments and $3.9 million in purchases of equity investments managed by ISP Fund LP. The use of cash for investing activities was partially offset by net proceeds of $3.9 million from the sale of equity and other investments managed by ISP Fund LP.

Net cash used in investing activities for the three months ended March 31, 2022 of $143.2 million was primarily due to $134.3 million of purchases of equity and other investments managed by ISP Fund LP and $56.2 million investments in Armata, InCarda, and Nanolive, partially offset by $24.3 million of sales of equity investments managed by ISP Fund LP and $23.1 million of cash acquired through the consolidation of Entasis.

***Cash Flows from Financing Activities***

Net cash used in financing activities for the three months ended March 31, 2023 of $137.0 million was primarily due to the payments of $96.2 million upon maturity of the 2023 Notes in January 2023 and $40.7 million for the repurchase of common stock under our current stock repurchase program.

Net cash used in financing activities for the three months ended March 31, 2022 of $60.3 million was primarily due to the net proceeds of $252.8 million from the issuance of the convertible senior notes due in 2028, offset with $21.0 million purchase of capped call options associated with the 2028 Notes, $165.1 million for the repurchase of the 2023 Notes, and $6.5 million distributions to noncontrolling interest.

**Contractual Obligations**

As of March 31, 2023, our notes payable obligation included $192.5 million related to our 2025 Notes and $261.0 million related to our 2028 Notes, which are due in 2025 and 2028, respectively. Under the terms of the 2025 Notes and 2028 Notes, we will make interest payments of 2.5% and 2.125%, respectively, of outstanding principal. Refer to Note 11, “Debt” to the Consolidated Financial Statements for more information.

Our short-term and long-term obligations also include contractual payments related to our operating leases were $3.7 million, with approximately $1.2 million payable through December 31, 2023 and approximately $1.3 million payable in each of the years 2024 and 2025. Refer to Note 12, “Commitments and Contingencies” to the condensed consolidated financial statements for more information.

As part of our acquisition of La Jolla, we recognized its deferred royalty obligation in connection with La Jolla Royalty Agreement with HCR. Under the terms of the Agreement, HCR is entitled to receive quarterly royalties on worldwide net sales of GIAPREZA® until either January 1, 2031 or when the maximum aggregate royalty payments have been made, whichever occurs first. Quarterly payments to HCR under the Royalty Agreement start at a maximum royalty rate, with step-downs based on the achievement of annual net product sales thresholds. The current maximum royalty rate is 14%. Starting January 1, 2024, the maximum royalty rate may increase by an additional 4%, if an agreed-upon, cumulative net product sales threshold has not been met. The La Jolla Royalty Agreement is subject to maximum aggregate royalty payments to HCR of $225.0 million.

Additionally, we have certain contingent payment obligations under various in-license agreements which we are required to make royalty payments or milestone payments upon successful completion and achievement of certain milestones. Refer to Note 4, “License and Collaboration Arrangements” to the Condensed Consolidated Financial Statements for more information.

We also enter into agreements in the normal course of business with vendors for manufacturing, clinical trials and preclinical studies, and other services and products for operating purposes.

**Item 3. Quantitative and Qualitative Disclosure about Market Risk**

As of March 31, 2023, our debt bears fixed interest rates and we had no outstanding debt with variable interest rate. Our cash flows on these debt obligations are not subject to variability as a result of changes in interest rates.

We are exposed to changes in the fair value of certain or our investments in equity and debt securities. Fluctuations in the underlying fair value of the investments could result in material gains or losses. Refer to Note 6 “Equity and Long-Term Investments and Fair Value Measurements” to the Condensed Consolidated Financial Statements for more information.

Inflation has increased in recent periods and could continue to increase for the near future. Inflationary factors, such as increases in the cost of our raw materials, supplies, interest rates and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, we may experience some effect in the near future if inflation rates continue to rise. Significant adverse changes in inflation and prices in the future could result in material losses.

**Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

We conducted an evaluation as of March 31, 2023, under the supervision and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures, which are defined under SEC rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Securities Exchange Act of 1934 ("Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and controls and procedures that are designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decision regarding required disclosure. Based upon that evaluation, our Chief Executive Officer and Chief Accounting Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance levels.

*Limitations on the Effectiveness of Controls*

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all frauds. 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. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefit of controls must be considered relative to their costs. 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 Innoviva have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*Changes in Internal Control over Financial Reporting*

We completed our acquisitions of Entasis and La Jolla in 2022. We continue the process of integrating the acquired operations and processes into our internal control environment and implementing necessary changes to our internal control over financial reporting, including, but not limited, to the creation of new controls related to inventory management, research and development activities and product sales.

Other than the above, there have been no material changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended March 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

As previously disclosed in the Quarterly Report on Form 10-Q filed by La Jolla on August 15, 2022, on February 15, 2022, La Jolla received a paragraph IV notice of certification (the "Notice Letter") from Gland Pharma Limited ("Gland") advising that Gland had submitted an Abbreviated New Drug Application ("ANDA") to the FDA seeking approval to manufacture, use or sell a generic version of GIAPREZA® in the U.S. prior to the expiration of U.S. Patent Nos.: 9,220,745; 9,572,856; 9,867,863; 10,028,995; 10,335,451; 10,493,124; 10,500,247; 10,548,943; 11,096,983; and 11,219,662 (the "GIAPREZA® Patents"), which are listed in the FDA's Approved Drug Products with Therapeutic Equivalence Evaluations (the "Orange Book"). The Notice Letter alleges that the GIAPREZA® Patents are invalid, unenforceable and/or will not be infringed by the commercial manufacture, use or sale of the generic product described in Gland's ANDA.

On March 29, 2022, La Jolla filed a complaint for patent infringement of the GIAPREZA® Patents against Gland and certain related entities in the United States District Court for the District of New Jersey in response to Gland's ANDA filing. In accordance with the Hatch-Waxman Act, because GIAPREZA® is a new chemical entity and La Jolla filed a complaint for patent infringement within 45 days of receipt of the Notice Letter, the FDA cannot approve Gland's ANDA any earlier than 7.5 years from the approval of the GIAPREZA® NDA unless the District Court finds that all of the asserted claims of the patents-in-suit are invalid, unenforceable and/or not infringed. The Company and La Jolla intend to vigorously enforce their intellectual property rights relating to GIAPREZA®.

**Item 1A. Risk Factors**

Our business is subject to a number of risks, including those identified in Item 1A of Part I of our 2022 Form 10-K. There have been no material changes to the risk factors described in our 2022 Form 10-K.

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

***a) Sales of Unregistered Securities***

None.

***(b) Use of Proceeds from Public Offering of Common Stock***

None.

**(c)** ***Purchases of Equity Securities by the Issuer***

The following table reflects share repurchases of our common stock for the three months ended March 31, 2023.

| Period | Total Number of Shares Purchases | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| January 1, 2023 to January 31, 2023 | 648,231 | $ 12.93 | 648,231 | $ 83,114,421 |
| February 1, 2023 to February 28, 2023 | 1,005,777 | 12.38 | 1,005,777 | 70,665,885 |
| March 1, 2023 to March 31, 2023 | 1,765,468 | 11.05 | 1,765,468 | 51,164,248 |
| Total | 3,419,476 | $ 11.79 | 3,419,476 | |

**Item 3: Defaults Upon Senior Securities**

None.

**Item 4: Mine Safety Disclosures**

None.

**Item 5: Other Information**

None.

**Item 6. Exhibits**

**(a) Index to Exhibits**

| Exhibit Number | Description | Incorporated by Reference | | |
|---|---|---|---|---|
| | | Form | Exhibit | Filing Date/Period End Date |
| 3.1 | Amended and Restated Certificate of Incorporation | S-1 | 3.3 | 7/26/2004 |
| 3.2 | Certificate of Amendment of Restated Certificate of Incorporation | 10-Q | 3.4 | 3/31/2007 |
| 3.3 | Certificate of Ownership and Merger Merging LABA Merger Sub, Inc. with and into Theravance, Inc., as filed with the Secretary of State of the State of Delaware, effective on January 7, 2016 | 8-K | 3.1 | 1/8/2016 |
| 3.4 | Amended and Restated Bylaws, amended and restated as of February 8, 2017 | 8-K | 3.1 | 2/9/2017 |
| 3.5 | Amended and Restated Bylaws, amended and restated as of January 1, 2023 | 8-K | 3.1 | 1/4/2023 |
| 4.1 | Specimen certificate representing the common stock of the registrant | 10-K | 4.1 | 12/31/2006 |
| 4.2 | Indenture, dated as of January 4, 2013 by and between Theravance, Inc. and the Bank of New York Mellon Trust Company, N.A., as trustee | 8-K | 4.1 | 1/25/2013 |
| 4.3 | Form of 2.125% Convertible Subordinated Note Due 2023 (included in Exhibit 4.2) | 8-K | 4.2 | 1/25/2013 |
| 4.4 | Indenture (including form of Note) with respect to Innoviva's 2.5% Convertible Senior Notes due 2025, dated as of August 7, 2017, between Innoviva and The Bank of New York Mellon Trust Company, N.A., as trustee | 8-K | 4.1 | 8/7/2017 |
| 4.5 | Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934 | 10-K | 4.9 | 2/19/2020 |
| 4.6 | Indenture (including form of Note) with respect to Innoviva's 2.125% Convertible Senior Notes due 2028, dated as of March 7, 2022, between Innoviva and The Bank of New York Mellon Trust Company, N.A., as trustee | 8-K | 4.1 | 3/8/2022 |
| 10.1+ | Transition Agreement between Larry Edwards and Innoviva Specialty Therapeutics, Inc., dated February 23, 2023, and Release of Claims form signed by Larry Edwards, dated April 5, 2023 | | | |
| 31.1 | Certification of Principal Executive Officer pursuant to Rules 13a-14 pursuant to the Securities Exchange Act of 1934 | | | |
| 31.2 | Certification of Principal Financial Officer pursuant to Rules 13a-14 pursuant to the Securities Exchange Act of 1934 | | | |
| 32* | Certifications Pursuant to 18 U.S.C. Section 1350 | | | |
| 101.INS | Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document. | | | |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document | | | |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document | | | |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document | | | |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document | | | |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document | | | |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL document) | | | |

\+ Management contract or compensatory plan or arrangement.
* Furnished herewith.

**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.

Innoviva, Inc.

Date: May 9, 2023

/s/ Pavel Raifeld

**Pavel Raifeld**
Chief Executive Officer
*(Principal Executive Officer)*

Date: May 9, 2023

/s/ Marianne Zhen

**Marianne Zhen**
Chief Accounting Officer
*(Principal Financial Officer)*

**Exhibit 10.1**

February 23, 2023

Larry Edwards
Via Electronic Delivery

Re: Transition Agreement

Dear Larry,

This letter agreement (this "***Agreement***") is intended to confirm our mutual understanding with respect to your employment with Innoviva Specialty Therapeutics, Inc. (the "***Company***") from and after the date hereof (the "***Effective Date***"). Reference is made to that certain (i) letter agreement, dated as of July 27, 2020 and amended as of August 16, 2021, by and between you and the Company, setting forth the terms of your employment with the Company (the "***Prior Agreement***"), and (ii) Inventions and Assignment Agreement, dated as of August 10, 2020, by and between you and the Company (the "***RCA***").

By signing this Agreement, you hereby resign from all positions that you hold at the Company and each of their respective subsidiaries (other than your position as President of La Jolla as described herein), effective as of 12:00am on the Effective Date, and the Company hereby accepts such resignations.

During the period (the "***Transition Period***") commencing on the Effective Date and ending on March 31, 2023 (or on such earlier date as determined by you or the Company) (the date of such termination is referred to herein as the "***Separation Date***"), the Company will continue to employ you. During the Transition Period, you shall initially have the title of President of La Jolla, but your title may be changed to Advisor at any time during the Transition Period in the sole discretion of the Company's Chief Executive Officer (the "***CEO***"). During the Transition Period, you shall report to the CEO and shall have such job duties and responsibilities as requested from time to time by the CEO, which duties and responsibilities may include continuing to perform your duties and responsibilities consistent with past practice and assisting with the transition of such duties and responsibilities to other employees of the Company and its direct or indirect parents, subsidiaries or affiliates (collectively, and including their respective successors and assigns, the "***Group Companies***") as designated from time to time. For the avoidance of doubt, in no event will you have any policy making function during the Transition Period. During the Transition Period, you agree to devote all of your business time and attention to your work for the Company. You will not, during your employment with the Company, (i) accept or maintain any other employment, or (ii) engage, directly or indirectly, in any other business activity (whether or not pursued for pecuniary advantage) that interferes with your duties and responsibilities as a Company employee or create a conflict of interest with any Group Company.

During the Transition Period, you will continue to receive your base salary of $583,000 per year, payable in accordance with the Company's regular payroll practices. You will also be eligible to participate during your employment in all employee benefits plans sponsored by the Company from time to time and in effect for similarly situated employees of the Company. In addition, you will continue to be eligible to receive a bonus in respect of your services during the 2022 calendar year (the "***2022 Bonus***"), with an amount equal to $227,370 payable at the same time the Company pays 2022 bonuses to other similarly-situated employees (but in all events by March 3, 2023) subject to your continued compliance with this Agreement through such date. The remainder of the 2022 Bonus shall be determined solely in the CEO's discretion (with a target amount equal to $122,430) and will be paid to you on or after the Separation Date (but no later than forty-five (45) days following the Separation Date) subject to you satisfaction of the Conditions (as defined below). You will not be entitled to any bonus

compensation in respect of calendar years 2023 or later. From and after the Effective Date, you will not be entitled to any new equity or equity-based awards.

Your employment with the Company will automatically terminate effective as of the close of business on the Separation Date. The Parties acknowledge and agree that the termination of your employment at the end of the Transition Period (provided that you do not resign prior to March 31, 2023 and that you otherwise comply with your obligations hereunder) will be treated as a termination by you for Good Reason (as defined in the Prior Agreement) within 12 months after a Change in Control Event (as defined in the Prior Agreement) under the terms of the Prior Agreement, but that you will not be eligible for any severance payments or benefits pursuant to the Prior Agreement upon such termination or any other termination and that your eligibility to receive the Severance (as defined below) is in lieu of any such payments or benefits pursuant to the Prior Agreement or otherwise. Following the Separation Date, you will receive any accrued but unused paid time off payable in accordance with the Company's policies, as well as any other payments or benefits required under applicable law. In addition, subject to (i) your continued employment with the Company through March 31, 2023 (or an earlier termination of your employment by the Company without Cause (as defined in the Prior Agreement) or by you for Good Reason (as defined in the Prior Agreement, subject to the terms of this Agreement)), (ii) your best efforts to achieve completion of your duties and responsibilities during your engagement with the Company, (iii) your execution, delivery to the Company and non-revocation of a general release of claims in the form attached hereto as Exhibit A (the "***Release***") that becomes effective within thirty (30) days following the Separation Date, (iv) your continued compliance with this Agreement and with any confidentiality, invention assignment, non-competition, non-solicitation, non-interference, non-disparagement or similar obligations of yours with respect to any Group Company (including the RCA, this Agreement and the Release), and (v) you not engaging in any conduct that constitutes Cause (collectively, (i) through (v) being, the "***Conditions***"):

(i) The Company will continue to pay your base salary for eighteen (18) months (*i.e.*, $874,500 in the aggregate), subject to all applicable federal, state and local tax withholdings and deductions, and payable in accordance with the Company's regular payroll practices commencing on the first regularly scheduled payroll date following the thirtieth ($30^{th}$) day following the Separation Date;

(ii) You will receive a lump sum payment of $349,800, representing 100% of your then-current annual target bonus, subject to all applicable federal, state and local tax withholdings and deductions, and payable on the first regularly scheduled payroll date following the thirtieth ($30^{th}$) day following the Separation Date; and

(iii) The Company will pay your COBRA premiums for medical, dental and vision insurance for you, your spouse and covered dependents, provided that you are eligible for and elect COBRA coverage and only to the extent permitted by applicable law without any penalty to you or any Group Company, until the earlier of: (i) eighteen (18) months after your employment ends; or (ii) the date that you become employed by a new employer.

If you fail to timely execute the Release, or revoke your acceptance of such Release following its execution, you will not be entitled to receive any of the payments or benefits set forth in clauses (i), (ii) or (iii) above (collectively, "***Severance***"). In no event will you be entitled to any Severance if, prior to March 31, 2023, you resign from your employment with the Company without Good Reason or your employment is terminated by the Company for Cause.

You acknowledge and agree that your right to Severance in accordance with the terms of this Agreement is in full discharge of any and all severance, separation or termination based liabilities and obligations of the Group Companies to you arising under any alleged written or oral employment or service agreement, policy, plan or procedure of any Group Company and/or any alleged understanding or arrangement between you and any Group Company.

You acknowledge and agree that the Company may withhold and deposit all federal, state and local income and employment taxes that are owed with respect to all amounts paid or benefits provided to or for you by the Company that are in consideration for your employment services. Payments under this Agreement are intended to be exempt from, or comply with, Section 409A of the Internal Revenue Code of 1986, as amended ("***Section 409A***"), and this Agreement will be interpreted to achieve this result. For purposes of this Agreement, each payment in a series of payments hereunder shall be deemed to be a separate payment for purposes of Section 409A. In no event is the Company responsible for any tax or penalty owed by you (other than for withholding obligations or other obligations applicable to employers, if any, under Section 409A) with respect to payments under this Agreement.

You acknowledge that you and the Company may mutually agree to continue your engagement with the Company after the Separation Date as a strategic advisor, pursuant to such terms and conditions as may be mutually agreed upon by you and the Company at a later date.

By signing below, you represent and warrant to the Company that your provision of services hereunder will not violate any applicable law and covenant and agree to comply with all applicable laws in providing such services. You acknowledge that you are in possession of material non-public information regarding the Group Companies and that you will be bound by the Group Companies' policies during the Transition Period, including with respect to securities trading restrictions.

You acknowledge that, during the course of your engagement, you will have access to, and be in close contact with, confidential and proprietary information about the Group Companies. In recognition of the foregoing, you agree, at all times from and after the Effective Date, to hold in confidence, and not to use (except for the benefit of the Group Companies and in connection with your services hereunder), or to disclose to any person, firm, corporation or other entity without written authorization of the Company, any Confidential Information (as defined below) that you obtain or create. You understand that "***Confidential Information***" means confidential or proprietary trade secrets, client lists, client identities and information, information regarding service providers, investment methodologies, marketing plans, sales plans, management organization information, operating policies or manuals, business plans or operations or techniques, financial records or data, or other financial, commercial, business or technical information relating to the Group Companies, or that any Group Company may receive belonging to clients, accounts, customers or others who do business with any Group Company. However, Confidential Information will not include (i) any of the foregoing items which have become publicly and widely known through no wrongful act of yours or of others who were under confidentiality obligations as to the item or items involved; or (ii) any information that you are required to disclose to, or by, any governmental or judicial authority; *provided*, *however*, that in such event you agree to give the Company prompt written notice thereof so that the Group Companies may seek an appropriate protective order and/or waive in writing compliance with the confidentiality provisions of this Agreement. Notwithstanding anything herein to the contrary, nothing in this Agreement will be construed to prohibit you from (x) filing a charge or complaint with, participating in an investigation or proceeding conducted by, or reporting possible violations of law or regulation to any federal, state or local government agency, or (y) truthfully responding to or complying with a subpoena, court order, or other legal process, provided that you agree to forgo any monetary benefit from the filing of a charge or complaint with a government agency except pursuant to a whistleblower program or where your right to receive such a monetary benefit is otherwise not waivable by law.

Each Invention (as defined below) will belong exclusively to the Company. You acknowledge that all Inventions are works made for hire and the property of the Company, including any copyrights, patents or other intellectual property rights pertaining thereto. If it is determined that any such works are not works made for hire, you hereby assign to the Company all right, title and interest, including all rights of copyright, patent and other intellectual property rights, to or in such Inventions without additional compensation. For purposes of this Agreement, "***Invention***" shall mean any idea, invention, technique, modification, process or improvement (whether patentable or not), any industrial design (whether registerable or not), any mask work, however fixed or encoded, and any work of authorship (whether or not copyright protection may be obtained for it) created, conceived or developed by you, either solely or in conjunction with others, during your employment with the Group Companies (i) while

performing your duties for the Group Companies, (ii) by utilizing any Group Company's office space, equipment, supplies or facilities and/or (iii) by utilizing Confidential Information.

You hereby acknowledge and agree that during the Transition Period and during the twelve (12) month period immediately following the Separation Date you will not, without the written consent of the Company, directly or indirectly, on your behalf or on behalf of a third party, (i) encourage, hire, recruit, solicit, persuade or induce, or in any manner attempt to encourage, hire, solicit, persuade or induce, any person who is employed by, or performing services as an independent contractor for, the Company, Entasis Therapeutics Holdings, Inc., Innoviva, Inc. and any of their respective subsidiaries (collectively, and including their respective successors and assigns, the "***Group***") as of or following the Effective Date (or who was an employee or independent contractor of the Group as of or following the Effective Date or at any time during the twelve (12) months preceding the Separation Date) to terminate such person's employment or services (or in the case of a consultant, materially reducing such services) or otherwise interfere in any way with such relationship, or (ii) encourage, recruit, solicit, persuade or induce, or in any manner attempt to encourage, solicit, persuade or induce, any current or prospective client, customer, vendor, business partner, distributor, supplier or other business relation of the Group (or any person who was a client, customer, vendor, business partner, distributor or supplier of the Group as of or following the Effective Date or at any time during the twelve (12) months preceding the Separation Date) (altogether, "***Business Relations***") to terminate its relationship with the Group or otherwise interfere in any way with such relationship (collectively, the "***Non-Interference Covenant***"). Notwithstanding anything herein to the contrary, you shall not be in violation of the Non-Interference Covenant (i) solely as a result of you or an organization with which you are associated or employed posting a general advertisement for employment or as a result of any employee or independent contractor of the Group responding to such general advertisement; provided, that such advertisement is not targeted at such employees and neither you nor the organization with which you are associated or employed take any further actions to encourage, hire, recruit, solicit, persuade or induce such employee or independent contract in violation of the Non-Interference Covenant, or (ii) by communicating, contracting and/or conducting business transactions with the Business Relations, provided such actions are not reasonably anticipated to, and do not actually, interfere with or result in the termination of such Business Relations' relationships with the Group. You hereby agree that you shall be presumed to be in breach of the Non-Interference Covenant in the event that any individual covered by clause (i) above is employed or engaged under your direct or indirect supervision during the twelve (12) month period immediately following the Separation Date.

You expressly acknowledge that any breach or threatened breach of any of the terms and/or conditions set forth in the previous three paragraphs may result in substantial, continuing and irreparable injury to the Group Companies. Therefore, you hereby agree that, in addition to any other remedy that may be available to the Company, the Company shall be entitled to injunctive relief, specific performance or other equitable relief by a court of appropriate jurisdiction in the event of any breach or threatened breach of the terms of the preceding three paragraphs without the necessity of proving irreparable harm or injury as a result of such breach or threatened breach.

You acknowledge that each of the rights enumerated in this Agreement shall be independent of the others and shall be in addition to and not in lieu of any other rights and remedies available to the Group Companies at law or in equity. If any of the provisions of this Agreement or any part of any of them is hereafter construed or adjudicated to be invalid or unenforceable, the same shall not affect the remainder of this Agreement, which shall be given full effect without regard to the invalid portions. If any of the covenants contained herein is held to be invalid or unenforceable because of the duration of such provision or the area or scope covered thereby, you agree that the court making such determination shall have the power to reduce the duration, scope and/or area of such provision to the maximum and/or broadest duration, scope and/or area permissible by law, and in its reduced form said provision shall then be enforceable.

Following the Transition Period, you agree that you will provide reasonable cooperation to any Group Company and its or their respective counsel in connection with any investigation, administrative proceeding or litigation relating to any matter in which you were involved or of which you have knowledge. The Company shall use commercially reasonable efforts to schedule time spent in such cooperation so as to avoid interfering with your

personal and work commitments. After the first ten (10) hours of such cooperation assistance, the Company shall compensate you for such cooperation assistance at the rate of $325/hour. You also agree that, in the event you are subpoenaed by any person or entity (including, but not limited to, any government agency) to give testimony or provide documents (in a deposition, court proceeding or otherwise) which in any way relates to your employment or service engagement by any Group Company, you will give prompt written notice of such request in writing, delivered to the Company at its principal executive office, marked for the attention of its CEO and, unless otherwise required by law, will make no disclosure until the Company and/or another Group Company has had a reasonable opportunity to contest the right of the requesting person or entity to such disclosure.

The terms contained in this Agreement constitute and embody our full and complete understanding and agreement with respect to your employment with the Company, and supersede and replace any prior or contemporaneous agreements or understandings, written or oral, concerning such subject matter (including, without limitation, the Prior Agreement). The terms of this Agreement may be modified only by a writing duly executed by you and the Company, and this Agreement, and your obligations hereunder, may not be assigned by you without the prior written consent of the Company. This Agreement and any of the rights, obligations or interests arising hereunder may, without your consent, be assigned by the Company to any Group Company or its or their respective successors (and, in the event of a sale of all or substantially all of the assets of the Company or any direct or indirect division or affiliate thereof to which your employment relates, to the acquiror of such assets). The benefits and obligations contained in this Agreement will inure to the benefit of and be binding upon the Company and its respective successors and assigns.

This Agreement will be governed under the laws of the Commonwealth of Massachusetts, without giving effect to the choice of law principles thereof.

* * *

If you are in agreement with the terms of your employment described above, please execute this Agreement where indicated below and return to me. The execution of this Agreement may be by actual or facsimile signature.

Sincerely,

**INNOVIVA SPECIALTY THERAPEUTICS, INC.**

By: /s/ Pavel Raifeld
Name: Pavel Raifeld
Title: Chief Executive Officer

AGREED AND ACCEPTED as of this
23rd day of February, 2023 by:

/s/ Larry Edwards
**Larry Edwards**

**RELEASE OF CLAIMS**

As used in this Release of Claims (this "***Release***"), the term "claims" will include all claims, covenants, warranties, promises, undertakings, actions, suits, causes of action, obligations, debts, accounts, attorneys' fees, judgments, losses, and liabilities, of whatsoever kind or nature, in law, in equity, or otherwise.

For and in consideration of the Severance (as defined in my Transition Agreement, dated February 23, 2023, with Innoviva Specialty Therapeutics, Inc. (such company, the "***Company***" and such agreement, my "***Transition Agreement***")), and other good and valuable consideration, I, Larry Edwards, for and on behalf of myself and my heirs, administrators, executors, and assigns, effective as of the date on which this release becomes effective pursuant to its terms, do fully and forever release, remise, and discharge each of the Company, Innoviva, Inc., and each of their respective direct and indirect subsidiaries and affiliates, and their respective successors and assigns, together with their respective current and former officers, directors, partners, members, shareholders (including any management company of a member or shareholder), employees, and agents (collectively, the "***Group***"), from any and all claims whatsoever up to the date hereof that I had, may have had, or now have against the Group, whether known or unknown, for or by reason of any matter, cause, or thing whatsoever, including any claim arising out of or attributable to my employment or the termination of my employment with the Company, whether for tort, breach of express or implied contract, intentional infliction of emotional distress, wrongful termination, unjust dismissal, violation of public policy, defamation, libel, or slander, or under any federal, state, or local law dealing with discrimination, harassment or retaliation, and any other purported restriction on an employer's right to terminate the employment of employees. The release of claims in this Release includes, but is not limited to, all claims arising under the Age Discrimination in Employment Act of 1967 ("***ADEA***"), Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act of 1990, the Civil Rights Act of 1991, the Family and Medical Leave Act of 1993, the Worker Adjustment and Retraining Notification Act of 1988, the Equal Pay Act of 1963 and the Employee Retirement Income Security Act (excluding claims for accrued, vested benefits under an employee pension or other retirement plan of the Company), each as may be amended from time to time, and all other federal, state, and local laws and the common law or constitution of any jurisdiction. The release contained herein is intended to be a general release of any and all claims to the fullest extent permissible by law and for the provisions regarding the release of claims against the Group to be construed as broadly as possible, and hereby incorporate in this release similar federal, state or other laws, all of which I also hereby expressly waive.

I acknowledge and agree that as of the date I execute this Release, I have no knowledge of any facts or circumstances that give rise or could give rise to any claims by me under any of the laws listed in the preceding paragraph.

By executing this Release, I specifically release all claims relating to my employment and its termination under ADEA, a United States federal statute that, among other things, prohibits discrimination on the basis of age in employment and employee benefit plans.

Notwithstanding any provision of this Release to the contrary, by executing this Release, I am not releasing (i) any claims that cannot be waived by law, (ii) my rights to the Severance (as defined in the Transition Agreement), or (iii) my right of indemnification as provided by, and in accordance with the terms of, the Company's by-laws or a Company insurance policy providing such coverage, as any of such may be amended from time to time.

I expressly acknowledge and agree that I –

- Am able to read the language, and understand the meaning and effect, of this Release;
- Have no physical or mental impairment of any kind that has interfered with my ability to read and understand the meaning of this Release or its terms, and that I am not acting under the influence of any medication, drug, or chemical of any type in entering into this Release;

- Am specifically agreeing to the terms of the release contained in this Release because the Company has agreed to pay me the Severance in consideration for my agreement to accept it in full settlement of all possible claims I might have or ever have had against any member of the Group, and because of my execution of this Release;

- Acknowledge that, but for my execution of this Release, I would not be entitled to the Severance;

- Understand that, by entering into this Release, I do not waive rights or claims under ADEA that may arise after the date I execute this Release;

- Had or could have had twenty-one (21) calendar days from the date of my termination of employment (the "***Release Expiration Date***") in which to review and consider this Release, and that if I execute this Release prior to the Release Expiration Date, I have voluntarily and knowingly waived the remainder of the review period;

- Have not relied upon any representation or statement not set forth in this Release or my Transition Agreement made by the Company or any of its representatives;

- Was advised to consult with my attorney regarding the terms and effect of this Release; and

- Have signed this Release knowingly and voluntarily.

I represent and warrant that I have not previously filed, and to the maximum extent permitted by law agree that I will not file, a complaint, charge, or lawsuit against any member of the Group regarding any of the claims released herein. If, notwithstanding this representation and warranty, I have filed or file such a complaint, charge, or lawsuit, I agree that I shall cause such complaint, charge, or lawsuit to be dismissed with prejudice and shall pay any and all costs required in obtaining dismissal of such complaint, charge, or lawsuit, including without limitation the attorneys' fees of any member of the Group against whom I have filed such a complaint, charge, or lawsuit.

Notwithstanding any provision of this Release to the contrary, nothing herein or in any Company policy or agreement prevents me, without notifying the Company, from (i) speaking with law enforcement, my attorney, the U.S. Equal Employment Opportunity Commission, or any state or local division of human rights or fair employment agency; (ii) filing a charge or complaint with, participating in an investigation or proceeding conducted by, or reporting possible violations of law or regulation to any government agency; (iii) participating in a whistleblower program administered by the U.S. Securities and Exchange Commission or any other government agency; (iv) exercising any rights I may have under the National Labor Relations Act or other labor laws to engage in protected concerted activity; or (v) filing or disclosing any facts necessary to receive unemployment insurance, Medicaid, or other public benefits to which I may be entitled; *provided*, *however*, that I agree to forgo any monetary benefit from the filing of a charge or complaint with a government agency except pursuant to a whistleblower program or where my right to receive such a monetary benefit is otherwise not waivable by law.

I hereby agree to waive any and all claims to re-employment with the Company or any other member of the Group and affirmatively agree not to seek further employment with the Company or any other member of the Group.

I hereby agree that, during the period commencing on the Separation Date and ending on the twelve (12) month anniversary of the Separation Date, I shall not, directly or indirectly, individually or on behalf of any person, company, enterprise or entity, or as a sole proprietor, partner, shareholder, director, officer, principal, agent, employee or executive, or in any other capacity or relationship, engage in any Competitive Activities (as defined below) anywhere in the world. For purposes of this Release: "***Competitive Activities***" means any business activity involving the research, development, distribution or commercialization of any drugs, therapies or

treatments that are directly competitive with GIAPREZA™, XERAVA™ or any other drugs, therapies or treatments actively being researched or under development by La Jolla Pharmaceuticals.

You expressly acknowledge that any breach or threatened breach of any of the terms and/or conditions set forth in the previous paragraph may result in substantial, continuing and irreparable injury to the Group. Therefore, you hereby agree that, in addition to any other remedy that may be available to the Company, the Company shall be entitled to injunctive relief, specific performance or other equitable relief by a court of appropriate jurisdiction in the event of any breach or threatened breach of the terms of the preceding paragraph without the necessity of proving irreparable harm or injury as a result of such breach or threatened breach. You acknowledge that each of the rights enumerated in the preceding paragraph shall be independent of the others and shall be in addition to and not in lieu of any other rights and remedies available to the Group at law or in equity. If any of the provisions of this Release or any part of any of them is hereafter construed or adjudicated to be invalid or unenforceable, the same shall not affect the remainder of this Release, which shall be given full effect without regard to the invalid portions. If any of the covenants contained in the previous paragraph is held to be invalid or unenforceable because of the duration of such provision or the area or scope covered thereby, you agree that the court making such determination shall have the power to reduce the duration, scope and/or area of such provision to the maximum and/or broadest duration, scope and/or area permissible by law, and in its reduced form said provision shall then be enforceable.

Notwithstanding anything contained herein to the contrary, this Release will not become effective or enforceable prior to the expiration of the period of seven (7) business days immediately following the date of its execution by me (the "***Revocation Period***"), during which time I may revoke my acceptance of this Release by notifying the Company and the Board of Directors of the Company, in writing, delivered to the Company at its principal executive office, marked for the attention of its Chief Executive Officer. To be effective, such revocation must be received by the Company no later than 11:59 p.m. on the seventh (7th) business day following the execution of this Release. Provided that the Release is executed and I do not revoke it during the Revocation Period, the eighth (8th) business day following the date on which this Release is executed shall be its effective date. I acknowledge and agree that if I revoke this Release during the Revocation Period, this Release will be null and void and of no effect, and neither the Company nor any other member of the Group will have any obligations to pay me the Severance.

The provisions of this Release shall be binding upon my heirs, executors, administrators, legal personal representatives, and assigns. If any provision of this Release shall be held by any court of competent jurisdiction to be illegal, void, or unenforceable, such provision shall be of no force or effect. The illegality or unenforceability of such provision, however, shall have no effect upon and shall not impair the enforceability of any other provision of this Release. I acknowledge and agree that each member of the Group shall be a third-party beneficiary to the releases set forth in this Release, with full rights to enforce this Release and the matters documented herein.

EXCEPT WHERE PREEMPTED BY FEDERAL LAW, THE VALIDITY, INTERPRETATION, CONSTRUCTION, AND PERFORMANCE OF THIS RELEASE IS GOVERNED BY AND IS TO BE CONSTRUED UNDER THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED IN THAT STATE, WITHOUT REGARD TO CONFLICT OF LAWS RULES. ANY DISPUTE OR CLAIM ARISING OUT OF OR RELATING TO THIS RELEASE OR CLAIM OF BREACH HEREOF SHALL BE BROUGHT EXCLUSIVELY IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF MASSACHUSETTS, TO THE EXTENT FEDERAL JURISDICTION EXISTS, AND IN ANY COURT SITTING IN THE BOSTON METROPOLITAN AREA, BUT ONLY IN THE EVENT FEDERAL JURISDICTION DOES NOT EXIST, AND ANY APPLICABLE APPELLATE COURTS. BY EXECUTION OF THIS RELEASE, I CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS, AND WAIVE ANY RIGHT TO CHALLENGE JURISDICTION OR VENUE IN SUCH COURT WITH REGARD TO ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS RELEASE. FURTHER, I HEREBY WAIVE ANY RIGHT TO TRIAL BY JURY IN CONNECTION WITH ANY SUIT, ACTION, OR PROCEEDING UNDER OR IN CONNECTION WITH THIS RELEASE.

Capitalized terms used, but not defined herein, shall have the meanings ascribed to such terms in my Transition Agreement.

* * *

I, Larry Edwards, have executed this Release of Claims on the respective date set forth below:

/s/ Larry Edwards
Larry Edwards

Date: April 5, 2023

**Exhibit 31.1**

**Certification of Principal Executive Officer**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Pavel Raifeld, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Innoviva, Inc.;

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 15(d)-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; and

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: May 9, 2023

/s/ Pavel Raifeld

**Pavel Raifeld**
Chief Executive Officer
*(Principal Executive Officer)*

**Exhibit 31.2**

**Certification of Principal Financial Officer**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Marianne Zhen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Innoviva, Inc.;

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 15(d)-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; and

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: May 9, 2023

/s/ Marianne Zhen

**Marianne Zhen**
Chief Accounting Officer
*(Principal Financial Officer)*

**Exhibit 32**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**
**PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Pavel Raifeld, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Innoviva, Inc. on Form 10-Q for the period ended March 31, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition of Innoviva, Inc. at the end of the periods covered by such Quarterly Report on Form 10-Q and results of operations of Innoviva, Inc. for the periods covered by such Quarterly Report on Form 10-Q.

Date: May 9, 2023

By: /s/ Pavel Raifeld

**Pavel Raifeld**
Chief Executive Officer
*(Principal Executive Officer)*

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**
**PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Marianne Zhen, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Innoviva, Inc. on Form 10-Q for the period ended March 31, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition of Innoviva, Inc. at the end of the periods covered by such Quarterly Report on Form 10-Q and results of operations of Innoviva, Inc. for the periods covered by such Quarterly Report on Form 10-Q.

Date: May 9, 2023

By: /s/ Marianne Zhen

**Marianne Zhen**
Chief Accounting Officer
*(Principal Financial Officer)*