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

# FORM 10-K/A

**(Amendment No. 1)**

**(Mark One)**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2019**

**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 No. 000-30319**

## INNOVIVA, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction of incorporation or organization) | **94-3265960**<br>(I.R.S. Employer Identification No.) |
| **1350 Old Bayshore Highway, Suite 400**<br>**Burlingame, CA**<br>(Address of principal executive offices) | **94010**<br>(Zip Code) |

Registrant's telephone number, including area code: **(650) 238-9600**

| Title of Each Class | Trading Symbol(s) | Name of Each Exchange On Which Registered |
|---|---|---|
| Common Stock $0.01 Par Value | INVA | The Nasdaq Stock Market LLC |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: **NONE**

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

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

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer ☒ | Accelerated filer ☐ | Non-accelerated filer ☐ | Smaller reporting company ☐<br>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 Ac

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant based upon the closing price of the registrant's Common Stock on The Nasdaq Global Select Market on June 28, 2019 was $1,006,059,818. This calculation does not reflect a determination that persons are affiliates for any other purpose.

On February 11, 2020, there were 101,300,967 shares of the registrant's Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Specified portions of the registrant's definitive Proxy Statement to be issued in conjunction with the registrant's 2020 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the registrant's fiscal year ended December 31, 2019, are incorporated by reference into Part III of this Annual Report. Except as expressly incorporated by reference, the registrant's Proxy Statement shall not be deemed to be a part of this Annual Report on Form 10-K.

## EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (the "Amendment") amends the Annual Report on Form 10-K of Innoviva, Inc. (the "Company") for the year ended December 31, 2019, originally filed on February 19, 2020 (the "Original Filing"). The Company is filing the Amendment primarily to provide an amended report of Grant Thornton LLP's audit report due to an inadvertent omission of the auditor tenure statement in the Report of Independent Registered Public Accounting Firm contained in Part II, Item 8 of the Original Filing.

In accordance with applicable Securities and Exchange Commission ("SEC") rules and as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, Amendment No. 1 includes new certifications from the Company's Principal Executive Officer and Principal Financial Officer dated as of the date of filing of Amendment No. 1.

This Amendment No. 1 consists solely of the preceding cover page, this explanatory note, Part II., Item 8., "Financial Statements and Supplementary Data," in its entirety, Part IV., Item 15., "Exhibits and Financial Statement Schedules," in its entirety, the signature page, and the new certifications from the Company's Principal Executive Officer and Principal Financial Officer.

Amendment No. 1 does not amend or update in any way the disclosures made in the Original Filing, except as described above. Amendment No. 1 should be read in conjunction with the Original Filing and with the Company's subsequent filings with the SEC.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**INNOVIVA, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(In thousands, except per share data)**

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 278,096 | $ 62,417 |
| Short-term marketable securities | 72,749 | 52,491 |
| Related party receivables from collaborative arrangements | 79,427 | 83,286 |
| Prepaid expenses and other current assets | 962 | 849 |
| Total current assets | 431,234 | 199,043 |
| Property and equipment, net | 33 | 160 |
| Capitalized fees paid to a related party, net | 139,076 | 152,899 |
| Deferred tax assets, net | 154,171 | 196,054 |
| Other assets | 312 | 37 |
| Total assets | $ 724,826 | $ 548,193 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 10 | $ 11 |
| Accrued personnel-related expenses | 647 | 470 |
| Accrued interest payable | 4,152 | 4,264 |
| Other accrued liabilities | 562 | 955 |
| Total current liabilities | 5,371 | 5,700 |
| Long-term debt, net of discount and issuance costs | 377,120 | 382,855 |
| Other long-term liabilities | 219 | 586 |
| Commitments and contingencies (Note 8) | | |
| 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, 101,288 and 101,098 issued and outstanding as of December 31, 2019 and 2018, respectively | 1,013 | 1,011 |
| Additional paid-in capital | 1,258,859 | 1,256,267 |
| Accumulated other comprehensive income (loss) | 27 | (3) |
| Accumulated deficit | (946,404) | (1,103,692) |
| Total Innoviva stockholders' equity | 313,495 | 153,583 |
| Noncontrolling interest | 28,621 | 5,469 |
| Total stockholders' equity | 342,116 | 159,052 |
| Total liabilities and stockholders' equity | $ 724,826 | $ 548,193 |

See accompanying notes to consolidated financial statements.

**INNOVIVA, INC.**

**CONSOLIDATED STATEMENTS OF INCOME**

**(In thousands, except per share data)**

| | Year Ended December 31, 2019 | 2018 | 2017 |
|---|---|---|---|
| Royalty revenue from a related party, net of amortization of capitalized fees paid to a related party of $13,823 in the years ended December 31, 2019, 2018, and 2017, respectively | $ 261,016 | $ 261,004 | $ 214,118 |
| Revenue from collaborative arrangements from a related party | — | — | 3,099 |
| Total net revenue | 261,016 | 261,004 | 217,217 |
| Operating expenses: | | | |
| Research and development | — | — | 1,355 |
| General and administrative | 14,656 | 20,053 | 32,258 |
| General and administrative - related party | — | 2,700 | — |
| Total operating expenses | 14,656 | 22,753 | 33,613 |
| Income from operations | 246,360 | 238,251 | 183,604 |
| Other expense, net | (345) | (5,702) | (7,038) |
| Interest income | 5,540 | 1,660 | 1,311 |
| Interest expense | (18,660) | (23,954) | (43,601) |
| Income before income taxes | 232,895 | 210,255 | 134,276 |
| Income tax benefit (expense), net | (41,902) | 196,073 | (4) |
| Net income | 190,993 | 406,328 | 134,272 |
| Net income attributable to noncontrolling interest | 33,705 | 11,272 | 129 |
| Net income attributable to Innoviva stockholders | $ 157,288 | $ 395,056 | $ 134,143 |
| Basic net income per share attributable to Innoviva stockholders | $ 1.55 | $ 3.92 | $ 1.25 |
| Diluted net income per share attributable to Innoviva stockholders | $ 1.43 | $ 3.53 | $ 1.17 |
| Shares used to compute Innoviva basic and diluted net income per share: | | | |
| Shares used to compute basic net income per share | 101,150 | 100,849 | 106,945 |
| Shares used to compute diluted net income per share | 113,409 | 113,408 | 119,866 |

See accompanying notes to consolidated financial statements.

INNOVIVA, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| Net income | $ 190,993 | $ 406,328 | $ 134,272 |
| Net unrealized income (loss) on marketable securities, net of tax impact of $8, $0, $0 respectively | 30 | 15 | (19) |
| Comprehensive income | 191,023 | 406,343 | 134,253 |
| Comprehensive income attributable to noncontrolling interest | 33,705 | 11,272 | 129 |
| Comprehensive income attributable to Innoviva stockholders | $ 157,318 | $ 395,071 | $ 134,124 |

See accompanying notes to consolidated financial statements.

**INNOVIVA, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)**

**(In thousands)**

| | Innoviva Stockholders' Equity (Deficit) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Income (loss) | Accumulated Deficit | Treasury Stock | | Noncontrolling Interest | Total Stockholders' Equity (Deficit) |
| | Shares | Amount | | | | Shares | Amount | | |
| **Balance as of December 31, 2016** | 108,585 | $ 1,085 | $ 1,282,077 | $ 1 | $ (1,632,891) | (150) | $ (3,263) | $ — | $ (352,991) |
| Contributions from noncontrolling interest | — | — | — | — | — | — | — | 23 | 23 |
| Exercise of stock options, and issuance of common stock units and stock awards | 891 | 9 | (1,702) | — | — | — | — | — | (1,693) |
| Stock-based compensation | — | — | 9,833 | — | — | — | — | — | 9,833 |
| Cash dividend forfeited | — | — | 7 | — | — | — | — | — | 7 |
| Repurchase of common stock | (7,430) | (75) | (97,425) | — | — | — | — | — | (97,500) |
| Equity component of Convertible Senior Notes due 2025, net of issuance costs | — | — | 65,361 | — | — | — | — | — | 65,361 |
| Net income | — | — | — | — | 134,143 | — | — | 129 | 134,272 |
| Other comprehensive loss | — | — | — | (19) | — | — | — | — | (19) |
| **Balance as of December 31, 2017** | 102,046 | 1,019 | 1,258,151 | (18) | (1,498,748) | (150) | (3,263) | 152 | (242,707) |
| Distributions to noncontrolling interest | — | — | — | — | — | — | — | (5,955) | (5,955) |
| Exercise of stock options, and issuance of common stock units and stock awards | (798) | (8) | (1,926) | — | — | — | — | — | (1,934) |
| Stock-based compensation | — | — | 3,233 | — | — | — | — | — | 3,233 |
| Cash dividend forfeited | — | — | 72 | — | — | — | — | — | 72 |
| Retirement of treasury stock | (150) | — | (3,263) | — | — | 150 | 3,263 | — | — |
| Net income | — | — | — | — | 395,056 | — | — | 11,272 | 406,328 |
| Other comprehensive income | — | — | — | 15 | — | — | — | — | 15 |
| **Balance as of December 31, 2018** | 101,098 | 1,011 | 1,256,267 | (3) | (1,103,692) | — | — | 5,469 | 159,052 |
| Distributions to noncontrolling interest | — | — | — | — | — | — | — | (10,553) | (10,553) |
| Exercise of stock options, and issuance of common stock units and stock awards | 190 | 2 | 536 | — | — | — | — | — | 538 |
| Stock-based compensation | — | — | 2,056 | — | — | — | — | — | 2,056 |
| Net income | — | — | — | — | 157,288 | — | — | 33,705 | 190,993 |
| Other comprehensive income | — | — | — | 30 | — | — | — | — | 30 |
| **Balance as of December 31, 2019** | 101,288 | $ 1,013 | $ 1,258,859 | $ 27 | $ (946,404) | — | $ — | $ 28,621 | $ 342,116 |

See accompanying notes to consolidated financial statements.

**INNOVIVA, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 | 2017 |
| **Cash flows from operating activities** | | | |
| Net income | $ 190,993 | $ 406,328 | $ 134,272 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Deferred income taxes | 41,875 | (196,054) | — |
| Depreciation and amortization | 13,874 | 13,872 | 13,982 |
| Stock-based compensation | 2,056 | 3,233 | 9,833 |
| Amortization of debt discount and issuance costs | 7,799 | 7,748 | 5,116 |
| Loss on write-off of property and equipment | 104 | — | — |
| Loss on extinguishment of debt | 216 | 5,745 | 7,256 |
| Amortization of discount on short-term investments | (2,229) | (256) | (105) |
| Amortization of lease guarantee | (325) | (325) | (325) |
| Changes in operating assets and liabilities: | | | |
| Receivables from collaborative arrangements | 3,859 | (12,746) | (23,693) |
| Prepaid expenses and other current assets | (113) | (95) | 12 |
| Other assets | 27 | — | — |
| Accounts payable | (1) | (590) | 473 |
| Accrued personnel-related expenses and other accrued liabilities | (439) | (1,677) | (81) |
| Accrued interest payable | (112) | (1,656) | (1,908) |
| Other long-term liabilities | (126) | 4 | 16 |
| Deferred revenue | — | — | (3,099) |
| Net cash provided by operating activities | 257,458 | 223,531 | 141,749 |
| **Cash flows from investing activities** | | | |
| Maturities of marketable securities | 213,924 | 75,375 | 44,387 |
| Purchases of marketable securities | (231,915) | (71,856) | (67,623) |
| Sales of marketable securities | — | — | — |
| Purchases of property and equipment | (12) | — | — |
| Net cash provided by (used in) investing activities | (18,003) | 3,519 | (23,236) |
| **Cash flows from financing activities** | | | |
| Repurchase of shares to satisfy tax withholding | (89) | (3,073) | (2,128) |
| Payments of principal on senior secured term loans | (13,750) | (230,000) | (6,250) |
| Payments of cash dividends to stockholders | (11) | (80) | (281) |
| Proceeds from issuances of common stock, net | 627 | 1,139 | 435 |
| Proceeds from issuance of convertible senior notes due 2025 | — | — | 192,500 |
| Proceeds from senior secured term loans | — | — | 250,000 |
| Payments of debt issuance costs and debt discount | — | — | (12,803) |
| Payments of principal on non-recourse notes due 2029 | — | — | (487,189) |
| Repurchase of common stock | — | — | (97,500) |
| Contributions from (distributions to) noncontrolling interest | (10,553) | (5,955) | 23 |
| Net cash used in financing activities | (23,776) | (237,969) | (163,193) |
| **Net increase (decrease) in cash and cash equivalents** | 215,679 | (10,919) | (44,680) |
| **Cash and cash equivalents at beginning of period** | 62,417 | 73,336 | 118,016 |
| **Cash and cash equivalents at end of period** | $ 278,096 | $ 62,417 | $ 73,336 |
| **Supplemental disclosure of cash flow information** | | | |
| Cash paid for interest | $ 10,974 | $ 17,861 | $ 40,353 |

See accompanying notes to consolidated financial statements.

## 1. DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Description of Operations**

Innoviva (referred to as "Innoviva", the "Company", or "we" and other similar pronouns) is a company with a portfolio of royalties that include respiratory assets partnered with Glaxo Group Limited ("GSK"), including RELVAR®/BREO® ELLIPTA® (fluticasone furoate/ vilanterol, "FF/VI"), ANORO® ELLIPTA® (umeclidinium bromide/ vilanterol, "UMEC/VI") and TRELEGY® ELLIPTA® (the combination FF/UMEC/VI). 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%. Innoviva is also entitled to 15% of royalty payments made by GSK under its agreements originally entered into with us, and since assigned to Theravance Respiratory Company, LLC ("TRC"), including TRELEGY® ELLIPTA® and any other product or combination of products that may be discovered or developed in the future under the LABA Collaboration Agreement and the Strategic Alliance Agreement with GSK (referred to herein as the "GSK Agreements"), which have been assigned to TRC other than RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA® .

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of Innoviva and its wholly-owned subsidiaries and a variable interest entity for which the Company is the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation. For the consolidated variable interest entity, the Company records net income attributable to noncontrolling interest on its consolidated statements of income equal to the percentage of ownership interest retained in such entity by the respective noncontrolling party.

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

The preparation of consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the 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.

***Certain Risks and Concentrations***

Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and marketable securities. Although we deposit our cash with multiple financial institutions, our deposits, at times, may exceed federally insured limits. Refer to "Segment Reporting" below for concentrations with respect to revenues and geographic locations.

***Segment Reporting***

We operate in a single segment, which is to provide capital return to stockholders by maximizing the potential value of our respiratory assets partnered with GSK. Revenues are generated from our collaborative arrangements and royalty payments from GSK, located in Great Britain. Our facilities are located within the United States.

***Variable Interest Entity***

We evaluate our ownership, contractual and other interest in entities to determine if they are variable interest entities ("VIE"), whether we have a variable interest in those entities and the nature and extent of those interests. Based on our evaluation, if we determine we are the primary beneficiary of a VIE, we consolidate the entity in our financial statements. We consolidate the financial results of TRC, which we have determined to be a VIE, because we have 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. As of December 31, 2019 and 2018, $14.4 million and $6.4 million, respectively, of the related-party receivables from collaborative arrangements were attributable to TRC. The cash balance attributable to TRC as of December 31, 2019 was $22.3 million. The primary source of revenue for TRC is the royalties generated from the net sales of TRELEGY® ELLIPTA® by GSK. Total revenue for TRC related to TRELEGY® ELLIPTA® for

**1. DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

the years ended December 31, 2019 and 2018 was $42.8 million and $13.4 million, respectively. Total operating expenses were $3.4 million for the year ended December 31, 2019, compared to minimal amounts for the year ended December 31, 2018. The expenses incurred in 2019 were primarily related to an arbitration initiated by Theravance Biopharma against the Company and TRC, as further described in Item 3 of Part I of this Form 10-K titled "Legal Proceedings".

***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.

***Investments in Marketable Securities***

We invest in short-term investments and marketable securities, primarily corporate notes, government securities, government agencies, and government commercial papers. We limit the amount of credit exposure with any one issuer, industry or geographic area for investments other than instruments backed by the U.S. federal government. We classify our marketable securities as available-for-sale securities and report them at fair value in cash equivalents or short-term marketable securities on the consolidated balance sheets with related unrealized gains and losses included as a component of stockholders' deficit. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity, which is included in interest income on the consolidated statements of operations. Realized gains and losses, if any, on available-for-sale securities are included in interest income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest income.

We regularly review all of our investments for other-than-temporary declines in estimated fair value. Our review includes the consideration of the cause of the impairment, including the creditworthiness of the security issuers, the number of securities in an unrealized loss position, the severity and duration of the unrealized losses, whether we have the intent to sell the securities and whether it is more likely than not that we will be required to sell the securities before the recovery of their amortized cost basis. When we determine that the decline in estimated fair value of an investment is below the amortized cost basis and the decline is other-than-temporary, we reduce the carrying value of the security and record a loss for the amount of such decline to other income (expense), net.

***Fair Value of Financial Instruments***

We define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Our valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect our market assumptions. We classify these inputs into the following hierarchy:

*Level 1*—Quoted prices for identical instruments in active markets.

*Level 2*—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

*Level 3*—Unobservable inputs and little, if any, market activity for the assets.

Financial instruments include cash equivalents, marketable securities, receivables from collaborative arrangements, accounts payable, and accrued liabilities. Cash equivalents and marketable securities are carried at estimated fair value. The carrying values of receivables from collaborative arrangements, accounts payable, and accrued liabilities approximate their estimated fair value due to the relatively short-term nature of these instruments.

**1. DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Property and Equipment***

Property and equipment, which consisted of equipment, computer equipment, software, office furniture and fixtures, was immaterial as of December 31, 2019 and 2018, respectively.

Property, equipment and leasehold improvements are stated at cost and depreciated using the straight-line method as follows:

| | |
|---|---|
| Leasehold improvements | Shorter of remaining lease terms or useful life |
| Equipment, furniture and fixtures | 5 - 7 years |
| Software and computer equipment | 3 years |

***Capitalized Fees Paid to a Related Party***

We capitalize fees paid to licensors related to agreements for approved products or commercialized products. We capitalize these fees as capitalized fees paid to a related party ("Capitalized Fees") and amortize these Capitalized Fees on a straight-line basis over their estimated useful lives upon the commercial launch of the product, which has been shortly after regulatory approval of such product. The estimated useful lives of these Capitalized Fees are based on a country-by-country and product-by-product basis, as the later of the expiration or termination of the last patent right covering the compound in such product in such country and 15 years from first commercial sale of such product in such country, unless the Collaboration Agreement is terminated earlier. Consistent with our policy for classification of costs under the research and development collaborative arrangements, the amortization of these Capitalized Fees is recognized as a reduction of royalty revenue. We review our Capitalized Fees for impairment on a product-by-product basis for each major geographic area when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The recoverability of Capitalized Fees is measured by comparing the asset's carrying amount to the expected undiscounted future cash flows that the asset is expected to generate. The determination of recoverability typically requires various estimates and assumptions, including estimating the useful life over which cash flows will occur, their amount, and the asset's residual value, if any. We derive the required cash flow estimates from near-term forecasted product sales and long-term projected sales in the corresponding market.

***Revenue Recognition***

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 a 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 when (or as) a performance obligation is satisfied.

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 and reported to us. Royalties are recognized net of amortization of capitalized fees associated with any approval and launch milestone payments made to GSK.

***Fair Value of Stock-Based Compensation Awards***

We use the Black-Scholes-Merton option pricing model to estimate the fair value of options granted under our equity incentive plans and rights to acquire stock granted under our employee stock purchase plan ("ESPP"). The Black-Scholes-Merton option valuation model requires the use of assumptions, including the expected term of the award and the expected stock price volatility. We use the "simplified" method as described in Staff Accounting Bulletin No. 107, "*Share-Based Payment*," for the expected option term. We use our historical volatility to estimate expected stock price volatility.

Restricted stock units ("RSUs") and restricted stock awards ("RSAs") are measured based on the fair market values of the underlying stock on the dates of grant.

**1. DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Stock-based compensation expense is calculated based on awards ultimately expected to vest and was reduced for estimated forfeitures at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differed from those estimates. Our estimated annual forfeiture rates for stock options, RSUs and RSAs are based on our historical forfeiture experience.

The estimated fair value of stock options, RSUs and RSAs is expensed on a ratable or straight-line basis over the expected term of the grant or expected term of the vesting, and the estimated fair value of performance-contingent RSUs and RSAs is expensed using an accelerated method over the term of the award once we have determined that it is probable that performance milestones will be achieved. Compensation expense for RSUs and RSAs that contain performance conditions is based on the grant date fair value of the award. Compensation expense is recorded over the requisite service period based on management's best estimate as to whether it is probable that the shares awarded are expected to vest. We assess the probability of the performance milestones being met on a continuous basis. The grant date fair value of the RSUs and RSAs with a market condition is determined using a Monte Carlo valuation model and the compensation expense is recognized over the implied service period.

Compensation expense for purchases under the ESPP is recognized based on the fair value of the common stock on the date of offering, less the purchase discount percentage provided for in the plan.

***Income Taxes***

We utilize the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and the tax basis of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The recognition and measurement of tax benefits requires significant judgment. Our judgment might change as new information becomes available. We will continue to evaluate our deferred tax assets each reporting period to determine whether adjustments to our valuation allowance are required and deferred tax assets will be realized based on the consideration of all available positive and negative evidence, including the differences between our anticipated and actual future operating results, using a "more likely than not" standard.

We assess all material positions taken in any income tax return, including all significant uncertain positions, in all tax years that are still subject to assessment or challenge by relevant taxing authorities. Assessing an uncertain tax position begins with the initial determination of the position's sustainability and is measured at the largest amount of benefit that is greater than 50% likely to be realized upon ultimate settlement. As of each balance sheet date, unresolved uncertain tax positions must be reassessed, and we will determine whether the factors underlying the sustainability assertion have changed and whether the amount of the recognized tax benefit is still appropriate.

***Comprehensive Income***

Comprehensive income is comprised of net income and other comprehensive income (loss). Other comprehensive income (loss) consists of changes in unrealized and realized gains and losses on our marketable securities and the related tax impact of these changes.

***Related Parties***

GSK owned 31.6% of our outstanding common stock as of December 31, 2019. Transactions with GSK are described in Note 3, "Collaborative Arrangements."

***Recently Adopted Accounting Standards Updates***

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standard Update ASU 2016-02, *Leases*, which supersedes the lease recognition requirements in ASC Topic 840, *Leases*. The standard requires an entity to recognize right-of-use assets and lease liabilities arising from a lease for both financing and operating leases in the consolidated balance sheets but recognize the impact on the consolidated statement of operations and cash flows in a similar manner under previous GAAP. The

**1. DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

standard also requires additional qualitative and quantitative disclosures. We adopted the standard in 2019 and recognized a right-of-use asset and lease liabilities in the amount of $0.3 million, respectively, for the operating lease on our current corporate headquarters at December 31, 2019.

In August 2018, the U.S. Securities and Exchange Commission (the "SEC") adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements relating to the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of income is required to be filed. This final rule is effective on November 5, 2018. Effective January 1, 2019, the Company adopted this rule and added a Consolidated Statement of Changes in Stockholders' Equity (Deficit) in its Form 10-Qs filed during the year ended December 31, 2019, which presented a reconciliation in a single statement showing the changes in stockholders equity for each interim period, as well as each comparable period.

***Recently Issued Accounting Standards or Updates Not Yet Adopted***

In December 2019, the FASB issued ASU 2019-12, "*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*", which is intended to simplify various aspects related to accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. We are currently in the process of evaluating the effects of the provisions of ASU 2019-12 on our financial statements.

**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") using the if-converted method.

Our 2025 Notes are convertible, based on the applicable conversion rate, into cash, shares of our common stock or a combination thereof, at our election. Our current intent is to settle the principal amount of the 2025 Notes in cash upon conversion. The impact of the assumed conversion premium to diluted net income per share is computed using the treasury stock method. As the average market price per share of our common stock as reported on The Nasdaq Global Select Market was lower than the initial conversion price of $17.26 per share, there was no dilutive effect of the assumed conversion premium for the years ended December 31, 2019 and 2018, respectively.

**2. NET INCOME PER SHARE (Continued)**

The following table shows the computation of basic and diluted net income per share for the years ended December 31, 2019, 2018 and 2017:

| (In thousands except per share data) | Year Ended December 31, 2019 | 2018 | 2017 |
|---|---|---|---|
| Numerator: | | | |
| Net income attributable to Innoviva stockholders, basic | $ 157,288 | $ 395,056 | $ 134,143 |
| Add: interest expense on 2023 Notes | 4,648 | 5,661 | 5,647 |
| Net income attributable to Innoviva stockholders, diluted | $ 161,936 | $ 400,717 | $ 139,790 |
| Denominator: | | | |
| Weighted-average shares used to compute basic net income per share attributable to Innoviva stockholders | 101,150 | 100,849 | 106,945 |
| Dilutive effect of 2023 Notes | 12,189 | 12,189 | 12,189 |
| Dilutive effect of options and awards granted under equity incentive plan and employee stock purchase plan | 70 | 370 | 732 |
| Weighted-average shares used to compute diluted net income per share attributable to Innoviva stockholders | 113,409 | 113,408 | 119,866 |
| Net income per share attributable to Innoviva stockholders | | | |
| Basic | $ 1.55 | $ 3.92 | $ 1.25 |
| Diluted | $ 1.43 | $ 3.53 | $ 1.17 |

***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:

| (In thousands) | Year Ended December 31, 2019 | 2018 | 2017 |
|---|---|---|---|
| Outstanding options and awards granted under equity incentive plan and employee stock purchase plan | 1,130 | 1,490 | 2,121 |

**3. REVENUE RECOGNITION AND COLLABORATIVE ARRANGEMENTS**

***Revenue from Collaborative Arrangements***

Net revenue recognized under our GSK Agreement was as follows:

| (In thousands) | Year Ended December 31, 2019 | 2018 | 2017 |
|---|---|---|---|
| Royalties from a related party — RELVAR/BREO | $ 189,424 | $ 220,162 | $ 198,726 |
| Royalties from a related party — ANORO | 42,625 | 41,286 | 29,036 |
| Royalties from a related party — TRELEGY | 42,790 | 13,379 | 179 |
| Total royalties from a related party | 274,839 | 274,827 | 227,941 |
| Less: amortization of capitalized fees paid to a related party | (13,823) | (13,823) | (13,823) |
| Royalty revenue | 261,016 | 261,004 | 214,118 |
| Strategic alliance — MABA program license | — | — | 3,099 |
| Total net revenue from GSK | $ 261,016 | $ 261,004 | $ 217,217 |

**3. REVENUE RECOGNITION AND COLLABORATIVE ARRANGEMENTS (Continued)**

*LABA Collaboration*

As a result of the launch and approval of RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA® in the U.S., Japan and Europe, we paid milestone fees to GSK totaling $220.0 million during the year ended December 31, 2014. The milestone fees paid to

GSK were recognized as capitalized fees paid to a related party, which are being amortized over their estimated useful lives commencing upon the commercial launch of the product. The amortization expense is recorded as a reduction to the royalties from GSK.

We are entitled to receive annual 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. Sales of single-agent LABA medicines and combination medicines would be combined for the purposes of this royalty calculation. For other products combined with a LABA from the LABA Collaboration, such as ANORO® ELLIPTA® , royalties are upward tiering and range from 6.5% to 10%.

We are also entitled to 15% of royalty payments made by GSK under its agreements originally entered into with us, and since assigned to TRC in connection with the Spin-Off, including TRELEGY® ELLIPTA® , which royalties are upward tiering and range from 6.5% to 10%.

## 4. AVAILABLE-FOR-SALE SECURITIES AND FAIR VALUE MEASUREMENTS

***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:

| | December 31, 2019 | | | |
|---|---|---|---|---|
| (In thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| U.S. government securities | $ 53,799 | $ 35 | — | $ 53,834 |
| U.S. commercial paper | 18,915 | — | — | 18,915 |
| Money market funds | 233,992 | — | — | 233,992 |
| Total | $ 306,706 | $ 35 | $ — | $ 306,741 |

| | December 31, 2018 | | | |
|---|---|---|---|---|
| (In thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| U.S. government securities | $ 29,736 | $ — | $ (3) | $ 29,733 |
| U.S. government agencies | 4,971 | — | — | 4,971 |
| U.S. corporate notes | 2,875 | — | — | 2,875 |
| U.S. commercial paper | 22,037 | — | — | 22,037 |
| Money market funds | 49,358 | — | — | 49,358 |
| Total | $ 108,977 | $ — | $ (3) | $ 108,974 |

As of December 31, 2019, all of the available-for-sale debt securities had contractual maturities within one year, and the average duration of debt securities was approximately three months.

**4. AVAILABLE-FOR-SALE SECURITIES AND FAIR VALUE MEASUREMENTS (Continued)**

***Fair Value Measurements***

Our available-for-sale securities are measured at fair value on a recurring basis and our debt is carried at amortized cost basis. The estimated fair values were as follows:

| Types of Instruments (In thousands) | Estimated Fair Value Measurements as of December 31, 2019 Using: Quoted Price in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 | Total |
|---|---|---|---|---|
| *Assets* | | | | |
| U.S. government securities | $ — | $ 53,834 | $ — | $ 53,834 |
| U.S. commercial paper | — | 18,915 | — | 18,915 |
| Money market funds | 233,992 | — | — | 233,992 |
| Total assets measured at estimated fair value | $ 233,992 | $ 72,749 | $ — | $ 306,741 |
| *Debt* | | | | |
| 2023 Notes | $ — | $ 243,394 | $ — | $ 243,394 |
| 2025 Notes | — | 208,976 | — | 208,976 |
| Total fair value of debt | $ — | $ 452,370 | $ — | $ 452,370 |

| Types of Instruments (In thousands) | Estimated Fair Value Measurements as of December 31, 2018 Using: Quoted Price in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 | Total |
|---|---|---|---|---|
| *Assets* | | | | |
| U.S. government securities | $ — | $ 29,733 | $ — | $ 29,733 |
| U.S. government agencies | — | 4,971 | — | 4,971 |
| U.S. corporate notes | — | 2,875 | — | 2,875 |
| U.S. commercial paper | — | 22,037 | — | 22,037 |
| Money market funds | 49,358 | — | — | 49,358 |
| Total assets measured at estimated fair value | $ 49,358 | $ 59,616 | $ — | $ 108,974 |
| *Debt* | | | | |
| Term B Loan | $ — | $ 13,750 | $ — | $ 13,750 |
| 2023 Notes | — | 258,918 | — | 258,918 |
| 2025 Notes | — | 230,692 | — | 230,692 |
| Total fair value of debt | $ — | $ 503,360 | $ — | $ 503,360 |

The fair value of our marketable securities classified within Level 2 is 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.

The fair value of our 2023 Notes and of our 2025 Notes is based on recent trading prices of the instruments. The carrying amount of our initial Term B Loan before deducting debt issuance costs approximates fair value at December 31, 2018 as the loan carried a variable interest rate that was tied to the LIBOR rate plus an applicable spread.

## 5. CAPITALIZED FEES PAID TO A RELATED PARTY

Capitalized fees paid to a related party, which consist of registrational and launch-related milestone fees paid to GSK, were as follows:

| | | December 31, | |
|---|---|---|---|
| (In thousands) | Amortization period | 2019 | 2018 |
| United States | 2013-2030 | $ 120,000 | $ 120,000 |
| Europe | 2013-2029 | 60,000 | 60,000 |
| Japan | 2013-2029 | 40,000 | 40,000 |
| Gross carrying value | | 220,000 | 220,000 |
| Accumulated amortization | | (80,924) | (67,101) |
| Net carrying value | | $ 139,076 | $ 152,899 |

These milestone fees are being amortized over their estimated useful lives commencing upon the commercial launch of the product in their respective regions with the amortization expense recorded as a reduction in revenue from collaborative arrangements. As of December 31, 2019, the weighted average remaining amortization period is 10.1 years.

Additional information regarding these milestone fees is included in Note 3, “Collaborative Arrangements.” Amortization expense for each of the years ended December 31, 2019, 2018 and 2017 was $13.8 million. The remaining estimated amortization expense is $13.8 million for each of the years from 2020 to 2024 and $70.0 million thereafter.

## 6. STOCK-BASED COMPENSATION

***Equity Incentive Plans***

In May 2012, we adopted the 2012 Equity Incentive Plan (the “2012 Plan”). The 2012 Plan provides for the grant of incentive stock options, nonstatutory stock options, RSAs, RSUs and Stock Appreciation Rights to employees, non-employee directors and consultants. As of December 31, 2019, total shares remaining available for issuance under the 2012 Plan were 5,043,494.

***Employee Stock Purchase Plan***

Under the 2004 Employee Stock Purchase Plan (the “ESPP”), our employees may purchase common stock through payroll deductions at a price equal to 85% of the lower of the fair market value of the stock at the beginning of the offering period or at the end of each applicable purchase period. The ESPP provides for consecutive and overlapping offering periods of 24 months in duration, with each offering period composed of four consecutive six-month purchase periods. The purchase periods end on either May 15 or November 15. ESPP contributions are limited to a maximum of 15% of an employee’s eligible compensation. The maximum number of shares that an employee may purchase in any purchase period is 2,500. An employee may not purchase shares with a value greater than $25,000 in any calendar year.

As of December 31, 2019, total shares remaining available for issuance under the ESPP were 187,576.

***Performance-Contingent RSAs and RSUs***

Since 2011, the Compensation Committee of our Board of Directors (the “Compensation Committee”) has approved grants of performance-contingent RSAs and RSUs to senior management and a non-executive officer. Generally, these awards have dual triggers of vesting based upon the achievement of certain performance goals by a pre-specified date, as well as a requirement for continued employment. Recognition of stock-based compensation expense begins when the performance goals are deemed probable of achievement.

Included in these performance-contingent RSAs was the remaining grant of 63,000 special long-term retention and incentive performance-contingent RSAs to senior management in 2011. These awards were released in November 2017 upon vesting.

**6. STOCK-BASED COMPENSATION (Continued)**

***Market-Based RSAs and RSUs***

2016 Market-Based RSAs and RSUs

On January 14, 2016, the Compensation Committee approved and granted 282,394 RSAs and 46,294 RSUs to senior management. These awards included a market condition based on Relative Total Shareholder Return ("TSR") and a service condition that required continued employment collectively, the "Performance Measures". The vesting percentages of these awards were calculated based on the two-year TSR with a catch-up provision opportunity measured on January 13, 2019 for RSAs and on September 30, 2018 for RSUs. Two-thirds of amounts earned at the end of year two would vest and be distributed on February 20, 2018, while the final one-third earned after two years as well as the catch-up amount earned would vest and be distributed on February 20, 2019 for RSAs and November 20, 2018 for RSUs. The actual payout of shares may range from a minimum of zero shares to a maximum of 328,688 shares granted upon the actual performance against the Performance Measures. The grant date fair value of these awards was determined using a Monte Carlo valuation model. The aggregate value of $2.0 million was to be recognized as compensation expense over the implied service period and would not be reversed if the market condition was not met.

In February 2018, the Compensation Committee certified the maximum achievement of the TSR as of the first measurement date, January 12, 2018. RSAs totaling 69,440 and RSUs totaling 30,862 representing two-thirds of the amounts were released on February 20, 2018. In connection with the separation of certain members of senior management from the Company in early February 2018, the Board of Directors agreed to accelerate the vesting and distribution of an aggregate of 118,821 RSAs to these members of senior management. The remaining 59,411 RSAs for these members of senior management were forfeited. As a net result of the vesting acceleration of the RSAs and the forfeiture of those unvested RSAs, an additional $0.7 million compensation expense was recognized in March 2018.

In August and September 2018, the remaining 34,721 RSAs and 15,432 RSUs were forfeited due to the additional separation of senior management members, and $0.2 million of previously recognized compensation expense was reversed.

2017 Market-Based RSAs and RSUs

On January 17, 2017, the Compensation Committee approved and granted 353,508 RSAs and 53,360 RSUs to senior management. These awards included a market condition based on the TSR of Innoviva's common stock as compared to the TSR of the Nasdaq Biotechnology Index ("Index") and a service condition that required continued employment collectively, the "Performance Measures II." The vesting percentages of these awards were calculated based on the two-year performance period with a catch-up provision opportunity measured on December 31, 2019 for RSAs and on September 30, 2019 for RSUs. Two-thirds of amounts earned at the end of year two would vest and be distributed on February 20, 2019, while the final one-third earned after two years as well as the catch-up amount earned would vest and be distributed on February 20, 2020 for RSAs and November 20, 2019 for RSUs. The actual payout of shares may range from a minimum of zero shares to a maximum of 406,868 shares granted upon the actual performance against the Performance Measures II. The grant date fair value of these awards was determined using a Monte Carlo valuation model. The aggregate value of $3.2 million was to be recognized as compensation expense over the implied service period and was subject to forfeiture.

In connection with the separation of certain members of senior management from the Company during 2018, all of the 2017 market-based RSAs and RSUs were forfeited and $1.3 million previously recognized compensation expense was reversed.

2018 Market-Based RSAs and RSUs

On March 2, 2018, the Compensation Committee approved and granted 111,668 RSAs and 49,630 RSUs to senior management. These awards included a market condition based on the TSR of Innoviva's common stock over a three-year performance period from the date of grant for the RSAs and from the date of grant until September 30, 2020 for RSUs, and a service condition that required continued employment. The grant date fair value of these awards was determined using a Monte Carlo valuation model. The aggregate value of $1.7 million was to be recognized as compensation expense over the implied service period and would not be reversed if the market condition was not met, but with the exception of such person's continued employment with the Company.

**6. STOCK-BASED COMPENSATION (Continued)**

In connection with the separation of the senior management members from the Company during 2018, all of the 2018 market-based RSAs and RSUs were forfeited.

***Director Compensation Program***

Our non-employee directors receive compensation for services provided as a director. Each member of our Board of Directors who is not an employee receives both cash and equity compensation for services as a director, member of a committee of the Board of Directors, lead independent director and chairman, as applicable. In October 2017, both the cash and equity components of the compensation program were amended, effective immediately (the “October 2017 Amendments”).

Each of our independent directors receives periodic automatic grants of equity awards under a program implemented under the 2012 Plan. These grants are non-discretionary. Only our independent directors or affiliates of such directors are eligible to receive automatic grants under the 2012 Plan. Under the program, each individual who first became a non-employee director will, on the date such individual joins the Board of Directors, automatically be granted a one-time grant of RSUs covering a number of shares of our common stock calculated as $125,000 ($250,000 prior to the October 2017 Amendments) divided by our common stock closing share price on the date of grant as reported on The Nasdaq Global Select Market, rounded down to the nearest whole share (the “Initial RSUs”), plus a one-time grant of RSUs covering a number of shares of our common stock calculated as $225,000 ($250,000 prior to the October 2017 Amendments) divided by our common stock closing share price on the date of grant as reported on The Nasdaq Global Select Market, which would be pro-rated for the number of whole months remaining until the anniversary of the prior year’s stockholders’ meeting, rounded down to the nearest whole share (the “Pro Rata RSUs”). The Initial RSUs vest in two equal annual installments, while Pro Rata RSUs vest in a single installment at the sooner of the next annual stockholder meeting or the one-year grant anniversary, in each case subject to the non-employee director’s continuous service through the applicable vesting date.

Annually, upon his or her re-election to the Board of Directors at the Annual Meeting of Stockholders, each non-employee director is automatically granted an RSU covering a number of shares of our common stock calculated as $225,000 ($250,000 prior to the October 2017 Amendments) divided by our common stock closing share price on the date of grant as reported on The Nasdaq Global Select Market, rounded down to the nearest whole share. These RSUs will vest at the sooner of the next annual stockholder meeting or the one-year anniversary of grant, subject to the non-employee director’s continuous service through the applicable vesting date. Following the amendment to our non-employee director compensation program, both the annual RSUs and Initial RSUs described above remained unchanged with the exception that the number of shares of our common stock subject to each award has been reduced.

These RSUs will vest in full upon the director’s death, the occurrence of a change in control or, with respect to awards made after the October 2017 Amendments, the director’s disability before the director’s service terminates. Director RSUs carry dividend equivalent rights to be credited with an amount equal to all cash dividends paid on the underlying shares of common stock while unvested. Dividend equivalents are subject to the same terms and conditions, including vesting, as the RSUs to which they attach and are paid in cash upon vesting.

***Stock-Based Compensation Expense***

Stock-based compensation expense is included in the consolidated statements of operations as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| **(In thousands)** | **2019** | **2018** | **2017** |
| Research and development | $ — | $ — | $ 697 |
| General and administrative | 2,056 | 3,233 | 9,136 |
| Total stock-based compensation expense | $ 2,056 | $ 3,233 | $ 9,833 |

**6. STOCK-BASED COMPENSATION (Continued)**

Stock-based compensation expense included in the consolidated statements of operations by award type is as follows:

| (In thousands) | Year Ended December 31, 2019 | 2018 | 2017 |
|---|---|---|---|
| Stock options | $ — | $ 305 | $ 593 |
| RSUs | 1,431 | 1,650 | 2,282 |
| RSAs | 615 | 1,920 | 4,497 |
| Performance-based RSAs | — | — | 242 |
| Market-based RSUs (PSUs) | — | (224) | 291 |
| Market-based RSAs (PSAs) | — | (464) | 1,855 |
| ESPP | 10 | 46 | 73 |
| Total stock-based compensation expense | $ 2,056 | $ 3,233 | $ 9,833 |

For the year ended December 31, 2018, $1.7 million of stock-based compensation was reversed for the forfeited market-based awards due to the separation of senior management members.

As of December 31, 2019, the unrecognized stock-based compensation cost and the estimated weighted-average amortization period were as follows:

| (In thousands) | Unrecognized Compensation Cost | Weighted-Average Amortization Period (Years) |
|---|---|---|
| RSUs | $ 376 | 0.3 |
| RSAs | 942 | 2.5 |
| Total unrecognized compensation cost | $ 1,318 | |

***Compensation Awards***

The following table summarizes equity award activity under the 2012 Plan and prior plans and related information:

| (In thousands, except per share data) | Number of outstanding options | Weighted-Average Exercise Price of Outstanding Options | Number of outstanding RSUs and PSUs | Weighted-Average Fair Value per Share at Grant | Number of outstanding RSAs and PSAs | Weighted-Average Fair Value per Share at Grant |
|---|---|---|---|---|---|---|
| Balance as of December 31, 2018 | 1,237 | $ 24.00 | 105 | $ 15.54 | 77 | $ 15.37 |
| Granted | — | — | 81 | 13.72 | 53 | 15.08 |
| Exercised | (45) | 12.27 | — | — | — | — |
| Released RSUs/RSAs | — | — | (92) | 15.55 | (52) | 16.43 |
| Forfeited | (105) | 27.14 | — | — | — | — |
| Balance as of December 31, 2019 | 1,087 | 24.18 | 94 | 13.94 | 78 | 14.46 |

As of December 31, 2019, the aggregate intrinsic value of the options outstanding and options exercisable was $0.1 million. All outstanding options were exercisable. The weighted average remaining contractual term was 2.89 years.

The total intrinsic value of the options exercised was $0.2 million for the year ended December 31, 2019 and $0.4 million for the year ended December 31, 2018. It was not material in the year ended December 31, 2017. The total estimated fair value of options vested was nil, $0.8 million and $3.8 million in the years ended December 31, 2019, 2018 and 2017, respectively.

The total estimated fair value of RSUs vested was $1.4 million in the year ended December 31, 2019, and $2.6 million in the year ended December 31, 2018 and 2017.

The total estimated fair value of RSAs vested was $0.9 million, $7.6 million and $6.3 million in the years ended December 31, 2019, 2018 and 2017, respectively.

**7. DEBT**

Our debt consists of:

| (In thousands) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Term B Loan | $ — | $ 13,750 |
| 2023 Notes | 240,984 | 240,984 |
| 2025 Notes | 192,500 | 192,500 |
| Total debt | 433,484 | 447,234 |
| Unamortized debt discount and issuance costs | (56,364) | (64,379) |
| Net long-term debt | $ 377,120 | $ 382,855 |

***Senior Secured Term Loans***

On August 18, 2017, we entered into a credit agreement (the "Credit Agreement") and completed a financing of $250.0 million Term B Loan, the net proceeds of which were used to repay the remaining balance of our then outstanding 2029 Notes. The Term B Loan was set to mature on August 18, 2022. Two and one-half percent (2.5%) of the initial principal amount was due quarterly beginning December 31, 2017. The remaining outstanding balance was due at maturity. Prepayments, in whole or in part, can be made at any time without a penalty. The initial term loan beared interest at a varying rate of three-month LIBOR plus 4.5%. Interest was due quarterly, beginning November 20, 2017.

The Term B Loan was unconditionally guaranteed by one of our wholly-owned subsidiaries. These loans were senior secured obligations, collateralized by a lien on substantially all of our and our subsidiary's personal property and material real property assets (if any). The lien was removed when the loans were fully paid off in December 2019.

In connection with the financing of the Term B Loan, we incurred $2.5 million in original interest discount and $4.9 million in debt issuance costs, which were being amortized to interest expense over the term of the loan using the effective interest method. As a result of the prepayments of $230.0 million in 2018, $5.7 million of debt issuance costs were written off as a loss on the extinguishment of debt, which is presented as part of other income (expense), net in our consolidated statements of operations. In December 2019, we repaid the remaining principal balance of $13.8 million and wrote off the remaining unamortized debt issuance costs.

***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. 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.

Concurrently with the pricing of the offering, we repurchased and retired 1,317,771 shares of our common stock for approximately $17.5 million of the net proceeds from the offering, in privately negotiated transactions effected through one of the initial purchasers or its affiliate, as our agent. The remaining net proceeds from the sale of the 2025 Notes in the offering were used to repay a portion of the principal outstanding under the 2029 Notes on August 15, 2017.

**7. DEBT (Continued)**

In accordance with accounting guidance for debt with conversion and other options, we separately account for the liability and equity components of the 2025 Notes by allocating the proceeds between the liability component and the embedded conversion option ("equity component") due to our ability to settle the conversion obligation of the 2025 Notes in cash, common stock or a combination of cash and common stock, at our option. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature using the income approach. The allocation was performed in a manner that reflected our non-convertible debt borrowing rate for similar debt. The equity component of the 2025 Notes of $67.3 million was recognized as a debt discount and represents the difference between the proceeds from the issuance of the 2025 Notes and the fair value of the liability of the 2025 Notes on the date of issuance. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense using the effective interest method over the term of the 2025 Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

Our outstanding 2025 Notes balances consisted of the following:

| (In thousands) | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Liability component | | |
| Principal | $ 192,500 | $ 192,500 |
| Debt discount and issuance costs, net | (54,597) | (61,766) |
| Net carrying amount | $ 137,903 | $ 130,734 |
| Equity component, net | $ 65,361 | $ 65,361 |

The following table sets forth total interest expense recognized related to the 2025 Notes for the years ended December 31, 2019 and 2018:

| (In thousands) | Year Ended December 31, 2019 | Year Ended December 31, 2018 |
|---|---|---|
| Contractual interest expense | $ 4,813 | $ 4,799 |
| Amortization of debt issuance costs | 551 | 505 |
| Amortization of debt discount | 6,618 | 6,071 |
| Total interest and amortization expense | $ 11,982 | $ 11,375 |

***Convertible Subordinated Notes Due 2023***

In January 2013, we completed an underwritten public offering of $287.5 million aggregate principal amount of unsecured convertible subordinated notes, which will mature on January 15, 2023. The financing raised proceeds, net of issuance costs, of approximately $281.2 million, less $36.8 million to purchase two privately negotiated capped call option transactions in connection with the issuance of the notes. The 2023 Notes bear interest at the rate of 2.125% per year that is payable semi-annually in arrears in cash on January 15 and July 15 of each year, beginning on July 15, 2013.

The 2023 Notes were convertible, at the option of the holder, into shares of our common stock at an initial conversion rate of 35.9903 shares per $1,000 principal amount of the 2023 Notes, subject to adjustment in certain circumstances, which represents an initial conversion price of approximately $27.79 per share.

In connection with the offering of the 2023 Notes, we entered into two privately negotiated capped call option transactions with a single counterparty. The capped call option transaction is an integrated instrument consisting of a call option on our common stock purchased by us with a strike price equal to the initial conversion price of $27.79 per share for the underlying number of shares and a cap price of $38.00 per share, both of which are subject to adjustments consistent with the 2023 Notes. The cap component is economically equivalent to a call option sold by us for the underlying number of shares with an initial strike price of $38.00 per share. As an integrated instrument, the settlement of the capped call coincides with the due date of the convertible debt. Upon settlement, we would receive from our hedge counterparty a number of shares of our common shares that would range from zero, if the stock price was below $27.79 per share, to a maximum of 2,779,659 shares, if the stock price is above $38.00 per share. However, if the market

**7. DEBT (Continued)**

price of our common stock, as measured under the terms of the capped call transactions, exceeds $38.00 per share, there is no incremental anti-dilutive benefit from the capped call.

As a result of the partial conversion by certain holders of the 2023 Notes in July 2014, and dividends declared and paid in 2014 and 2015, the conversion rate with respect to our 2023 Notes was adjusted in total to 50.5818 shares of our common stock per $1,000 principal amount of the 2023 Notes, which represents a conversion price of approximately $19.77 per share. As a result of the conversion rate adjustments, the capped call strike price and cap price were also adjusted to $19.77 and $27.04, respectively.

For the year ending December 31, 2016, we retired a portion of our 2023 Notes with a face value of $14.1 million and carrying value of $13.9 million by way of purchase in the open market. The 2023 Notes were purchased for a total settlement price of $11.6 million resulting in a gain of $2.3 million, which is included in other income (expense), net in the consolidated statements of operations. As a result of the partial retirement of our 2023 Notes, we entered into a partial termination agreement of the capped call option transaction described above. The partial termination agreement of the capped call option transaction enabled us to receive $0.6 million from the counterparty, which was recorded as an increase in additional paid-in capital in our consolidated balance sheets as of December 31, 2016.

***Non-Recourse Notes Due 2029***

In April 2014, we entered into certain note purchase agreements relating to the private placement of $450.0 million aggregate principal amount of non-recourse fixed rate term notes due 2029. The 2029 Notes had an annual interest rate of 9%, and prior to May 15, 2016, in the event that the specified portion of royalties received in a quarter was less than the interest accrued for the quarter, the principal amount of the 2029 Notes increased by the interest shortfall amount for that period, and considered as payment in kind ("PIK"). In total, $44.0 million of interest expense was added to the principal balance of the 2029 Notes.

In connection with the sale of the 2029 Notes in 2014, we incurred approximately $15.3 million in debt issuance costs, which were being amortized to interest expense over the term of the 2029 Notes. The 2029 Notes were repaid in full in 2017 with the net proceeds from the 2025 Notes and Term B Loan. With the repayment of the 2029 Notes in 2017, we wrote off $7.3 million of unamortized debt issuance costs which is included in other income (expense), net in our consolidated statements of operations.

***Debt Maturities***

The aggregate scheduled maturities of our long-term debt as of December 31, 2019 are as follows:

| (In thousands) | |
|---|---|
| Years ending December 31: | |
| 2020 to 2022 | $ — |
| 2023 | 240,984 |
| 2024 | — |
| Thereafter | 192,500 |
| Total | $ 433,484 |

**8. COMMITMENTS AND CONTINGENCIES**

***Operating Lease and Lease Guarantee***

In 2014, our facility leases in South San Francisco, California were assigned to Theravance Biopharma, Inc. However, if Theravance Biopharma, Inc. were to default on its lease obligations, we have in substance guaranteed the lease payments for these facilities. We would also be responsible for lease-related payments including utilities, property taxes, and common area maintenance, which may be as much as the actual lease payments. As of December 31, 2019, the total remaining lease payments, which run through May 2020, were $2.8 million. The carrying value of this lease guarantee was $0.1 million as of December 31, 2019 and is reflected in other accrued liabilities in our consolidated balance sheet. Amortization on the lease guarantee commenced in 2016 and amortization expense for each of the years ended December 31, 2019, 2018 and 2017 was $0.3 million.

**8. COMMITMENTS AND CONTINGENCIES (Continued)**

In 2019, we terminated the operating lease for our corporate headquarters in Brisbane, California and entered into a new operating lease in Burlingame, California for approximately 2,111 rentable square feet. The new lease commenced in November 2019 with a term of thirty six calendar months.

Minimum lease payments on our corporate headquarters as of December 31, 2019 are as follows:

| (In thousands) | | |
|---|---|---|
| Years ending December 31: | | |
| 2020 | $ | 116 |
| 2021 | | 123 |
| 2022 | | 109 |
| Thereafter | | — |
| Total | $ | 348 |

***Guarantees and Indemnifications***

We indemnify our officers and directors for certain events or occurrences, subject to certain limits. We believe the fair value of these indemnification agreements is minimal. Accordingly, we have not recognized any liabilities relating to these agreements as of December 31, 2019.

**9. INCOME TAXES**

Income tax benefit (expense) consists of the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 2019 | 2018 | 2017 |
| Current | | | |
| State | $ (26) | $ 19 | $ (4) |
| Deferred | | | |
| Federal | (41,567) | 190,195 | — |
| State | (309) | 5,859 | — |
| | (41,876) | 196,054 | — |
| Total income tax benefit (expense), net | $ (41,902) | $ 196,073 | $ (4) |

The impacts of the differences between the expected U.S. federal statutory income tax to our income tax expense are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 2019 | 2018 | 2017 |
| Expected tax at federal statutory rate | $ 48,908 | $ 44,154 | $ 46,997 |
| State income tax, net of federal benefit | 325 | (5,878) | 4 |
| Non-deductible executive compensation | — | 747 | 987 |
| Noncontrolling interest | (7,078) | (2,367) | — |
| Other | 326 | 310 | (1,506) |
| Impact of tax reform rate change | — | — | 124,017 |
| Change in valuation allowance | (579) | (233,039) | (170,495) |
| Income tax expense (benefit), net | $ 41,902 | $ (196,073) | $ 4 |

**9. INCOME TAXES (Continued)**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and deferred tax liabilities are as follows:

| | As of December 31, | |
|---|---|---|
| (In thousands) | 2019 | 2018 |
| Deferred tax assets | | |
| Net operating loss carryforwards | $ 172,359 | $ 215,497 |
| Research and development tax credit carryforwards | 55,966 | 56,231 |
| Other | 1,412 | 1,647 |
| Total deferred tax assets before valuation allowance | 229,737 | 273,375 |
| Valuation allowance | (63,620) | (64,199) |
| Total deferred tax assets | 166,117 | 209,176 |
| Deferred tax liabilities | | |
| Debt issuance discount and other | (11,946) | (13,122) |
| Net deferred tax assets | $ 154,171 | $ 196,054 |

We record deferred tax assets if the realization of such assets is more likely than not to occur. Significant management judgment is required in determining whether a valuation allowance against the deferred tax assets is required. We have considered all available evidence, both positive and negative, such as our historical operating results and predictability of future taxable income, in making such determination. We are also required to exercise significant management's judgment in forecasting future taxable income. Specifically, we evaluate the following criteria when considering a valuation allowance:

- the history of tax net operating losses in recent years;
- predictability of operating results;
- profitability for a sustained period of time; and
- level of profitability on a quarterly basis.

As of December 31, 2018, we had cumulative net income before tax for the three years then ended. Based on our historical operating performance and estimated future taxable income, we concluded that it was more likely than not that we would be able to realize approximately $190.2 million and $5.9 million benefits of the U.S. federal and state deferred tax assets in the future, respectively. As of December 31, 2019, we recognized $41.9 million income tax expense and reduced the deferred tax assets by the same amount based on the taxable income generated during the year.

As of December 31, 2019, we had federal net operating loss carryforwards of approximately $0.6 billion, which will expire from 2030 through 2035, and federal research and development tax credit carryforwards of approximately $44.4 million, which will expire from 2020 through 2034. We also had state net operating loss carryforwards of approximately $649.3 million expiring in the years 2028 through 2035 and state research tax credits of approximately $32.3 million, which do not expire.

Utilization of net operating loss and tax credit carryforwards may be subject to a substantial annual limitation due to ownership change limitations provided by the Internal Revenue Code and similar state provisions. Annual limitations may result in expiration of net operating loss and tax credit carryforwards before some or all of such amounts have been utilized.

We conducted an Internal Revenue Code of 1986, as amended, Section 382 ("Section 382") analysis through September 30, 2019 to determine whether an ownership change had occurred since inception. The Section 382 study concluded that it is more likely than not that the Company did not experience an ownership change during the testing period. However, notwithstanding the applicable annual limitations, no portion of the net operating loss or credit carryforwards is expected to expire before becoming available to reduce federal and state income tax liabilities as a result of those identified ownership changes. If we undergo another ownership change, the utilization of the pre-ownership change net operating loss carryforwards or pre-ownership change tax attributes, such as

## 9. INCOME TAXES (Continued)

research tax credits, to offset the post-ownership change income may be subject to an annual limitation, pursuant to Sections 382 and 383 of the Internal Revenue Code of 1986, as amended. Similar rules may apply under state tax laws.

Our policy is to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2019 and 2018, we had no accrued interest or penalties.

***Uncertain Tax Positions***

A reconciliation of the beginning and ending balances of the total amounts of unrecognized tax benefits are as follows (in thousands):

| (In thousands) | | |
|---|---|---|
| Unrecognized tax benefits as of December 31, 2017 and 2016 | $ | 15,488 |
| Gross decrease in tax portions for 2018 | | (75) |
| Unrecognized tax benefits as of December 31, 2018 | $ | 15,413 |
| Gross decrease in tax portions for 2019 | | (71) |
| Unrecognized tax benefits as of December 31, 2019 | $ | 15,342 |

Our total unrecognized tax benefits as of December 31, 2019 were $15.3 million. Total unrecognized tax benefits that, if recognized, would affect our effective tax rate, were $8.0 million as of December 31, 2019. We do not anticipate the total amount of unrecognized income tax benefits relating to uncertain tax positions existing as of December 31, 2019 will significantly increase or decrease in the next 12 months.

We are subject to taxation in the U.S. and various state jurisdictions. The tax years 2004 through 2013, 2015 and forward remain open to examination by the federal and most state tax authorities due to net operating loss and overall credit carryforward positions.

## 10. SUBSEQUENT EVENTS

On January 27, 2020, Innoviva and Armata Pharamaceuticals, Inc. (“Armata”), a clinical-stage biotechnology company focused on the development of precisely targeted bacteriophage therapeutics for the treatment of antibiotic-resistant infections, entered into a securities purchase agreement pursuant to which Innoviva will purchase up to approximately $25 million in Armata common stock and warrants upon satisfaction of certain closing conditions. This transaction is expected to occur in two tranches during the first quarter of 2020. The investment is to support Armata’s ongoing advancement of its bacteriophage development programs including the expected first in human studies related to Armata's lead phage candidate, AP-PA02, targeting Pseudomonas aeruginosa, as well as AP-SA02, its phage candidate targeting Staphylococcus Aureus. Innoviva will be entitled to appoint two directors to serve on Armata's Board of Directors for so long as Innoviva and its affiliates hold at least 12.5% of the outstanding shares of a common stock of Armata on a fully-diluted basis.

**SUPPLEMENTARY FINANCIAL DATA (UNAUDITED)**
**(In thousands, except per share data)**

The following table presents certain unaudited consolidated quarterly financial information for the eight quarters in the period ended December 31, 2019. This information has been prepared on the same basis as the audited consolidated financial statements and includes all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the unaudited quarterly results of operations set forth herein.

| | For the Quarters Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| **2019** | | | | |
| Net revenue | $ 55,183 | $ 64,107 | $ 65,755 | $ 75,971 |
| Total operating expenses | 3,015 | 4,347 | 4,962 | 2,332 |
| Income from operations | 52,168 | 59,760 | 60,793 | 73,639 |
| Income tax expense, net | (8,508) | (10,433) | (10,558) | (12,403) |
| Net income | 40,019 | 46,061 | 47,051 | 57,862 |
| Net income attributable to noncontrolling interest | 6,229 | 8,321 | 7,242 | 11,913 |
| Net income attributable to Innoviva stockholders | $ 33,790 | $ 37,740 | $ 39,809 | $ 45,949 |
| Basic net income per share | $ 0.33 | $ 0.37 | $ 0.39 | $ 0.45 |
| Diluted net income per share | $ 0.31 | $ 0.34 | $ 0.36 | $ 0.42 |

| | For the Quarters Ended | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| **2018** | | | | |
| Net revenue | $ 52,380 | $ 67,086 | $ 61,680 | $ 79,858 |
| Total operating expenses | 11,685 | 4,411 | 4,019 | 2,638 |
| Income from operations | 40,695 | 62,675 | 57,661 | 77,220 |
| Income tax benefit, net | — | — | — | 196,073 |
| Net income | 30,330 | 56,616 | 50,167 | 269,215 |
| Net income attributable to noncontrolling interest | 749 | 1,990 | 3,078 | 5,455 |
| Net income attributable to Innoviva stockholders | $ 29,581 | $ 54,626 | $ 47,089 | $ 263,760 |
| Basic net income per share | $ 0.29 | $ 0.54 | $ 0.47 | $ 2.61 |
| Diluted net income per share | $ 0.27 | $ 0.49 | $ 0.43 | $ 2.34 |

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Innoviva, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheet of Innoviva, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2019, the related consolidated statements of income, comprehensive income, stockholder’s equity (deficit), and cash flows for the year ended December 31, 2019, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of its operations and its cash flows for the year ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated February 19, 2020 expressed an unqualified opinion.

**Basis for Opinion**

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Critical Audit Matters**

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2019.

San Francisco, CA
February 19, 2020

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Stockholders and the Board of Directors of Innoviva, Inc.**

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheet of Innoviva, Inc. (the "Company") as of December 31, 2018, the related consolidated statements of operations, comprehensive income, stockholders' equity (deficit), and cash flows, for the years ended December 31, 2018 and 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows the years ended December 31, 2018 and 2017, in conformity with US generally accepted accounting principles.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor from 1996 to 2019.

San Jose, California
February 19, 2019

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements:

The following financial statements and schedules of the Registrant are contained in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K:



2. Financial Statement Schedules:

All schedules have been omitted because of the absence of conditions under which they are required or because the required information, where material, is shown in the financial statements, financial notes or supplementary financial information.

(b) Exhibits required by Item 601 of Regulation S-K:

The information required by this Item is set forth on the exhibit index that follows the signature page of this report.

## Exhibits

| Exhibit Number | Description |
|---|---|
| 23.1 | Consent of Independent Registered Public Accounting Firm |
| 23.2 | Consent of Independent Registered Public Accounting Firm |
| 31.1 | Certification of Principal Executive Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934 |
| 31.2 | Certification of Principal Financial Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934 |
| 32 | Certifications Pursuant to 18 U.S.C. Section 1350 |
| 104 | Cover Page Interactive Data File |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: February 21, 2020 | By: | /s/ GEOFFREY HULME |
| | | Geoffrey Hulme |
| | | *Interim Principal Executive Officer* |

Exhibit 23.1

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have issued our reports dated February 19, 2020, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of Innoviva, Inc. on Form 10-K for the year ended December 31, 2019. We consent to the incorporation by reference of said reports in the Registration Statements of Innoviva, Inc. on Forms S-8 (File No. 333- 119559, File No. 333-129669, File No. 333-142707, File No. 333-150753, File No. 333-159042, File No. 333-166546, File No. 333-173923, File No. 333-181763, and File No. 333-197950).

/s/ GRANT THORNTON LLP

San Francisco, CA
February 19, 2020

**Exhibit 23.2**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

(1) Registration Statement on Form S-8 No 333-119559 of Theravance, Inc. pertaining to the 2004 Equity Incentive Plan and the 2004 Employee Stock Purchase Plan,

(2) Registration Statement on Form S-8 No 333-129669 of Theravance, Inc. pertaining to the 2004 Employee Stock Purchase Plan,

(3) Registration Statement on Form S-8 No 333-142707 of Theravance, Inc. pertaining to the 2004 Equity Incentive Plan,

(4) Registration Statement on Form S-8 No 333-150753 of Theravance, Inc. pertaining to the 2008 New Employee Equity Incentive Plan and the 2004 Employee Stock Purchase Plan,

(5) Registration Statement on Form S-8 No 333-159042 of Theravance, Inc. pertaining to the 2004 Employee Stock Purchase Plan,

(6) Registration Statement on Form S-8 No 333-166546 of Theravance, Inc. pertaining to the 2004 Equity Incentive Plan,

(7) Registration Statement on Form S-8 No 333-173923 of Theravance, Inc. pertaining to the 2004 Employee Stock Purchase Plan,

(8) Registration Statement on Form S-8 No 333-181763 of Theravance, Inc. pertaining to the 2012 Equity Incentive Plan, and

(9) Registration Statement on Form S-8 No 333-197950 of Theravance, Inc. pertaining to the 2012 Equity Incentive Plan, the Amended and Restated 2008 New Employee Equity Incentive Plan, the 2004 Equity Incentive Plan and the 1997 Stock Plan

of our report dated February 19, 2019, with respect to the consolidated financial statements of Innoviva, Inc. as of December 31, 2018 and for the years ended December 31, 2018 and 2017, included in this Annual Report (Form 10-K) of Innoviva, Inc. for the year ended December 31, 2019.

/s/ Ernst & Young LLP

San Jose, California
February 18, 2020

**Exhibit 31.1**

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

I, Geoffrey Hulme, certify that:

1. I have reviewed this Amendment No. 1 to the Annual Report on Form 10-K 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: February 21, 2020

/s/ GEOFFREY HULME
Geoffrey Hulme
*Interim Principal Executive Officer*
*(Principal Executive Officer)*

**Exhibit 31.2**

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

I, Marianne Zhen, certify that:

1. I have reviewed this Amendment No. 1 to the Annual Report on Form 10-K 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: February 21, 2020

/s/ MARIANNE ZHEN
Marianne Zhen
*Chief Accounting Officer*
*(Principal Accounting Officer)*

Exhibit 32

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

In connection with this Amendment No. 1 to the Annual Report on Form 10-K of Innoviva Inc., I, Geoffrey Hulme, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Innoviva, Inc. on Form 10-K for the fiscal year ended December 31, 2019 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 Annual Report on Form 10-K fairly presents in all material respects the financial condition of Innoviva, Inc. at the end of the periods covered by such Annual Report on Form 10-K and results of operations of Innoviva, Inc. for the periods covered by such Annual Report on Form 10-K.

| | | |
|---|---|---|
| Date: February 21, 2020 | By: | /s/ GEOFFREY HULME |
| | | Geoffrey Hulme |
| | | *Interim Principal Executive Officer* |
| | | *(Principal Executive Officer)* |

In connection with this Amendment No. 1 to the Annual Report on Form 10-K of Innoviva Inc., 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 Annual Report of Innoviva, Inc. on Form 10-K for the fiscal year ended December 31, 2019 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 Annual Report on Form 10-K fairly presents in all material respects the financial condition of Innoviva, Inc. at the end of the periods covered by such Annual Report on Form 10-K and results of operations of Innoviva, Inc. for the periods covered by such Annual Report on Form 10-K.

| | | |
|---|---|---|
| Date: February 21, 2020 | By: | /s/ MARIANNE ZHEN |
| | | Marianne Zhen |
| | | *Chief Accounting Officer* |
| | | *(Principal Accounting Officer)* |

A signed original of this written statement required by Section 906 has been provided to Innoviva, Inc. and will be retained by it and furnished to the Securities and Exchange Commission or its staff upon request.