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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2024

OR

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

For the transition period from to

Commission File Number: 000-30319

INNOVIVA, INC.

(Exact Name of Registrant as Specified in its Charter)

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

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

(650) 238-9600
(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	INVA	The Nasdaq Stock Market LLC

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

The number of shares of registrant's common stock outstanding on October 31, 2024 was 62,601,081.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2024 (Unaudited)	December 31, 2023 *
Assets		
Current assets:		
Cash and cash equivalents	$ 260,630	$ 193,513
Accounts receivable	30,546	14,454
Receivables from collaboration arrangement	60,512	69,621
Inventory	34,236	40,737
Prepaid expenses	12,650	21,630
Other current assets	2,047	4,264
Total current assets	400,621	344,219
Property and equipment, net	544	483
Equity method investments	73,549	116,546
Equity and long-term investments	434,169	444,432
Capitalized fees paid, net	73,416	83,784
Right-of-use assets	2,789	2,536
Goodwill	17,905	17,905
Intangible assets	210,944	230,335
Deferred tax assets, net	14,875	—
Other assets	2,800	3,267
Total assets	$ 1,231,612	$ 1,243,507
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 4,170	$ 6,717
Accrued personnel-related expenses	5,965	7,020
Accrued interest payable	833	3,422
Deferred revenue	717	1,277
Convertible subordinated notes due 2025, net of issuance costs	191,843	—
Income tax payable	2,623	—
Other accrued liabilities	17,599	19,698
Total current liabilities	223,750	38,134
Long-term debt, net of discount and issuance costs	255,972	446,234
Other long-term liabilities	71,449	71,870
Deferred tax liabilities, net	—	563
Income tax payable, long-term	11,899	11,751
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock: $0.01 par value, 230 shares authorized, no shares issued and outstanding	—	—
Common stock: $0.01 par value, 200,000 shares authorized, 62,601 and 63,307 issued and outstanding as of September 30, 2024 and December 31, 2023, respectively	626	633
Treasury stock: at cost, nil and 32,005 shares as of September 30, 2024 and December 31, 2023, respectively	—	(393,829)
Additional paid-in capital	690,045	1,093,340
Accumulated deficit	(22,129)	(25,189)
Total stockholders' equity	668,542	674,955
Total liabilities and stockholders' equity	$ 1,231,612	$ 1,243,507

*Condensed consolidated balance sheet has been derived from audited consolidated financial statements as of December 31, 2023.

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenue:				
Royalty revenue, net of amortization of capitalized fees paid of $3,456 in the three months ended September 30, 2024 and 2023, and $10,368 in the nine months ended September 30, 2024 and 2023	$ 57,056	$ 53,558	$ 179,213	$ 172,681
Net product sales	27,822	13,701	68,557	40,942
License revenue	4,630	—	19,135	11,000
Total revenue	89,508	67,259	266,905	224,623
Expenses:				
Cost of products sold (inclusive of amortization of inventory fair value adjustments, excluding amortization of intangible assets)	9,990	10,182	29,433	27,910
Cost of license revenue	—	—	—	1,600
Selling, general and administrative	26,219	28,636	84,364	71,913
Research and development	3,551	3,989	9,989	31,566
Amortization of acquired intangible assets	6,511	6,511	19,391	15,274
Changes in fair values of equity method investments, net	18,231	(71,980)	42,997	(67,886)
Changes in fair values of equity and long-term investments, net	16,936	2,640	60,827	4,887
Interest and dividend income	(5,500)	(4,114)	(13,373)	(11,032)
Interest expense	5,807	4,396	17,460	13,205
Other expense, net	914	1,047	3,123	4,289
Total expenses, net	82,659	(18,693)	254,211	91,726
Income before income taxes	6,849	85,952	12,694	132,897
Income tax expense, net	5,636	3,906	9,634	14,706
Net income and comprehensive income	$ 1,213	$ 82,046	$ 3,060	$ 118,191
Net income per share:				
Basic	$ 0.02	$ 1.26	$ 0.05	$ 1.79
Diluted	$ 0.02	$ 0.98	$ 0.05	$ 1.45
Shares used to compute net income per share:				
Basic	62,569	64,953	62,759	66,016
Diluted	62,951	86,164	63,020	87,504

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2024						
	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock		Total Stockholders' Equity
	Shares	Amount			Shares	Amount	
Balance as of January 1, 2024	63,307	$ 633	$ 1,093,340	$ (25,189)	32,005	$ (393,829)	$ 674,955
Exercise of stock options and issuance of common stock units and stock awards, net of repurchase of shares to satisfy tax withholding	124	1	403	—	—	—	404
Repurchase of common stock	(634)	(6)	(9,659)	—	—	—	(9,665)
Stock-based compensation	—	—	1,455	—	—	—	1,455
Net income	—	—	—	36,532	—	—	36,532
Balance as of March 31, 2024	62,797	628	1,085,539	11,343	32,005	(393,829)	703,681
Exercise of stock options and issuance of common stock units and stock awards, net of repurchase of shares to satisfy tax withholding	118	1	135	—	—	—	136
Repurchase of common stock	(353)	(3)	(5,257)	—	—	—	(5,260)
Retirement of treasury stock	—	—	(393,829)	—	(32,005)	393,829	—
Stock-based compensation	—	—	1,643	—	—	—	1,643
Net loss	—	—	—	(34,685)	—	—	(34,685)
Balance as of June 30, 2024	62,562	626	688,231	(23,342)	—	—	665,515
Exercise of stock options and issuance of common stock units and stock awards, net of repurchase of shares to satisfy tax withholding	39	—	211	—	—	—	211
Stock-based compensation	—	—	1,603	—	—	—	1,603
Net income	—	—	—	1,213	—	—	1,213
Balance as of September 30, 2024	62,601	$ 626	$ 690,045	$ (22,129)	—	$ —	$ 668,542

	Nine Months Ended September 30, 2023						
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount			Shares	Amount	
Balance as of January 1, 2023	69,188	$ 692	$ 1,163,836	$ (204,911)	32,005	$ (393,829)	$ 565,788
Issuance of common stock units and stock awards, net of repurchase of shares to satisfy tax withholding	55	1	(24)	—	—	—	(23)
Repurchase of common stock	(3,419)	(34)	(40,701)	—	—	—	(40,735)
Stock-based compensation	—	—	1,598	—	—	—	1,598
Net income	—	—	—	34,865	—	—	34,865
Balance as of March 31, 2023	65,824	659	1,124,709	(170,046)	32,005	(393,829)	561,493
Issuance of common stock units and stock awards, net of repurchase of shares to satisfy tax withholding	177	2	78	—	—	—	80
Repurchase of common stock	(776)	(8)	(9,278)	—	—	—	(9,286)
Stock-based compensation	—	—	1,520	—	—	—	1,520
Net income	—	—	—	1,280	—	—	1,280
Balance as of June 30, 2023	65,225	653	1,117,029	(168,766)	32,005	(393,829)	555,087
Issuance of common stock units and stock awards, net of repurchase of shares to satisfy tax withholding	16	—	(11)	—	—	—	(11)
Repurchase of common stock	(857)	(9)	(11,062)	—	—	—	(11,071)
Stock-based compensation	—	—	1,442	—	—	—	1,442
Net income	—	—	—	82,046	—	—	82,046
Balance as of September 30, 2023	64,384	$ 644	$ 1,107,398	$ (86,720)	32,005	$ (393,829)	$ 627,493

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2024	2023
Cash flows from operating activities		
Net income	$ 3,060	$ 118,191
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(15,438)	(1,115)
Amortization of capitalized fees and depreciation of property and equipment	10,466	10,437
Amortization of acquired intangible assets	19,391	15,274
Inventory fair value step-up adjustment included in cost of products sold	12,101	19,179
Stock-based compensation	4,701	4,560
Amortization of debt discount and issuance costs	1,581	1,549
Changes in fair values of equity method investments, net	42,997	(67,886)
Changes in fair values of equity and long-term investments, net	60,827	4,887
Accrued interest income added to long-term investments	—	(1,482)
Other non-cash items	(324)	(770)
Changes in operating assets and liabilities:		
Accounts receivable	(16,092)	(1,351)
Receivables from collaboration arrangement	9,109	(2,341)
Inventory	(5,600)	(3,797)
Prepaid expenses	8,980	14,830
Other assets	594	1,795
Accounts payable	(2,547)	844
Accrued personnel-related expenses and other accrued liabilities	(3,977)	(1,072)
Accrued interest payable	(2,589)	(3,526)
Income tax payable	2,771	148
Deferred revenue	(560)	(546)
Net cash provided by operating activities	129,451	107,808
Cash flows from investing activities		
Purchases of trading securities	(48,136)	(60,132)
Purchases of equity and long-term investments	—	(1,218)
Purchases of equity investments managed by ISP Fund LP	(32,270)	(24,914)
Sales of equity investments managed by ISP Fund LP	52,831	39,642
Purchases and sales of other investments managed by ISP Fund LP, net	(20,561)	(14,728)
Purchases of property and equipment	(270)	(260)
Sale of property and equipment	98	—
Net cash used in investing activities	(48,308)	(61,610)
Cash flows from financing activities		
Repurchase of common stock	(14,777)	(61,092)
Repurchase of shares to satisfy tax withholding	(123)	(65)
Proceeds from issuances of common stock, net	874	111
Payment for repurchase of convertible subordinated notes due 2023	—	(96,204)
Net cash used in financing activities	(14,026)	(157,250)
Net increase (decrease) in cash and cash equivalents	67,117	(111,052)
Cash and cash equivalents at beginning of period	193,513	291,049
Cash and cash equivalents at end of period	$ 260,630	$ 179,997

	Nine Months Ended September 30,	
	2024	2023
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 10,359	$ 11,381
Cash paid for income taxes	$ 11,793	$ —
Supplemental Disclosure of Non-cash Investing and Financing Activities:		
Accrued interest income converted to long-term investments	$ 2,090	$ —

See accompanying notes to condensed consolidated financial statements.

INNOVIVA, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Description of Operations and Summary of Significant Accounting Policies

Description of Operations

Innoviva, Inc. (and where context requires, together with its subsidiaries referred to as "Innoviva", the "Company", or "we" and other similar pronouns) is a company with a portfolio of royalties and innovative healthcare assets. Our royalty portfolio contains respiratory assets partnered with Glaxo Group Limited ("GSK"), including RELVAR®/BREO® ELLIPTA® (fluticasone furoate/vilanterol, "FF/VI") and ANORO® ELLIPTA® (umeclidinium bromide/ vilanterol, "UMEC/VI"). Under the Long-Acting Beta2 Agonist ("LABA") Collaboration Agreement, Innoviva is entitled to receive royalties from GSK on sales of RELVAR®/BREO® ELLIPTA® as follows: 15% on the first $3.0 billion of annual global net sales and 5% for all annual global net sales above $3.0 billion; and royalties from the sales of ANORO® ELLIPTA®, which tier upward at a range from 6.5% to 10%.

We expanded our portfolio through the acquisition of Entasis Therapeutics Holdings Inc. ("Entasis") on July 11, 2022 and the acquisition of La Jolla Pharmaceutical Company ("La Jolla") on August 22, 2022. Our commercial and marketed products include GIAPREZA® (angiotensin II), approved to increase blood pressure in adults with septic or other distributive shock, and XERAVA® (eravacycline) approved for the treatment of complicated intra-abdominal infections in adults. Our third product, XACDURO® (formerly known as sulbactam-durlobactam or SUL-DUR), was approved by the United States Food and Drug Administration ("FDA") for the treatment of hospital-acquired and ventilator-associated pneumonias caused by *Acinetobacter* in adults on May 23, 2023. We commenced commercial sales of XACDURO® in the third quarter of 2023. Our development pipeline includes zoliflodacin, an investigational treatment for uncomplicated gonorrhea that reported positive data in a pivotal Phase 3 clinical trial on November 1, 2023. As such, we have a wholly owned robust critical care and infectious disease operating platform with a hospital focus anchored by three differentiated products with growth potential and a late-stage drug candidate.

In addition, we own other strategic healthcare assets, such as a large equity stake in Armata Pharmaceuticals, a leader in development of bacteriophages with potential use across a range of infectious and other serious diseases. We also have economic interests in other healthcare companies.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. The unaudited condensed consolidated financial statements have been prepared on the same basis as audited consolidated financial statements and, in our opinion, include all adjustments, consisting of all normal recurring adjustments, necessary for the fair presentation of our financial position, results of operations, comprehensive income and cash flows. The interim results are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2024, or any other periods.

The accompanying unaudited condensed consolidated financial statements include the accounts of Innoviva, our wholly-owned subsidiaries, and certain variable interest entities ("VIEs") for which we are the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2023 filed with the Securities and Exchange Commission ("SEC") on February 29, 2024, and as amended on March 5, 2024 and March 22, 2024.

Use of Management's Estimates

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

Concentrations of Credit Risk and of Significant Suppliers and Partner

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

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

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

We also generate revenue from product sales of GIAPREZA® and XERAVA®. Additionally, we generate revenue from product sales of XACDURO®, which was commercially launched in September 2023. In the U.S., hospitals and other healthcare organizations generally acquire our products through a network of specialty distributors, which are regarded as our customers for accounting purposes. We do not believe that the loss of one of these distributors would significantly impact our ability to distribute our products, as we expect that sales volume would be absorbed by either new or remaining distributors. Three of our customers each account for 27%, 21% and 20%, respectively, of our net product sales for the three months ended September 30, 2024, and 31%, 23% and 23%, respectively, for the nine months ended September 30, 2024. These same customers account for 32%, 15% and 12%, respectively, of our receivables from net product sales, which are included in "Accounts receivable" in our unaudited condensed consolidated balance sheet as of September 30, 2024. Three of our customers each account for 27%, 28% and 26%, respectively, of our net product sales for the three months ended September 30, 2023, and 32%, 28% and 27%, respectively, for the nine months ended September 30, 2023. These same customers account for 29%, 19% and 15%, respectively, of our receivables from net product sales, which are included in "Accounts receivable" in our condensed consolidated balance sheet as of December 31, 2023.

Refer to Item 1A. "Risk Factors" disclosed in our Annual Report on Form 10-K for the year ended December 31, 2023.

Segment Reporting

We operate in a single segment, focusing on providing capital return to stockholders by maximizing the potential value of our portfolio of royalties and innovative healthcare assets. Our Chief Executive Officer serves as our Chief Operating Decision Maker ("CODM"). The CODM allocates resources and evaluates Innoviva's performance at the consolidated level using information about our revenues, operating results and other key financial data as needed.

Variable Interest Entities

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

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

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

Cash and Cash Equivalents

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

Accounts Receivable

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

Inventory

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

Goodwill and Intangible Assets

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

Operating Leases

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

Equity and Long-Term Investments

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

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

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

We also invest in ISP Fund LP, which investments consist of money market funds, trading and equity securities in the healthcare, pharmaceutical and biotechnology industries. Pursuant to the Partnership Agreement entered in December 2020, we became a limited partner of this partnership, and our contributions are subject to a 36-month lock-up period which restriction prevents us from having control and access to the contributions and related investments. The lock-up period for a certain portion of our contributions expired in December 2023. We did not elect to make a withdrawal in 2023, thereby extending the lock-up period and withdrawal elections into subsequent years. These investments are classified as long-term investments in the unaudited condensed consolidated balance sheets. In October 2024, Strategic Partners made an election to unwind its capital accounts in the Partnership in accordance with the terms of the Partnership Agreement.

Revenue Recognition

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

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

Royalty Revenue

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

Revenue from Product Sales

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

- Chargebacks: Chargebacks are discounts we provide to distributors in the event that the sales prices to end users are below the distributors' acquisition price. This may occur due to a direct contract with a health system, a group purchasing organization ("GPO") agreement or a sale to a government facility. Chargebacks are estimated based on known chargeback rates and recorded as a reduction of revenue on delivery to our customers.
- Discounts: We offer customers various forms of incentives and consideration, including prompt-pay and other discounts. We estimate discounts primarily based on contractual terms. These discounts are recorded as a reduction of revenue on delivery to our customers.

- Returns: We offer customers a limited right of return, generally for damaged or expired products. We estimate returns based on an internal analysis, which includes actual experience. The estimates for returns are recorded as a reduction of revenue on delivery to our customers.
- Rebates: We participate in Medicaid rebate programs, which provide assistance to certain low-income patients based on each individual state's guidelines regarding eligibility and services. Under the Medicaid rebate programs, we pay a rebate to each participating state, generally within three months after the quarter in which the product was sold. Additionally, we may offer customer incentives and consideration in the form of volume-based or other rebates. The estimates for rebates are recorded as a reduction of revenue on delivery to our customers.

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

License Revenue

At the inception of a licensing arrangement that includes development and regulatory milestone payments, we evaluate whether the milestones are considered probable of being achieved and estimate the amount to be included in the transaction price. We generally include these milestone payments in the transaction price when they are achieved because there is considerable uncertainty in the research and development processes that trigger receipt of these payments under our agreements. Similarly, we include approval milestone payments in the transaction price once the product is approved by the applicable regulatory agency. For a licensing arrangement that includes services, we will recognize revenue over time using an input method, representing the transfer of goods or services as we perform activities over the term of the arrangement.

Research and Development Expenses

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

Interest Expense on Deferred Royalty Obligation

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

Related Party

Sarissa Capital owned 11.6% of our outstanding common stock as of September 30, 2024. Transactions with Sarissa Capital are described in Note 5, "Consolidated Entity". Sarissa Capital is considered to be a related party because two of its principals are members of our board of directors.

Recently Issued Accounting Pronouncements Not Yet Adopted

In October 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-06, *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*. The amendment modifies the disclosure or presentation requirements for a variety of topics. The effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective. The Company does not expect the adoption of the amendments to have a significant impact on its financial statements.

In November 2023, the FASB issued ASU 2023-07, *Improvements to Reportable Segment Disclosures (Topic 280)*. This ASU update requires enhanced segment disclosures, primarily related to significant segment expenses. The amendments are effective for fiscal years beginning after December 15, 2023, and interim periods beginning after December 15, 2024. The Company is assessing the impact this adoption will have on its disclosures.

In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures (Topic 740)*. The ASU requires the disclosure of income taxes paid disaggregated by jurisdiction and enhanced disclosures for the entity's effective tax rate reconciliation as well as other income tax related disclosures. The ASU is effective on a prospective basis for annual periods beginning after December 15, 2024. The Company does not expect the adoption of the amendments to have a significant impact on its financial statements.

2. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding. Diluted net income per share is computed by dividing net income by the weighted-average number of shares of common stock and dilutive potential common stock equivalents then outstanding. Dilutive potential common stock equivalents include the assumed exercise, vesting and issuance of employee stock awards using the treasury stock method, as well as common stock issuable upon assumed conversion of our convertible subordinated notes due 2023 (the "2023 Notes") up until its maturity date on January 15, 2023, our convertible senior notes due 2025 (the "2025 Notes") and our convertible senior notes due 2028 (the "2028 Notes") using the if-converted method. If in a net loss position, diluted net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding for the period, without consideration for dilutive potential common stock equivalents.

The following table shows the computation of basic and diluted net income per share for the three and nine months ended September 30, 2024 and 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands except per share data)	**2024**	**2023**	**2024**	**2023**
Numerator:				
Net income, basic	$ 1,213	$ 82,046	$ 3,060	$ 118,191
Add: interest expense on 2023 Notes, net of tax effect	—	—	—	86
Add: interest expense on 2025 Notes, net of tax effect	—	1,236	—	3,703
Add: interest expense on 2028 Notes, net of tax effect	—	1,543	—	4,618
Net income, diluted	$ 1,213	$ 84,825	$ 3,060	$ 126,598
Denominator:				
Weighted-average shares used to compute basic net income per share	62,569	64,953	62,759	66,016
Dilutive effect of 2023 Notes	—	—	—	250
Dilutive effect of 2025 Notes	—	11,150	—	11,150
Dilutive effect of 2028 Notes	—	9,955	—	9,955
Dilutive effect of options and awards granted under equity incentive plan and employee stock purchase plan	372	106	261	133
Dilutive effect of outstanding warrant	10	—	—	—
Weighted-average shares used to compute diluted net income per share	62,951	86,164	63,020	87,504
Net income per share				
Basic	$ 0.02	$ 1.26	$ 0.05	$ 1.79
Diluted	$ 0.02	$ 0.98	$ 0.05	$ 1.45

Anti-Dilutive Securities

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2024**	**2023**	**2024**	**2023**
Outstanding options and awards granted under equity incentive plan and employee stock purchase plan	1,111	1,389	1,434	1,284
Outstanding stock warrant	—	591	591	591
Outstanding 2025 Notes	11,150	—	11,150	—
Outstanding 2028 Notes	9,955	—	9,955	—
Total	22,216	1,980	23,130	1,875

3. Revenue Recognition

Net Revenue from Collaboration Arrangement

Net revenue recognized under our GSK Agreements was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2024**	**2023**	**2024**	**2023**
Royalties - RELVAR/BREO	$ 48,199	$ 45,585	$ 154,317	$ 150,922
Royalties - ANORO	12,313	11,429	35,264	32,127
Total royalties	60,512	57,014	189,581	183,049
Less: amortization of capitalized fees paid	(3,456)	(3,456)	(10,368)	(10,368)
Total net royalty revenue	$ 57,056	$ 53,558	$ 179,213	$ 172,681

Net Product Sales

Our net product sales were $27.8 million, consisting of net sales of GIAPREZA®, XERAVA®, and XACDURO® for $13.8 million, $4.2 million and $9.8 million, respectively, for the three months ended September 30, 2024. Our net product sales were $68.6 million, consisting of net sales of GIAPREZA®, XERAVA®, and XACDURO® for $39.0 million, $15.2 million and $14.4 million, respectively, for the nine months ended September 30, 2024. We derived approximately 71% and 82% of our net product sales from customers located in the U.S. for the three and nine months ended September 30, 2024, respectively.

Our net product sales were $13.7 million, consisting of net sales of GIAPREZA®, XERAVA®, and XACDURO® for $8.0 million, $5.1 million, and $0.6 million, respectively, for the three months ended September 30, 2023. Our net product sales were $40.9 million, consisting of net sales of GIAPREZA®, XERAVA®, and XACDURO® for $28.2 million, $12.1 million, and $0.6 million, respectively, for the nine months ended September 30, 2023. We derived over 86% and 93% of our net product sales from customers located in the U.S. for the three and nine months ended September 30, 2023, respectively.

License Revenue

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

4. License and Collaboration Arrangements

Out-License Agreements

Zai Lab

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

We are eligible to receive up to an aggregate of $91.0 million in research and development support payments and development, regulatory and sales milestone payments related to SUL-DUR, imipenem and other combinations with the licensed products. Zai Lab will pay us a tiered royalty equal to from a high-single digit to low-double digit percentage based on annual net sales of licensed products in the territory, subject to specified reductions for the market entry of competing products, loss of patent coverage of licensed products and for payments owed to third parties for additional rights necessary to commercialize licensed products in the territory. Payments received for research support and reimbursable clinical trial costs are recorded as a reduction to research and development expense during the period in which the qualifying expenses are incurred. Such amounts recorded for the three and nine months ended September 30, 2024 and 2023 were not material. SUL-DUR was approved by China's National Medical Products Administration in May 2024, and we recognized $8.0 million in license revenue for the nine months ended September 30, 2024 under this agreement. Following the approval of XACDURO® by the FDA in May 2023, we recognized $3.0 million in license revenue for the nine months ended September 30, 2023.

In April 2024, we entered into an amendment to the Zai Agreement (the "Amended Zai Agreement"), pursuant to which Zai Lab shall share costs associated with certain new manufacturing and technology transfer activities for XACDURO® (the "Services"), which were not contemplated under the Zai Agreement and are crucial for regulatory approval in the Asia-Pacific region. We determined that the Amended Zai Agreement falls within the scope of ASC 606 and Zai Lab is a customer in this arrangement as the Services are an output of our ordinary activities. We have determined that the Services represent the only performance obligation and are distinct from the performance obligations under the original Zai Agreement. In addition, the costs we incur in performing the Services most accurately depict the transfer of value to Zai Lab and maximize the use of observable inputs for measuring progress, therefore, we recognize revenue from this arrangement as the costs related to Services are incurred. We recognized $0.8 million and $7.3 million in license revenue for the three and nine months ended September 30, 2024, respectively, under the Amended Zai Agreement. This amount is included in "Accounts receivable" in our unaudited condensed consolidated balance sheet as of September 30, 2024.

In June 2024, we entered into an interim supply agreement with Zai Lab, under which Zai Lab shall purchase XACDURO® inventory (the "Supplied Inventory") for their commercial launch. We have determined that this agreement falls within the scope of ASC 606. Zai Lab is a customer and the Supplied Inventory is an output of our ordinary activities. We have also determined that the Supplied Inventory represents the only performance obligation and is distinct from the performance obligations under the Zai agreements discussed above. Furthermore, we evaluated that the performance obligation is satisfied over time and that a cost-to-cost measure of progress would be the measure of progress that most accurately depicts the transfer of value to Zai Lab and maximizes the use of observable inputs to measure progress. We recognized $5.5 million in net product sales for the Supplied Inventory for the three and nine months ended September 30, 2024, respectively. This amount is included in "Accounts receivable" in our unaudited condensed consolidated balance sheet as of September 30, 2024.

We also entered into a manufacturing stage transfer agreement with Zai Lab in June 2024, which was amended in September 2024 (the "Zai Manufacturing Stage Transfer Agreement"). Pursuant to this agreement, Entasis shall provide assistance to Zai Lab for building out Zai Lab's manufacturing site for XACDURO® and be compensated for Entasis' services and associated costs. We have determined this agreement falls within the scope of ASC 606. Zai Lab is a customer and the transfer service is an output of our ordinary activities and represents our only performance obligation, which is distinct from the performance obligations under the Zai agreements. Furthermore, we have evaluated that the performance obligation is satisfied over time and that the costs we incur in performing the transfer service most accurately depicts the transfer of value to Zai Lab and maximizes the use of observable inputs for measuring progress, therefore, we recognize revenue from this arrangement as the services are provided and the costs are incurred. We recognized $3.4 million in license revenue for the three and nine months ended September 30, 2024, respectively, under the Zai Manufacturing Stage Transfer Agreement. This amount is included in "Accounts receivable" in our unaudited condensed consolidated balance sheet as of September 30, 2024.

GARDP

Entasis entered into a collaboration agreement with the Global Antibiotic Research and Development Partnership ("GARDP") for the development, manufacture and commercialization of the product candidate zoliflodacin in certain countries ("the GARDP Collaboration Agreement"). Under the terms of the GARDP Collaboration Agreement, GARDP will use commercially reasonable endeavors to perform and fully fund the Phase 3 registrational trial, including the manufacture and supply of the product candidate containing zoliflodacin, in uncomplicated gonorrhea. We recorded immaterial reimbursements from GARDP under this agreement as reduction to research and development expense during the periods presented.

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

PAION Pharma GmbH

Pursuant to the PAION AG and PAION Deutschland GmbH (together and individually "PAION") License, La Jolla granted PAION an exclusive license to commercialize GIAPREZA® and XERAVA® in the European Economic Area, the United Kingdom and Switzerland (collectively, the "PAION Territory"). We are entitled to receive potential commercial milestone payments of up to $109.5 million and double-digit tiered royalty payments. Royalties payable in a given jurisdiction under the PAION License will be subject to reduction on account of generic competition and after patent expiration in that jurisdiction. Pursuant to the PAION License, PAION will be solely responsible for the future development and commercialization of GIAPREZA® and XERAVA® in the PAION Territory. PAION is required to use commercially reasonable efforts to commercialize GIAPREZA® and XERAVA® in the PAION Territory. We have not recognized any revenue from PAION related to commercial milestones from the date of acquisition of La Jolla to September 30, 2024. Royalty revenue recognized under this agreement for the three and nine months ended September 30, 2024 was $1.2 million and $1.3 million, respectively. Royalty revenue recognized under this agreement for the three and nine months ended September 30, 2023 was not material.

La Jolla also entered into the PAION commercial supply agreement (the "PAION Supply Agreement") whereby La Jolla will supply PAION a minimum quantity of GIAPREZA® and XERAVA® through July 13, 2024. The PAION supply agreement automatically renewed and will expire until the earlier of July 13, 2027, or until a new supply agreement is executed. During the term of the supply agreement, we will be reimbursed for direct and certain indirect manufacturing costs at cost. Cost reimbursements recognized under this agreement for the three and nine months ended September 30, 2024 were not material. We recognized $1.0 million in cost reimbursements under this agreement for the three and nine months ended September 30, 2023.

PAION filed for insolvency in Germany on October 27, 2023 and the insolvency proceedings commenced on January 1, 2024. PAION announced on December 22, 2023 that it concluded negotiations with Humanwell Healthcare Group and entered into an agreement on the sale of the essential business operations of PAION with the approval of the insolvency administrator in both procedures. In early 2024, the sale of business operations of PAION was completed and starting February 2024, PAION has continued its business as a subsidiary of the Humanwell Healthcare Group as an independent company under the name PAION Pharma GmbH.

Everest Medicines Limited

Pursuant to the Everest Medicines Limited ("Everest") License, La Jolla granted Everest an exclusive license to develop and commercialize XERAVA® for the treatment of complicated intra-abdominal infections ("cIAI") and other indications in mainland China, Taiwan, Hong Kong, Macau, South Korea, Singapore, the Malaysian Federation, the Kingdom of Thailand, the Republic of Indonesia, the Socialist Republic of Vietnam and the Republic of the Philippines (collectively, the "Everest Territory"). Under the Everest License, we recognized $8.0 million in license revenue for the nine months ended September 30, 2023 as a result of our achievement of a regulatory milestone during the period. We are eligible to receive additional sales milestone payments of up to an aggregate of $20.0 million.

We are also entitled to receive tiered royalties from Everest at percentages in the low double digits on sales, if any, in the Everest Territory of products containing eravacycline. Royalties are payable with respect to each jurisdiction in the Everest Territory until the latest to occur of: (i) the last-to-expire of specified patent rights in such jurisdiction in the Everest Territory; (ii) expiration of marketing or regulatory exclusivity in such jurisdiction in the Everest Territory; or (iii) 10 years after the first commercial sale of a product in such jurisdiction in the Everest Territory. Royalty revenue recognized for the three and nine months ended September 30, 2024 was $0.6 million and $2.3 million, respectively. Royalty revenue recognized for the three and nine months ended September 30, 2023 was not material.

La Jolla also entered into the Everest commercial supply agreement (the "Everest Supply Agreement") whereby La Jolla will supply Everest a minimum quantity of XERAVA® and will transfer to Everest certain XERAVA®-related manufacturing know-how. Under the Everest Supply Agreement, we are reimbursed for direct and certain indirect manufacturing costs at 110% of cost. Revenue recognized under this agreement for the three and nine months ended September 30, 2024 was $0.9 million and $2.6 million, respectively. Revenue recognized under this agreement for the three and nine months ended September 30, 2023 was $0.9 million and $1.6 million, respectively.

In-License Agreements

George Washington University

Pursuant to the George Washington University ("GW") License, GW exclusively licensed to La Jolla certain intellectual property rights relating to GIAPREZA®, including the exclusive rights to certain issued patents and patent applications covering GIAPREZA®. Under the GW License, we are obligated to use commercially reasonable efforts to develop, commercialize, market and sell GIAPREZA®. We are obligated to pay a 6% royalty on net sales of GIAPREZA® and 15% on payments received from sublicensees. The obligation to pay royalties under this agreement extends through the last-to-expire patent covering GIAPREZA®. Amounts recognized under this agreement for the three and nine months ended September 30, 2024 were $1.0 million and $2.5 million, respectively. Amounts recognized under this agreement for the three and nine months ended September 30, 2023 were $0.5 million and $1.7 million, respectively.

Harvard University

Pursuant to the Harvard University ("Harvard") License, Harvard exclusively licensed to La Jolla certain intellectual property rights relating to tetracycline-based products, including XERAVA®, including the exclusive rights to certain issued patents and patent applications covering such products. Under the Harvard License, we are obligated to use commercially reasonable efforts to develop, commercialize, market and sell tetracycline-based products, including XERAVA®. For each product covered by the Harvard License, we are obligated to make certain payments for the following: (i) up to approximately $15.1 million upon the achievement of certain clinical development and regulatory milestones; (ii) a 5% royalty on direct U.S. net sales of XERAVA®; (iii) a single-digit tiered royalty on direct ex-U.S. net sales of XERAVA®, starting at a minimum royalty rate of 4.5%, with step-ups to a maximum royalty of 7.5% based on the achievement of annual net product sales thresholds; and (iv) 20% on payments received from sublicensees. The obligation to pay royalties under this agreement extends through the last-to-expire patent covering tetracycline-based products, including XERAVA®. Amounts recognized under this agreement for the three and nine months ended September 30, 2024 were $0.3 million and $1.5 million, respectively. For the nine months ended September 30, 2023, we recognized $1.6 million in cost of license revenue under this agreement as a result of the license revenue we earned under the out-licensing agreement with Everest for the same period.

Paratek Pharmaceuticals, Inc.

Pursuant to the Paratek Pharmaceuticals, Inc. ("Paratek") License, Paratek non-exclusively licensed to La Jolla certain intellectual property rights relating to XERAVA®, including non-exclusive rights to certain issued patents and patent applications covering XERAVA®. We were obligated to pay Paratek a 2.25% royalty based on direct U.S. net sales of XERAVA®. Our obligation to pay royalties with respect to the licensed product was retroactive to the date of the first commercial sale of XERAVA® and continued until there were no longer any valid claims of the Paratek patents, which expired in October 2023. Amounts recognized under this agreement for the three and nine months ended September 30, 2023 were not material.

Business Transfer and Subscription Agreement with AstraZeneca

Entasis entered into a Business Transfer and Subscription Agreement with AstraZeneca, AstraZeneca UK Limited and AstraZeneca Pharmaceuticals LP (collectively, "AstraZeneca") (the "AstraZeneca Agreement") in 2015, which was amended and restated through 2018, pursuant to which Entasis obtained, among other things, worldwide rights to durlobactam and zoliflodacin. Under the AstraZeneca Agreement, we are obligated to pay AstraZeneca a one-time milestone payment of $5.0 million within three months of achieving a specified cumulative net sales milestone for durlobactam. We are also obligated to pay AstraZeneca a one-time milestone payment of $10.0 million within two years of achieving the first commercial sale of zoliflodacin. Additionally, we are obligated to pay AstraZeneca tiered, single-digit royalties on the annual worldwide net product sales of durlobactam and, the lesser of tiered, single-digit royalties on the worldwide annual net sales of zoliflodacin and a specified share of the royalties we receive from sublicensees of zoliflodacin. Royalties on sales of zoliflodacin do not include sales by GARDP in low-income and specified middle-income countries as discussed above. Our obligation to make these royalty payments expires with respect to each product on a country-by-country basis upon the later of (i) the 10-year anniversary of the first commercial sale of a product in each such country or (ii) when the last patent right covering a product expires in each such country.

The royalty expense in respect of durlobactam arising from our net product sales of XACDURO® for the three and nine months ended September 30, 2024 was not material.

5. Consolidated Entity

ISP Fund LP

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

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

The Partnership Agreement includes a lock-up period of thirty-six months after which Strategic Partners is entitled to make withdrawals from the Partnership as of such lock-up expiration date and each anniversary thereafter, subject to certain limitations. The lock-up period for the initial contribution of $190.0 million, which excludes the $110.0 million amount discussed below, expired in December 2023. Strategic Partners did not elect to make a withdrawal in 2023, thereby extending the lock-up period and withdrawal elections into subsequent years. In October 2024, Strategic Partners made an election to unwind its capital accounts in the Partnership in accordance with the terms of the Partnership Agreement.

In May 2021, Strategic Partners received a distribution of $110.0 million from the Partnership to provide funding to Innoviva for a strategic repurchase of shares held by GSK. On March 30, 2022, Strategic Partners made an additional capital contribution of $110.0 million to the Partnership pursuant to the letter agreement entered into between Strategic Partners, the Partnership and Sarissa Capital Fund GP LP on May 20, 2021. The capital contribution is subject to a 36-month lock up period from the contribution date, which will expire in March 2025.

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

ISP Fund LP is determined to be an investment company under ASC 946, *Financial Services – Investment Companies*, as it meets all fundamental characteristics of an investment company, and its activities are consistent with those of an investment company. Since ISP Fund LP is subject to investment company industry specific guidance, we have retained the industry-specific guidance applied by the Partnership. In addition, as our investment in the Partnership is a passive investment for the Company and is not part of our main operations, the investments are presented as part of "Equity and long-term investments" in our condensed consolidated balance sheets. We report in our condensed consolidated statements of income and comprehensive income any investment gains and losses by the Partnership as part of "Changes in fair value of equity and long-term investments, net", any interest and dividend income as part of "Interest and dividend income" and any investment expenses as part of "Other expense, net".

As of September 30, 2024, we continued to hold approximately 100% of the economic interest of the Partnership. As of September 30, 2024 and December 31, 2023, total assets of the Partnership were $252.4 million and $311.8 million, respectively, of which the majority was attributable to equity and long-term investments. As of September 30, 2024 and December 31, 2023, total liabilities were $0.8 million and $0.1 million, respectively. The partnership's assets can only be used to settle its own obligations. During the three and nine months ended September 30, 2024, we recorded an immaterial amount and $0.3 million, respectively, of net investment-related expense incurred by the Partnership and $17.8 million and $59.8 million, respectively, of net negative changes in fair values of equity and long-term investments in the unaudited condensed consolidated statements of income and comprehensive income. During the three and nine months ended September 30, 2023, we recorded $1.1 million and $1.2 million, respectively, of net investment-related income earned by the Partnership, and $22.4 million and $22.7 million of net negative changes, respectively, in fair values of equity and long-term investments in the unaudited condensed consolidated statements of income and comprehensive income.

The following is a summary of individual investments held by ISP Fund at each balance sheet date:

In thousands	September 30, 2024	December 31, 2023
Common stock - Publicly traded healthcare companies		
United States	$ 103,942	$ 184,926
United Kingdom	2,583	2,942
Total common stock	106,525	187,868
Preferred stock - Privately held healthcare companies		
United States	53,658	52,530
Warrants - Privately held healthcare companies	7,926	8,075
Money market fund and cash	84,198	63,339
Total investments held by ISP Fund LP	$ 252,307	$ 311,812

6. Equity and Other Investments and Fair Value Measurements

Equity Investment in Armata

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

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

On February 9, 2022, ISO entered into a securities purchase agreement with Armata to acquire 9,000,000 shares of Armata common stock and warrants to purchase 4,500,000 additional shares of common stock with an exercise price of $5.00 per share for $45.0 million. The investment closed in two tranches on February 9, 2022 and March 31, 2022. The investment is intended to aid Armata in advancing its clinical pipeline and strengthening its bacteriophage platform. On February 9, 2022, Armata also entered a second amended and restated voting agreement with the Company and ISO, pursuant to which the Company and ISO agreed not to vote or take any action by written consent with respect to any common shares held by the Company and ISO that represent, in the aggregate, more than 49.5% of the total number of shares of Armata's common stock for voting on the matters related to election or removal of Armata's board members or amend the bylaws of Armata to reduce the maximum number of directors or set the number of directors who may serve on the board of Armata. The voting agreement will expire the earlier of the second anniversary of the agreement effective date and approval by the FDA of any of Armata's product candidates for marketing and commercial distribution. In addition, as of February 9, 2022, Armata entered into an amended and restated investor rights agreement with the Company and ISO, pursuant to which for as long as the Company and ISO hold at least 12.5% of the outstanding shares of Armata's common stock on a fully-diluted, the Company and ISO shall have the right to designate two directors to Armata's board of directors, and for so long as the Company and ISO hold at least 8%, but less than 12.5%, of the outstanding shares of Armata's common stock on a fully-diluted basis, the Company and ISO shall have the right to designate one director to Armata's board of directors, subject to certain conditions and qualifications set forth in the amended and restated investor rights agreement. On July 10, 2023, Armata entered into an amendment to the amended and restated investor rights agreement with the Company and ISO, pursuant to which the Company and ISO agreed that the voting agreement will expire on the earlier of the fifth anniversary of the original agreement's effective date, January 26, 2021, or the approval by the FDA of any of Armata's product candidates for marketing and commercial distribution. As of September 30, 2024, three of the seven members of Armata's board of directors are also members of the board of directors of Innoviva. As of September 30, 2024 and December 31, 2023, the Company and ISO owned approximately 69.4% of Armata's common stock.

On January 10, 2023, we entered into a Secured Convertible Credit Agreement (the "Credit Agreement") with Armata, under which we extended a one-year convertible note (the "Armata Convertible Note") in an aggregate amount of $30.0 million at an interest rate of 8.0% per annum. Pursuant to the Credit Agreement, the balance on the Armata Convertible Note, including all accrued and unpaid interest thereon, will convert into shares of Armata's common stock upon the occurrence of a qualified financing, as defined in the Credit Agreement. Any portion of the balance on the Armata Convertible Note, including all accrued and unpaid interest thereon, may also be converted into shares of Armata's common stock at our option once a registration statement covering the resale of such securities has been declared effective by the SEC. The Armata Convertible Note is secured by substantially all of the assets of Armata and its domestic and foreign material subsidiaries. On July 10, 2023, ISO and Armata executed an amendment to the Armata Convertible Note extending the maturity date from January 10, 2024 to January 10, 2025.

On July 10, 2023, ISO and Armata entered into a Credit and Security Agreement (the "July 2023 Credit and Security Agreement"), under which we extended a term loan to Armata (the "Armata July 2023 Term Loan") in an aggregate amount of $25.0 million. The Armata July 2023 Term Loan is subject to an interest rate of 14% per annum and is due to mature on January 10, 2025. The July 2023 Credit and Security Agreement is secured by substantially all of the assets of Armata and its domestic and foreign material subsidiaries.

On March 4, 2024, ISO and Armata entered into a Credit and Security Agreement (the "March 2024 Credit and Security Agreement"), under which we extended a term loan to Armata (the "Armata March 2024 Term Loan") in an aggregate amount of $35.0 million. The Armata March 2024 Term Loan is subject to an interest rate of 14% per annum and is due to mature on June 4, 2025. The March 2024 Credit and Security Agreement is secured by substantially all of the assets of Armata and its domestic and foreign material subsidiaries.

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

We account for Armata's common stock and warrants under the equity method using the fair value option. The fair value of Armata's common stock is measured based on its closing market price. The warrants purchased in 2020, 2021 and 2022 have an exercise price of $2.87, $3.25 and $5.00 per share, respectively. All warrants are exercisable immediately within five years from the issuance date of the warrants and include a cashless exercise option. We use the Black-Scholes-Merton pricing model to estimate the fair value of these warrants with the following input assumptions: Armata's closing market price on the valuation date, the risk-free interest rate computed based on the U.S. Treasury yield, the remaining contractual term as the expected term, and the expected stock price volatility calculated based on the historical volatility of the common stock of Armata and its peer companies. We account for the Armata Convertible Note as a trading security, measured at fair value using a Monte Carlo simulation model with the probability of certain qualified events and the assumptions of risk-free rate, volatility of stock price and timing of certain qualified events. We account for the Armata July 2023 Term Loan and the Armata March 2024 Term Loan as trading securities, measured at fair value using income approach based on the discounted value of expected future cash flows.

As of September 30, 2024, the fair values of our holdings of Armata common stock, warrants, the Armata Convertible Note, the Armata July 2023 Term Loan and the Armata March 2024 Term Loan were estimated at $59.4 million, $14.1 million, $45.5 million, $29.4 million, and $38.3 million, respectively. As of December 31, 2023, the fair values of our holdings of Armata common stock, warrants, the Armata Convertible Note and the Armata July 2023 Term Loan were estimated at $81.2 million, $35.3 million, $51.9 million and $27.0 million, respectively.

For the Armata common stock and warrants, we recorded $18.2 million and $43.0 million in unrealized loss for the three and nine months ended September 30, 2024, respectively, and $72.0 million and $67.9 million in unrealized gain for the three and nine months ended September 30, 2023, respectively, as changes in fair values of equity method investments, net, in the unaudited condensed consolidated statements of income and comprehensive income.

For the Armata Convertible Note, we recorded $2.2 million and $6.4 million in unrealized loss for the three and nine months ended September 30, 2024, respectively, and $18.5 million and $19.6 million unrealized gain for the three and nine months ended September 30, 2023, respectively, as changes in fair values of equity and long-term investments, net, in the unaudited condensed consolidated statements of income and comprehensive income.

For the July 2023 Armata Term Loan, we recorded $1.4 million and $2.4 million in unrealized gain for three and nine months ended September 30, 2024, respectively, and $1.1 million unrealized gain for three and nine months ended September 30, 2023, as changes in fair values of equity and long-term investments, net, in the unaudited condensed consolidated statements of income and comprehensive income.

For the March 2024 Armata Term Loan, we recorded $2.0 million and $3.3 million for the three and nine months ended September 30, 2024, respectively, in unrealized gain as changes in fair values of equity and long-term investments, net, in the unaudited condensed consolidated statements of income and comprehensive income.

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

Income Statement Information

(In thousands)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Nine Months Ended June 30, 2024	Nine Months Ended June 30, 2023
Revenue	$ —	$ 980	$ 2,494	$ 2,827
Loss from operations	$ (11,914)	$ (9,629)	$ (28,720)	$ (31,303)
Net income (loss)	$ 8,986	$ (3,547)	$ (35,882)	$ (28,351)

Equity Investment in InCarda

During the third quarter of 2020, TRC purchased 20,469,432 shares of Series C preferred stock and a warrant to purchase 5,117,358 additional shares of Series C preferred stock of InCarda Therapeutics, Inc. ("InCarda") (the "InCarda 2020 Warrant") for $15.8 million, which included $0.8 million of transaction costs. InCarda is a privately held biopharmaceutical company focused on developing inhaled therapies for cardiovascular diseases. The investment is intended to fund the ongoing clinical development of InRhythm™ (flecainide for inhalation), InCarda's lead program, for the treatment of a recent-onset episode of paroxysmal atrial fibrillation. On July 20, 2022, under the terms of the TRC Equity Purchase Agreement, TRC transferred to Innoviva's wholly-owned subsidiary, Innoviva TRC Holdings, LLC ("ITH") all of TRC's ownership interests and investments in InCarda. ITH has the right to designate one member to InCarda's board of directors. As of September 30, 2024, none of InCarda's six board members was designated by ITH. We did not exercise the InCarda 2020 Warrant which expired in March 2023 and wrote off its carrying value of $0.1 million during the three months ended March 31, 2023.

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

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

Due to certain changes in InCarda's business operations during the second quarter of 2023, ITH reassessed the value of its investments in InCarda using the Option Pricing Model methodology. Key assumptions used in the valuation model included an expected holding period of two years, a risk-free interest rate of 4.9%, a dividend yield of 0.0% and an estimated volatility of 114.2%. The estimated volatility was calculated based on the historical volatility of a selected peer group of public companies comparable to InCarda. We recognized an impairment charge of $2.9 million during the second quarter of 2023.

On January 17, 2024, ITH purchased a secured convertible promissory note (the "InCarda Convertible Note") from InCarda for a total purchase price of $0.4 million. The InCarda Convertible Note bears an annual interest rate of 8% and shall be due and payable upon the earlier to occur of certain events defined in the InCarda Convertible Note. The InCarda Convertible Note will convert into equity securities or shadow equity securities of InCarda depending upon the occurrence of a qualified event or a qualified financing event as also defined in the InCarda Convertible Note. The InCarda Convertible Note is secured by certain intellectual property rights of InCarda.

As of September 30, 2024 and December 31, 2023, we held 9.1% and 8.1%, respectively, of InCarda equity ownership. Our investment in InCarda does not provide us with the ability to control or have significant influence over InCarda's operations. Based on our evaluation, we determined that InCarda is a VIE, but we are not the primary beneficiary of the VIE. We have not provided financial or other support that we were not previously contractually required to provide during the periods presented. Our maximum exposure to loss is equal to the amount we invested in the entity.

With the exception of the InCarda Convertible Note and the InCarda Series D Warrants, we account for our investments in InCarda under the measurement alternative. Under the measurement alternative, the equity investment is initially recorded at its allocated cost, but the carrying value may be adjusted through earnings upon an impairment or when there is an observable price change involving the same or a similar investment with the same issuer. We account for the InCarda Convertible Note as a trading security, measured at fair value.

As of September 30, 2024 and December 31, 2023, we recorded as equity and long-term investments in the unaudited condensed consolidated balance sheets $4.8 million in carrying amount of InCarda's Series C preferred stock and $0.1 million in fair value of the InCarda Series D Warrants. As of September 30, 2024 and December 31, 2023, we recognized as equity and long-term investments in the unaudited condensed consolidated balance sheets $2.7 million, for InCarda's Series D-1 preferred stock, Series D-2 preferred stock, and common stock using the measurement alternative. As of September 30, 2024, we recorded $0.4 million in fair value of the InCarda Convertible Note as equity and long-term investments in the unaudited condensed consolidated balance sheet. During the three and nine months ended September 30, 2024, there were immaterial changes in the carrying amount of our investments. During the three months ended September 30, 2023, there was no change in the carrying amount of our investment. During the nine months ended September 30, 2023, we recorded a $3.0 million net unrealized loss, as a change in fair values of equity and long-term investments, net, in the unaudited condensed consolidated statements of income and comprehensive income.

Equity Investment in ImaginAb

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

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

On March 14, 2023, ITH entered into a securities purchase agreement with ImaginAb to purchase 270,568 shares of ImaginAb Series C-2 preferred stock for $0.6 million. On September 14, 2023, ITH entered into a securities purchase agreement with ImaginAb to purchase another 405,852 shares of ImaginAb Series C-2 preferred stock for $0.6 million.

On February 23, 2024, ITH purchased a subordinated convertible promissory note (the "ImaginAb Convertible Note") from ImaginAb for a total purchase price of $2.7 million. The ImaginAb Convertible Note bears an annual interest rate of 10% and shall be due and payable upon the earlier to occur of January 31, 2025 and certain events defined in the ImaginAb Convertible Note. Under certain circumstances, the ImaginAb Convertible Note is convertible at the option of ITH into ImaginAb's equity securities at defined conversion prices. The ImaginAb Convertible Note is subordinate to certain existing indebtedness of ImaginAb as defined in the ImaginAb Convertible Note.

As of September 30, 2024, one of ImaginAb's six board members was designated by ITH. As of September 30, 2024 and December 31, 2023, we held 11.8% and 12.4%, respectively, of ImaginAb equity ownership.

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

Because ImaginAb's equity securities are not publicly traded and do not have a readily determinable fair value, we account for our investment in ImaginAb's Series C preferred stock, Series C-2 preferred stock and common stock using the measurement alternative. We account for the ImaginAb Convertible Note as a trading security, measured at fair value using a Monte Carlo simulation model with the probability of certain qualified events and the assumptions of risk-free rate, volatility of stock price and timing of certain qualified events. As of September 30, 2024 and December 31, 2023, our investment in ImaginAb's Series C preferred stock, Series C-2 preferred stock and common stock amounted to $7.6 million and recorded as equity and long-term investments in the unaudited condensed consolidated balance sheets. As of September 30, 2024, we recorded $3.1 million in fair value of the ImaginAb Convertible Note as equity and long-term investments in the unaudited condensed consolidated balance sheet. During the three and nine months ended September 30, 2024, we recorded $0.1 million and $0.4 million, respectively, in net unrealized gain on the ImaginAb Convertible Note as changes in fair values of equity and long-term investments, net in the unaudited condensed consolidated statements of income and comprehensive income. There was no change in the carrying amount of our equity investments in ImaginAb.

Convertible Promissory Note in Gate Neurosciences

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

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

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

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

On October 6, 2023, ITH entered into a Second Note Amendment Agreement with Gate to amend the Note Amendment Agreement. Pursuant to the Second Note Amendment Agreement, the principal amount of the Gate Convertible Note was increased from $21.5 million to $27.7 million, which represents the principal and accrued interest as of the second amendment date and an additional cash investment of $5.0 million. All other material terms of the Gate Convertible Note were unchanged.

On February 13, 2024, ITH entered into a Third Note Amendment Agreement with Gate to amend the Gate Convertible Note. Pursuant to the Third Note Amendment Agreement, the principal amount of the Gate Convertible Note was increased from $27.7 million to $33.5 million, which represents the principal and accrued interest as of the third amendment date and an additional cash investment of $5.0 million. All other material terms of the Gate Convertible Note were unchanged.

On August 5, 2024, ITH entered into a Fourth Note Amendment Agreement with Gate to amend the Gate Convertible Note. Pursuant to the Fourth Note Amendment Agreement, the principal amount of the Gate Convertible Note was increased from $33.5 million to $39.8 million, which represents the principal and accrued interest as of the fourth amendment date and an additional cash investment of $5.0 million. All other material terms of the Gate Convertible Note were unchanged.

We have accounted for the Gate Convertible Note as a trading security, measured at fair value using a Monte Carlo simulation model with the probability of certain qualified events and the assumptions of equity value of Gate, risk-free rate, expected stock price, volatility of its peer companies, and the time until a financing is raised. As of September 30, 2024 and December 31, 2023, the fair value of the Gate Convertible Note was estimated at $39.4 million and $28.0 million, respectively, and recorded as equity and long-term investments in the unaudited condensed consolidated balance sheets. We recorded $0.4 million and $0.7 million in unrealized loss for the three and nine months ended September 30, 2024, respectively, as changes in fair values of equity and long-term investments, net in the unaudited condensed consolidated statements of income and comprehensive income. We recorded $0.1 million and $0.8 million in unrealized gain as changes in fair values of equity and long-term investments, net in the unaudited condensed consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2023, respectively.

Equity Investment in Nanolive

On February 18, 2022, TRC entered into an investment and shareholders agreement with Nanolive to purchase 18,750,000 shares of Nanolive Series C preferred stock for $9.8 million (equivalent to 9.0 million CHF). Nanolive SA is a Swiss privately held life sciences company focused on developing breakthrough imaging solutions that accelerate research in growth industries such as drug discovery and cell therapy. $0.7 million was incurred for investment due diligence costs and execution and recorded as part of the equity and long-term investment in the condensed consolidated balance sheets. On July 20, 2022, under the terms of the TRC Equity Purchase Agreement, TRC transferred to ITH all of TRC's ownership interests and investments in Nanolive. ITH has the right to designate one member to Nanolive's board. ITH also has the right to designate another member, who will be mutually acceptable to ITH and another stockholder, to Nanolive's board. As of September 30, 2024, no Innoviva designee is serving on Nanolive's six-member board. As of September 30, 2024 and December 31, 2023, we held 13.4% and 15.3%, respectively, of Nanolive equity ownership.

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

Because Nanolive's equity securities are not publicly traded and do not have a readily determinable fair value, we account for our investment in Nanolive's Series C preferred stock using the measurement alternative. As of September 30, 2024 and December 31, 2023, $10.6 million was recorded as equity and long-term investments in the unaudited condensed consolidated balance sheets and there was no change to the carrying amount of our investment.

Reconciliation of Equity and Long-Term Investments Balances

The following table reconciles the change in balances in "Equity and Long-Term Investments" as of each balance sheet date:

(In thousands)		
Equity and long-term investments as of December 31, 2022	$	363,859
Purchases of trading securities		67,798
Purchases of equity and long-term investments		1,218
Changes in fair value, net		11,129
Other		428
Equity and long-term investments as of December 31, 2023		444,432
Purchases of trading securities		50,226
Changes in fair value, net		(60,827)
Other		338
Equity and long-term investments as of September 30, 2024	$	434,169

Available-for-Sale Securities

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

	September 30, 2024			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds [1]	$ 252,259	$ —	$ —	$ 252,259
Total	$ 252,259	$ —	$ —	$ 252,259

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

	December 31, 2023			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds [1]	$ 170,706	$ —	$ —	$ 170,706
Total	$ 170,706	$ —	$ —	$ 170,706

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

As of September 30, 2024 and December 31, 2023, all available-for-sale investments were money market funds, and there was no credit loss recognized.

Fair Value Measurements

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

	Estimated Fair Value Measurements as of September 30, 2024 Using:			
Types of Instruments (In thousands)	Quoted Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets				
Money market funds	$ 252,259	$ —	$ —	$ 252,259
Investments held by ISP Fund LP	190,723	—	61,584	252,307
Equity investment - Armata Common Stock	59,432	—	—	59,432
Equity investment - Armata Warrants	—	14,117	—	14,117
Equity investment - InCarda Warrants	—	—	82	82
Convertible debt investment - Armata Note	—	—	45,484	45,484
Term loan investment - Armata July 2023 Term Loan	—	—	29,395	29,395
Term loan investment - Armata March 2024 Term Loan	—	—	38,341	38,341
Convertible debt investment - InCarda Note	—	—	436	436
Convertible debt investment - ImaginAb Note	—	—	3,091	3,091
Convertible debt investment - Gate Note	—	—	39,387	39,387
Total assets measured at estimated fair value	$ 502,414	$ 14,117	$ 217,800	$ 734,331
Liabilities				
Debt				
2025 Notes	$ —	$ 226,941	$ —	$ 226,941
2028 Notes	—	249,908	—	249,908
Total fair value of debt	$ —	$ 476,849	$ —	$ 476,849

Types of Instruments (In thousands)	Estimated Fair Value Measurements as of December 31, 2023 Using: Quoted Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets				
Money market funds	$ 170,706	$ —	$ —	$ 170,706
Investments held by ISP Fund LP	251,207	—	60,605	311,812
Equity investment - Armata Common Stock	81,249	—	—	81,249
Equity investment - Armata Warrants	—	35,297	—	35,297
Convertible debt investment - Armata Note	—	—	51,883	51,883
Term loan investment - Armata July 2023 Term Loan	—	—	27,044	27,044
Convertible debt investment - Gate Note	—	—	27,972	27,972
Total assets measured at estimated fair value	$ 503,162	$ 35,297	$ 167,504	$ 705,963
Liabilities				
Debt				
2025 Notes	$ —	$ 200,407	$ —	$ 200,407
2028 Notes	—	227,070	—	227,070
Total fair value of debt	—	427,477	—	427,477
Contingent value rights	—	—	359	359
Total liabilities at estimated fair value	$ —	$ 427,477	$ 359	$ 427,836

There were no transfers between Level 1, Level 2 or Level 3 during the periods presented.

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

The Gate Convertible Note, the Armata Convertible Note, the Armata July 2023 Term Loan, the Armata March 2024 Term Loan, the InCarda Convertible Note, the InCarda Warrants, the ImaginAb Convertible Note, private placement positions held by ISP Fund LP, and contingent value rights are classified as Level 3 financial instruments as these securities are not publicly traded and the assumptions used in the valuation model for valuing these securities are based on significant unobservable and observable inputs including those of publicly traded peer companies. There are uncertainties on the fair value measurement of the instruments classified under Level 3 due to the use of unobservable inputs and interrelationships between these unobservable inputs, which could result in higher or lower fair value measurements.

The fair values of our 2025 Notes and 2028 Notes are based on recent trading prices of the respective instruments.

7. Goodwill and Intangible Assets

Goodwill and intangible assets acquired are recognized at fair value as of the acquisition date. We recognized goodwill of $11.5 million and $6.4 million from our acquisitions of Entasis and La Jolla, respectively, in 2022. The carrying amount of goodwill as of September 30, 2024 and December 31, 2023 was $17.9 million. We have not recognized any impairment losses related to goodwill during the periods presented.

Intangible assets with definite lives are amortized over their estimated useful lives. The carrying basis and accumulated amortization of recognized intangible assets as of September 30, 2024 and December 31, 2023 were as follows:

	September 30, 2024			
(In thousands)	Useful Life (Years)	Gross Amount	Accumulated Amortization	Net Carrying Amount
Marketed products	8-10	$ 219,700	$ (41,940)	$ 177,760
In-process research and development		2,600	—	$ 2,600
Collaboration agreement	10	35,400	(4,816)	$ 30,584
Total		$ 257,700	$ (46,756)	$ 210,944

	December 31, 2023			
(In thousands)	Useful Life (Years)	Gross Amount	Accumulated Amortization	Net Carrying Amount
Marketed products	8-10	$ 219,700	$ (25,204)	$ 194,496
In-process research and development		2,600	—	2,600
Collaboration agreement	10	35,400	(2,161)	33,239
Total		$ 257,700	$ (27,365)	$ 230,335

Intangible assets recognized as a result of the acquisition of Entasis amounted to $106.7 million, which consisted of Entasis' in-process research and development related to its antibacterial therapeutic product candidates and a collaboration agreement amounting to $71.3 million and $35.4 million, respectively. Following the FDA approval of XACDURO® in May 2023, we started amortizing $68.7 million of the then in-process research and development as a marketed product, as well as the collaboration agreement, over their estimated useful lives. The useful life of the remaining in-process research and development of $2.6 million will be determined upon commercialization of the underlying product candidate; thus, no amortization expense for this intangible asset was recognized for the periods presented.

Intangible assets recognized as a result of the acquisition of La Jolla amounting to $151.0 million pertain to product rights and developed technologies on La Jolla's currently marketed products. These are intangible assets with determinable lives and are amortized over their estimated useful lives.

We recognized amortization expense of $6.5 million and $19.4 million for the three and nine months ended September 30, 2024, respectively. We recognized amortization expense of $6.5 million and $15.3 million for the three and nine months ended September 30, 2023, respectively. Future amortization expense is expected to be $6.4 million for the remainder of 2024, $25.8 million for each of the years from 2025 to 2028 and $98.7 million thereafter.

8. Balance Sheet Components

Inventory

Inventory consisted of the following:

(in thousands)	September 30, 2024	December 31, 2023
Raw materials	$ 9,525	$ 11,257
Work-in-process	20,400	15,670
Finished goods	4,311	13,810
Total inventory	$ 34,236	$ 40,737

As of September 30, 2024 and December 31, 2023, total inventory included net fair value adjustments resulting from the acquisition of La Jolla of approximately $10.9 million and $23.0 million, respectively, which will be amortized and recognized as cost of products sold when sales occur in future periods. The fair value adjustments recorded as part of cost of products sold amounted to $1.8 million and $12.1 million, respectively, for the three and nine months ended September 30, 2024. The fair value adjustments recorded as part of cost of products sold amounted to $5.4 million and $19.2 million for the three and nine months ended September 30, 2023, respectively.

Other Accrued Liabilities

Other accrued liabilities consisted of the following:

(in thousands)	September 30, 2024	December 31, 2023
Accrued contract manufacturing expenses	$ 1,786	$ 1,966
Accrued clinical and research expenses	651	776
Accrued professional services	7,019	8,876
Current portion of lease liabilities	1,511	1,207
Current portion of deferred royalty obligations	1,189	—
Royalty obligation payable	2,522	1,928
Accrued license fees and royalties	1,843	1,575
Other	1,078	3,370
Total other accrued liabilities	$ 17,599	$ 19,698

Other Long-term Liabilities

Other long-term liabilities consisted of the following:

(in thousands)	September 30, 2024	December 31, 2023
Long-term portion of deferred royalty obligation	$ 69,864	$ 69,876
Long-term portion of lease liabilities	1,585	1,635
Contingent value rights liability	—	359
Total other long-term liabilities	$ 71,449	$ 71,870

9. Stock-Based Compensation

Stock- Based Compensation Expense

The following table summarizes stock-based compensation expense:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2024	2023	2024	2023
Selling, general and administrative	$ 1,509	$ 1,308	$ 4,434	$ 3,502
Research and development	94	134	267	1,058
Total	$ 1,603	$ 1,442	$ 4,701	$ 4,560

Valuation Assumptions

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Risk-free interest rate	4.15%	4.13% - 4.21%	4.14% - 4.65%	3.50% - 4.21%
Expected term (in years)	6.14	6.01 - 6.22	5.07 - 6.15	5.16 - 6.22
Volatility	35.8%	37.3% - 37.8%	35.8% - 36.8%	37.3% - 38.5%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Weighted-average estimated fair value of stock options granted	$7.76	$5.66 - $5.97	$4.97- $7.76	$5.22 - $5.97

10. Stockholders' Equity

On October 31, 2022, our board of directors authorized a share repurchase program under which we may repurchase up to $100.0 million of our outstanding shares of common stock. The repurchase program authorized the repurchase by the Company of its common stock in open market transactions, including pursuant to a trading plan in accordance with Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), privately negotiated transactions, in block trades, accelerated share repurchase transactions, exchange transactions, or any combination thereof or by other means in accordance with federal securities laws. The authorization permitted management to repurchase shares of the Company's common stock from time to time at management's discretion. Repurchases may also be made pursuant to a trading plan under Rule 10b5-1 under the Exchange Act, which would permit shares to be repurchased when the Company might otherwise be precluded from doing so because of self-imposed trading blackout periods or other regulatory restrictions. The share repurchase program was completed in April 2024. From January to April 2024, we repurchased 986,928 shares in the open market at an average price of $15.12 per share for a total amount of approximately $14.9 million. All repurchased shares were retired.

In April 2024, we retired all the shares held in treasury resulting from our strategic buyback of GSK's common shares in the Company in 2021. We recorded the corresponding cost of treasury stock of $393.8 million in additional paid-in capital.

11. Debt

Our debt consists of the following:

(In thousands)	September 30, 2024	December 31, 2023
2025 Notes	$ 192,500	$ 192,500
2028 Notes	261,000	261,000
Total debt	453,500	453,500
Less: Unamortized debt discount and issuance costs	(5,685)	(7,266)
Total debt, net	447,815	446,234
Less: Current portion of long-term debt, net	191,843	—
Total long-term debt, net	$ 255,972	$ 446,234

Convertible Subordinated Notes Due 2023

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

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

Convertible Senior Notes Due 2025

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

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

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

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

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

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

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

Our outstanding 2025 Notes balances consisted of the following:

(In thousands)	September 30, 2024	December 31, 2023
Principal	$ 192,500	$ 192,500
Debt discount and issuance costs, net	(657)	(1,205)
Net carrying amount	$ 191,843	$ 191,295

The following table sets forth total interest expense recognized related to the 2025 Notes for the three and nine months ended September 30, 2024 and 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2024	2023	2024	2023
Contractual interest expense	$ 1,203	$ 1,203	$ 3,609	$ 3,609
Amortization of debt issuance costs	184	179	548	532
Total interest and amortization expense	$ 1,387	$ 1,382	$ 4,157	$ 4,141

Convertible Senior Notes Due 2028

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

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

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

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

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

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

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

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

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

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

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

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

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

Our outstanding 2028 Notes balance consisted of the following:

(In thousands)	September 30, 2024	December 31, 2023
Principal	$ 261,000	$ 261,000
Debt issuance costs, net	(5,028)	(6,061)
Net carrying amount	$ 255,972	$ 254,939

The following table sets forth total interest expense recognized related to the 2028 Notes for the three and nine months ended September 30, 2024 and 2023:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2024	2023	2024	2023
Contractual interest expense	$ 1,387	$ 1,387	$ 4,160	$ 4,160
Amortization of debt issuance costs	349	340	1,033	1,006
Total interest and amortization expense	$ 1,736	$ 1,727	$ 5,193	$ 5,166

Debt Maturities

The aggregate scheduled maturities of our convertible debt as of September 30, 2024 were as follows:

(In thousands)	September 30, 2024
Years ending December 31:	
Remainder of 2024	$ —
2025	192,500
2026	—
2027	—
2028	261,000
Total	$ 453,500

Deferred Royalty Obligation

As part of our acquisition of La Jolla, we recorded the fair value of its deferred royalty obligation in connection with La Jolla's royalty financing agreement ("La Jolla Royalty Agreement") with HealthCare Royalty Partners ("HCR"). Under the terms of the La Jolla Royalty Agreement, HCR is entitled to receive quarterly royalties on worldwide net sales of GIAPREZA® until either January 1, 2031 or when the maximum aggregate royalty payments have been made, whichever occurs first. Quarterly payments to HCR under the Royalty Agreement start at a maximum royalty rate, with step-downs based on the achievement of annual net product sales thresholds. The maximum royalty rate through December 31, 2023 was 14%. Starting January 1, 2024, the maximum royalty rate was increased to 18% based on the terms of the agreement. The La Jolla Royalty Agreement is subject to maximum aggregate royalty payments to HCR of $225.0 million.

For the three and nine months ended September 30, 2024, we recognized interest expense of $2.6 million and $8.1 million, respectively. The carrying value of the deferred royalty obligation as of September 30, 2024 and December 31, 2023 was $71.1 million and $69.9 million, respectively (refer to Note 8 "Balance Sheet Components"). During the nine months ended September 30, 2024, we made royalty payments to HCR of $6.4 million. The deferred royalty obligation was valued using Level 3 inputs, and its carrying value as of September 30, 2024 approximates fair value. The fair value of the deferred royalty obligation was calculated as the discounted deferred royalty obligations based on risk-adjusted revenue projections for GIAPREZA®. The annual effective interest rate of the deferred royalty obligation for the current period is 16.24%.

Under the terms of the La Jolla Royalty Agreement, if we are unable to meet certain obligations, including the obligation to use commercially reasonable and diligent efforts to commercialize GIAPREZA®, HCR would have the right to terminate the La Jolla Royalty Agreement and demand payment of either $125.0 million or $225.0 million (depending on which obligation we have failed to meet) less aggregate royalties already paid to HCR. As of September 30, 2024, inclusive of the aggregate royalties paid to HCR by La Jolla under the La Jolla Royalty Agreement prior to our acquisition, La Jolla paid $24.4 million of aggregate royalties to HCR. In the event that we fail to pay such amount if and when due in a timely manner, HCR would have the right to foreclose on the GIAPREZA®-related assets. HCR has no recourse against any asset other than GIAPREZA®.

Certain contract provisions within the La Jolla Royalty Agreement that could result in an acceleration of amounts due under the La Jolla Royalty Agreement are recognized as embedded derivatives that require bifurcation from the deferred royalty obligation and fair value recognition. We determined the fair value of each derivative by assessing the probability of each event occurring, as well as the potential repayment amounts and timing of such repayments that would result under various scenarios. As a result of this assessment, we determined that the fair value of the embedded derivatives is immaterial and, therefore, not recognized as of September 30, 2024 and December 31, 2023. We estimate the fair value of the embedded derivatives for each reporting period until either the features lapse or the La Jolla Royalty Agreement is terminated, whichever occurs first. Any material change in the fair value of the embedded derivatives will be recorded as either a gain or loss in the unaudited condensed consolidated statements of income and comprehensive income.

12. Commitments and Contingencies

Operating Lease

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

The components of lease cost are as follows:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	**2024**	**2023**	**2024**	**2023**
Straight line operating lease costs	$ 303	$ 361	$ 898	$ 1,080
Variable lease costs	(6)	49	(2)	144
Total lease costs	$ 297	$ 410	$ 896	$ 1,224

Supplemental cash flow information related to leases are as follows:

	Nine Months Ended September 30,	
(In thousands)	**2024**	**2023**
Cash paid for amounts included in the measurement of operating lease liabilities	$ 1,046	$ 1,157
Operating lease right-of-use asset obtained in exchange for operating lease obligations	$ 1,156	$ 463

As of September 30, 2024, our operating leases have weighted-average remaining term of approximately 2.7 years and the weighted average discount rate on our operating lease liabilities was 7.2%.

Future minimum payments on our operating leases as of September 30, 2024 were as follows:

(In thousands)	**September 30, 2024**
Years ending December 31:	
Remainder of 2024	$ 395
2025	1,705
2026	435
2027	455
2028	326
Thereafter	83
Total undiscounted lease payments	3,399
Less: imputed interest	(303)
Total operating lease liabilities	$ 3,096

Purchase Commitments

In April 2024, we entered into a Commercial Supply Agreement with Corden Pharma CHENÔVE SAS ("Corden"), under which we engaged Corden to manufacture and supply certain products related to XACDURO® and to perform certain services and studies. Under the agreement, we committed to minimum purchase commitments through December 31, 2027. As of September 30, 2024, we have approximately $9.1 million, $7.1 million, $7.9 million and $6.3 million in outstanding purchase commitments under the agreement for the remainder of 2024 and for the years 2025, 2026 and 2027, respectively.

Legal Proceedings

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

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

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

On February 22, 2023, La Jolla received a paragraph IV notice of certification (the "Second Notice Letter") from Gland advising that Gland had amended its ANDA filing to include a paragraph IV certification alleging that all claims of the newly-issued and Orange Book-listed U.S. Patent No. 11,559,559 (the "'559 Patent"), which covers GIAPREZA®, are invalid, unenforceable and/or not infringed.

On March 22, 2023, La Jolla filed a First Amended Complaint in this litigation adding Gland's marketing and distribution partners for its ANDA angiotensin II product, Fresenius Kabi USA LLC and Fresenius Kabi SwissBiosim GmbH (collectively, the "Fresenius Kabi Defendants"), as co-defendants. On April 7, 2023, La Jolla filed a Second Amended Complaint in response to the Second Notice Letter, adding claims that the manufacture, use, sale, offer for sale, or import of Gland's ANDA angiotensin II product will infringe the '559 Patent. On November 14, 2023, La Jolla filed a Third Amended Complaint adding additional infringement claims against the Fresenius Kabi Defendants. We intend to vigorously enforce our intellectual property rights relating to GIAPREZA®.

Fact discovery closed on March 31, 2024 and expert discovery was completed on August 19, 2024.

On September 13, 2024, La Jolla filed a motion for partial summary judgment of infringement regarding three claims from U.S. Patent Nos. 10,548,943 and 10,335,451. Briefing for this motion concluded on October 15, 2024. The court has not yet rendered a decision on this motion.

A trial date has not yet been set in this matter.

Given the current status of this matter, we cannot reasonably estimate a potential future loss or a range of potential future losses, if any, and have not recorded a contingent liability accrual as of September 30, 2024.

Indemnification

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

13. Income Taxes

We recorded income tax expense of $5.6 million and $9.6 million for the three and nine months ended September 30, 2024, respectively, compared to the income tax expense of $3.9 million and $14.7 million for the three and nine months ended September 30, 2023, respectively. The Company's effective income tax rate for the nine months ended September 30, 2024 was 40.5% compared to 10.6% for the same period in 2023. The income tax expense for the nine months ended September 30, 2024 and 2023 was determined based upon estimates of the Company's effective income tax rates in various jurisdictions. Our effective tax rate for the nine months ended September 30, 2024 was higher than the expense computed at the U.S. federal statutory income tax rate due primarily to valuation allowance against unrealized investment losses, state income taxes and nondeductible expenses, partially offset by foreign-derived intangible income tax deduction and research and development credits.

14. Subsequent Event

On October 31, 2024, ITH and ImaginAb entered into a First Amendment to the ImaginAb Convertible Note. Pursuant to this agreement, the principal amount of the ImaginAb Convertible Note was increased from $2.7 million to $4.8 million, which represents the principal, accrued interest and certain commitment fees as of the amendment date, and an additional cash investment of $1.5 million. All other material terms of the ImaginAb Convertible Note were unchanged.

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

Forward-Looking Statements

The information in this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements involve substantial risks, uncertainties, and assumptions. All statements contained herein, other than statements of historical fact, including, without limitation, statements regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans, intentions, expectations, goals and objectives may be forward-looking statements. The words "anticipates," "believes," "could," "designed," "estimates," "expects," "goal," "intends," "may," "objective," "plans," "projects," "pursuing," "will," "would" and similar expressions (including the negatives thereof) are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions, expectations or objectives disclosed in our forward-looking statements and the assumptions underlying our forward-looking statements may prove incorrect. Therefore, you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions, expectations and objectives disclosed in the forward-looking statements that we make. All written and verbal forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

Important factors that we believe could cause actual results or events to differ materially from our forward-looking statements include, but are not limited to, risks related to: lower than expected future royalty revenue from respiratory products partnered with GSK, the commercialization of RELVAR®/BREO® ELLIPTA®, ANORO® ELLIPTA®, GIAPREZA®, XERAVA® and XACDURO® in the jurisdictions in which these products have been approved; the strategies, plans and objectives of the Company (including the Company's growth strategy and corporate development initiatives); the timing, manner, and amount of potential capital returns to shareholders; the status and timing of clinical studies, data analysis and communication of results; the potential benefits and mechanisms of action of product candidates; expectations for product candidates through development and commercialization; the timing of regulatory approval of product candidates; and projections of revenue, expenses and other financial items; the impact of the novel coronavirus ("COVID-19"); the timing, manner and amount of capital deployment, including potential capital returns to stockholders; and risks related to the Company's growth strategy and risks discussed in "Risk Factors" in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2023 filed with the Securities and Exchange Commission ("SEC") on February 29, 2024, and as amended on March 5, 2024 and March 22, 2024 ("2023 Form 10-K"), and Item 1A of Part II of our Quarterly Reports on Form 10-Q and below in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Item 2 of Part I. All forward-looking statements in this Quarterly Report on Form 10-Q are based on current expectations as of the date hereof and we do not assume any obligation to update any forward-looking statements on account of new information, future events or otherwise, except as required by law.

We encourage you to read our unaudited condensed consolidated financial statements contained in this Quarterly Report on Form 10-Q. We also encourage you to read Item 1A of Part I of our 2023 Form 10-K and Item 1A of Part II of our Quarterly Reports on Form 10-Q entitled "Risk Factors," which contain a more complete discussion of the risks and uncertainties associated with our business. In addition to the risks described above and in Item 1A of Part I of our 2023 Form 10-K and Item 1A of Part II of this report, other unknown or unpredictable factors also could affect our results. Therefore, the information in this report should be read together with other reports and documents that we file with the SEC from time to time, including on Form 10-K, Form 10-Q and Form 8-K, which may supplement, modify, supersede or update those risk factors. As a result of these factors, we cannot assure you that the forward-looking statements in this report will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all.

OVERVIEW

Executive Summary

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

Beta2 Agonist ("LABA") Collaboration Agreement, Innoviva is entitled to receive royalties from GSK on sales of RELVAR®/BREO® ELLIPTA® as follows: 15% on the first $3.0 billion of annual global net sales and 5% for all annual global net sales above $3.0 billion; and royalties from the sales of ANORO® ELLIPTA®, which tier upward at a range from 6.5% to 10%.

We expanded our portfolio through the acquisition of Entasis Therapeutics Holdings Inc. ("Entasis") on July 11, 2022 and the acquisition of La Jolla Pharmaceutical Company ("La Jolla") on August 22, 2022. Our commercial and marketed products include GIAPREZA® (angiotensin II), approved to increase blood pressure in adults with septic or other distributive shock, and XERAVA® (eravacycline) approved for the treatment of complicated intra-abdominal infections in adults. Our third product, XACDURO® (formerly known as sulbactam-durlobactam or SUL-DUR), was approved by the United States Food and Drug Administration ("FDA") for the treatment of hospital-acquired and ventilator-associated pneumonias caused by *Acinetobacter* in adults on May 23, 2023. We commenced commercial sales of XACDURO® in the third quarter of 2023. Our development pipeline includes zoliflodacin, an investigational treatment for uncomplicated gonorrhea that reported positive data in a pivotal Phase 3 clinical trial on November 1, 2023. As such, we have a wholly owned robust critical care and infectious disease operating platform with a hospital focus anchored by three differentiated products with significant growth potential and a promising drug candidate.

In addition, we own other strategic healthcare assets, such as a large equity stake in Armata Pharmaceuticals ("Armata"), a leader in development of bacteriophages with potential use across a range of infectious and other serious diseases. We also have economic interests in other healthcare companies.

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

Third Quarter 2024 and Recent Highlights:

Financial Highlights

- Third quarter 2024 gross royalty revenue from GSK was $60.5 million, compared to $57.0 million for the third quarter 2023.
- Third quarter 2024 net product sales were $27.8 million, which included U.S. net product sales of $19.7 million and ex-U.S. product sales of $8.1 million. U.S. net product sales consisted of $13.1 million from GIAPREZA®, $2.3 million from XERAVA®, and $4.3 million from XACDURO®, a 68% increase compared to $11.8 million for the third quarter 2023.

Key Business and R&D Highlights

- **XACDURO®** (sulbactam for injection; durlobactam for injection), co-packaged for intravenous use, a targeted antibacterial treatment for patients with hospital-acquired bacterial pneumonia and ventilator-associated bacterial pneumonia (HABP/VABP) caused by susceptible isolates of *Acinetobacter baumannii calcoaceticus* complex.
    - XACDURO® was recently nominated for the 2024 Prix Galien USA Award for Best Biotechnology Product, which recognizes excellence in scientific innovation that improves the state of human health.
- **Zoliflodacin**: a potential first-in-class, single dose, oral antibiotic is currently being developed in partnership with The Global Antibiotic Research & Development Partnership (GARDP) for the treatment of patients with uncomplicated gonorrhea.
    - In September 2024, we presented additional findings on its investigational agent zoliflodacin at the 2024 Sexually Transmitted Infections Prevention Conference in Atlanta. The first oral presentation demonstrated that zoliflodacin had potent *in vitro* activity against 200 clinical isolates, consistent with previous US surveillance data. The second presentation demonstrated that microbiological cure rates for specific subgroups were comparable to the primary endpoint analysis. Safety in these subgroups was also comparable.
    - In October 2024, we had five clinical presentations at IDWeek 2024, which took place in Los Angeles. One oral presentation on zoliflodacin included a review of the unique public-private partnership that led the clinical development of zoliflodacin. The second presentation highlighted the activity of sulbactam-durlobactam and standard-of-care antibiotics against *Acinetobacter baumannii-calcoaceticus* complex for hospitalized patients in the

US. Three posters were presented including two on zoliflodacin: *In vitro* activity against baseline isolates in US participants from the phase 3 trial and a pharmacometrics analysis supporting dose selection. Surveillance data of eravacycline against clinical pathogens, collected worldwide from multiple infections sites during 2018-2022 was also presented.

- o We continue to advance zoliflodacin following its successful Phase 3 clinical trial results and expect to submit an NDA to the U.S. FDA in early 2025.

Collaboration Arrangement with GSK

LABA Collaboration

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

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

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

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

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported revenue generated and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe there have been no significant changes in our critical accounting policies as described in the Form 10-K for the year ended December 31, 2023 filed with the SEC on February 29, 2024, and as amended on March 5 and 22, 2024.

Results of Operations

Net Revenue

Royalty Revenue

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

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
(In thousands)	2024	2023	$	%	2024	2023	$	%
Royalties - RELVAR/BREO	$ 48,199	$ 45,585	$ 2,614	6%	$ 154,317	$ 150,922	$ 3,395	2%
Royalties - ANORO	12,313	11,429	884	8%	35,264	32,127	3,137	10%
Total royalties	60,512	57,014	3,498	6%	189,581	183,049	6,532	4%
Less: amortization of capitalized fees paid	(3,456)	(3,456)	—	*	(10,368)	(10,368)	—	*
Total net royalty revenue	$ 57,056	$ 53,558	$ 3,498	7%	$ 179,213	$ 172,681	$ 6,532	4%

*Not Meaningful

Total net royalty revenue increased to $57.1 million and $179.2 million for the three and nine months ended September 30, 2024, compared to $53.6 million and $172.7 million, respectively, for the same period a year ago. The increase of total net royalty revenue was primarily due to sales growth in both RELVAR®/BREO®ELLIPTA® and ANORO® ELLIPTA®.

Net Product Sales

Net product sales recognized for the three months ended September 30, 2024 was $27.8 million, consisting of net sales of GIAPREZA®, XERAVA®, and XACDURO® for $13.8 million, $4.2 million and $9.8 million, respectively. Net product sales recognized for the nine months ended September 30, 2024 was $68.6 million, consisting of net sales of GIAPREZA®, XERAVA®, and XACDURO® for $39.0 million, $15.2 million and $14.4 million, respectively.

Net product sales recognized for the three months ended September 30, 2023 was $13.7 million, consisting of net sales of GIAPREZA®, XERAVA®, and XACDURO® for $8.0 million, $5.1 million, and $0.6 million, respectively. Net product sales recognized for the nine months ended September 30, 2023 was $40.9 million, consisting of net sales of GIAPREZA®, XERAVA®, and XACDURO® for $28.2 million, $12.1 million and $0.6 million, respectively.

Our net product sales increased during the periods presented as a result of increased efforts in sales and marketing of our marketed products.

License Revenue

We recognized $8.0 million in license revenue for the second quarter of 2024 as a result of achievement of a regulatory milestone under our license agreement with Zai Lab. We also recognized $6.5 million in license revenue for the second quarter of 2024 under the Amended Zai Agreement with Zai Lab. During the third quarter of 2024, we recognized additional license revenue of approximately $4.6 million from Zai Lab arising from a manufacturing stage transfer agreement and the aforementioned Amended Zai Agreement.

We recognized license revenue of $8.0 million for the first quarter of 2023 and $3.0 million for the second quarter of 2023 as a result of achievement of regulatory milestones under our license agreements with Everest and Zai Lab, respectively.

Cost of Products Sold

Cost of products sold, as compared to the prior year periods, were as follows:

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
(In thousands)	2024	2023	$	%	2024	2023	$	%
Cost of products sold	$ 9,990	$ 10,182	$ (192)	(2)%	$ 29,433	$ 27,910	$ 1,523	5%

Our inventory includes net fair value adjustments resulting from the acquisition of La Jolla, which are being amortized and recognized as cost of products sold when sales occur. The fair value adjustments recorded as part of cost of products sold amounted to $1.8 million and $12.1 million for the three and nine months ended September 30, 2024, respectively, and $5.4 million and $19.2 million for the three and nine months ended September 30, 2023, respectively. Excluding the impact of the amortized fair value adjustments, our cost of products sold increased during the periods presented in 2024 compared to the same periods in 2023 as a result of higher sales volume.

Research and Development

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

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
(In thousands)	2024	2023	$	%	2024	2023	$	%
Research and development	$ 3,551	$ 3,989	$ (438)	(11)%	$ 9,989	$ 31,566	$ (21,577)	(68)%

Research and development expenses consist of the following:

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
(in thousands)	2024	2023	$	%	2024	2023	$	%
Compensation and related personnel costs	$ 978	$ 1,825	$ (847)	(46)%	$ 4,071	$ 8,636	$ (4,565)	(53)%
External services	2,420	1,359	1,061	78%	4,700	20,085	(15,385)	(77)%
Facilities related	40	482	(442)	(92)%	694	1,730	(1,036)	(60)%
Other	113	323	(210)	(65)%	524	1,115	(591)	(53)%
Total research and development expense	$ 3,551	$ 3,989	$ (438)	(11)%	$ 9,989	$ 31,566	$ (21,577)	(68)%

Research and development expenses, which are mainly attributable to post-marketing commitments required by the FDA and ongoing product developments, were $3.6 million and $10.0 million for the three and nine months ended September 30, 2024. Research and development expenses for the three and nine months ended September 30, 2023, which were mainly attributable to the product development efforts for XACDURO®, were $4.0 million and $31.6 million, respectively. The decrease was primarily a result of the FDA approval of XACDURO® in May 2023 and personnel transfers from the research development function to general and administrative function after the FDA approval.

Selling, General & Administrative

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

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
(In thousands)	2024	2023	$	%	2024	2023	$	%
Selling, general and administrative	$ 26,219	$ 28,636	$ (2,417)	(8)%	$ 84,364	$ 71,913	$ 12,451	17%

Our selling, general and administrative expenses are primarily incurred as a result of our ongoing efforts to promote our marketed critical care products and drive revenue, maintain regulatory compliance, and support essential administrative functions for general operations. The expenses for the three months ended September 30, 2023 were higher compared to the same period this year primarily due to the commercial launch effort of XACDURO®. For the nine months ended September 30, 2024, the expenses increased compared to the same period last year due to the ongoing efforts, which led to higher net product sales.

Interest and dividend income and other expense, net

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

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
(In thousands)	2024	2023	$	%	2024	2023	$	%
Interest and dividend income	$ (5,500)	$ (4,114)	$ (1,386)	34%	$ (13,373)	$ (11,032)	$ (2,341)	21%
Other expense, net	$ 914	$ 1,047	$ (133)	(13)%	$ 3,123	$ 4,289	$ (1,166)	(27)%

Interest and dividend income increased for the three and nine months ended September 31, 2024, compared to the same period a year ago, due to higher interest rates and higher average balances of our cash equivalents, money market funds and other interest-bearing investments.

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

Interest Expense

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

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
(In thousands)	2024	2023	$	%	2024	2023	$	%
Interest expense	$ 5,807	$ 4,396	$ 1,411	32%	$ 17,460	$ 13,205	$ 4,255	32%

Interest expense for the three and nine months ended September 30, 2024 comprised mainly of the contractual interest expense and the amortization of debt issuance costs for our 2025 Notes and 2028 Notes, as well as effective interest expense on our deferred royalty obligation. Interest expense for the nine months ended September 30, 2023 included the amount on the 2023 Notes until the notes were fully paid off on January 15, 2023. The increase for the three and nine months ended September 30, 2024, compared to the three and nine months ended September 30, 2023, was mainly due to higher effective interest rate on our deferred royalty obligation as a result of higher sales performance of GIAPREZA®.

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

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

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
(In thousands)	2024	2023	$	%	2024	2023	$	%
Changes in fair values of equity method investments, net	$ 18,231	$ (71,980)	$ 90,211	(125)%	$ 42,997	$ (67,886)	$ 110,883	(163)%
Changes in fair values of equity and long-term investments, net	$ 16,936	$ 2,640	$ 14,296	*	$ 60,827	$ 4,887	$ 55,940	*

*Not Meaningful

The changes in fair values of equity method investments for the three and nine months ended September 30, 2024 were unfavorable mainly due to the decrease in Armata's stock price during this period. We recorded $18.2 million and $43.0 million in unrealized loss for the three and nine months ended September 30, 2024, respectively, and $72.0 million and $67.9 million in unrealized gain for the three and nine months ended September 30, 2023, respectively, related to our equity method investments in Armata.

The changes in fair values of other equity and long-term investments primarily reflected the realized gains and losses and net unrealized gains and losses in our strategic investments in Armata, InCarda, Gate, ImaginAb and those investments managed by ISP Fund LP. We recorded $17.8 million and $59.8 million of net negative changes in fair values of equity and long-term investments related to the investments managed by ISP Fund LP, for the three and nine months ended September 30, 2024, respectively. We also recorded $1.2 million net positive and $0.8 million net negative changes in fair values of equity and long-term investments for the three and nine months ended September 30, 2024, respectively, related to other long-term investments we made in Armata.

Provision for Income Taxes

We recorded income tax expense of $5.6 million and $9.6 million for the three and nine months ended September 30, 2024, respectively, compared to income tax expense of $3.9 million and $14.7 million for the three and nine months ended September 30, 2023, respectively. The effective income tax rate for the nine months ended September 30, 2024 and 2023 was 40.5% and 10.6%, respectively.

Liquidity and Capital Resources

Liquidity

Since our inception, we have financed our operations primarily through private placements and public offerings of equity and debt securities and payments received under collaboration arrangement. For the nine months ended September 30, 2024, we generated gross royalty revenues from GSK of $189.6 million, net product sales of $68.6 million and license revenue of $19.1 million. Net cash and cash equivalents totaled $260.6 million, royalties receivable from GSK totaled $60.5 million and accounts receivable associated with our product sales and license revenue totaled $30.5 million as of September 30, 2024.

Adequacy of Cash Resources to Meet Future Needs

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

Cash Flows

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

	Nine Months Ended September 30,		
(In thousands)	2024	2023	Change
Net cash provided by operating activities	$ 129,451	$ 107,808	$ 21,643
Net cash used in investing activities	$ (48,308)	$ (61,610)	$ 13,302
Net cash used in financing activities	$ (14,026)	$ (157,250)	$ 143,224

Cash Flows from Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2024 was $129.5 million, consisting primarily of our net income of $3.1 million, adjusted for net non-cash items, which included $103.8 million in changes in fair value of our investments, $19.4 million of amortization of acquired intangible assets, $12.1 million of amortization of inventory fair value step-up adjustment, $10.5 million of amortization of capitalized fees and depreciation of property and equipment, and $4.7 million of stock-based compensation, partially offset by $15.4 million of deferred income taxes and $9.9 million in net changes in operating assets and liabilities.

Net cash provided by operating activities for the nine months ended September 30, 2023 was $107.8 million, consisting primarily of our net income of $118.2 million, adjusted for net non-cash items, which included $19.2 million of amortization of inventory fair value step-up adjustment, $10.4 million of amortization of capital fees and depreciation of property and equipment, $15.3 million of amortization of acquired intangible assets, partially offset by $63.0 million of net changes in fair value of our investments and $5.0 million net changes in operating assets and liabilities.

Cash Flows from Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2024 of $48.3 million primarily consisted of $48.1 million in purchases of trading securities, $32.3 million in purchases of equity and long-term investments managed by ISP Fund LP and $20.6 million in net purchases of other investments managed by ISP Fund LP. The use of cash for investing activities was partially offset by proceeds of $52.8 million from the sales of equity investments managed by ISP Fund LP.

Net cash used in investing activities for the nine months ended September 30, 2023 of $61.6 million primarily consisted of $60.1 million in purchases of trading securities, $1.2 million in purchases of equity and long-term investments, $24.9 million in purchases of equity investments managed by ISP Fund LP, and $14.7 million from purchase and sales of other investments managed by ISP Fund LP. The use of cash for investing activities was partially offset by net proceeds of $39.6 million from the sales of equity investments managed by ISP Fund LP.

Cash Flows from Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2024 of $14.0 million was primarily due to $14.8 million for the repurchase of common stock under our stock repurchase program which concluded in April 2024.

Net cash used in financing activities for the nine months ended September 30, 2023 of $157.3 million was primarily due to the payments of $96.2 million upon maturity of the 2023 Notes in January 2023 and $61.1 million for the repurchase of common stock under our current stock repurchase program.

Contractual Obligations

As of September 30, 2024, our notes payable obligation included $192.5 million related to our 2025 Notes and $261.0 million related to our 2028 Notes, which are due in 2025 and 2028, respectively. Under the terms of the 2025 Notes and 2028 Notes, we will make interest payments of 2.5% and 2.125%, respectively, of outstanding principal. Refer to Note 11, “Debt” to the Condensed Consolidated Financial Statements for more information.

Our short-term and long-term obligations also include contractual payments related to our operating leases were $3.4 million, with approximately $0.4 million payable through December 31, 2024, and approximately $3.0 million payable through 2029. Refer to Note 12, “Commitments and Contingencies” to the Condensed Consolidated Financial Statements for more information.

As part of our acquisition of La Jolla, we recognized its deferred royalty obligation in connection with the La Jolla Royalty Agreement with HCR. Under the terms of the Agreement, HCR is entitled to receive quarterly royalties on worldwide net sales of GIAPREZA® until either January 1, 2031 or when the maximum aggregate royalty payments have been made, whichever occurs first. Quarterly payments to HCR under the Royalty Agreement start at a maximum royalty rate, with step-downs based on the achievement of annual net product sales thresholds. The maximum royalty rate through December 31, 2023 was 14%. Starting January 1, 2024, the maximum royalty rate was increased to 18% based on the terms of the agreement. The La Jolla Royalty Agreement is subject to maximum aggregate royalty payments to HCR of $225.0 million.

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

We also entered into a Commercial Supply Agreement with Corden Pharma CHENÔVE SAS (“Corden”), under which we engaged Corden to manufacture and supply certain products related to XACDURO® and to perform certain services and studies. Under the agreement, we committed to minimum purchase commitments through December 31, 2027. As of September 30, 2024, we have approximately $9.1 million, $7.1 million, $7.9 million and $6.3 million in outstanding purchase commitments under the agreement for the remainder of 2024 and for the years 2025, 2026 and 2027, respectively.

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

Item 3. Quantitative and Qualitative Disclosure about Market Risk

As of September 30, 2024, our debt bears fixed interest rates and we had no outstanding debt with variable interest rate. Our cash flows on these debt obligations are not subject to variability as a result of changes in interest rates.

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

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

We may face foreign exchange risk as a result of entering into transactions denominated in currencies other than U.S. dollars, including contracts with international vendors related to raw material purchases. Our royalty revenue from RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA® is also indirectly exposed to foreign exchange risk as GSK also markets and sells the products outside the U.S. The majority of our cash and cash equivalents, investments, and the majority of our vendor relationships are denominated in U.S. dollars. Therefore, we do not believe that the risk of a significant impact on our operating income from foreign currency fluctuations is substantial.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation as of September 30, 2024, under the supervision and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures. These controls and procedures, as defined under SEC rules, are designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 (“Exchange Act”) is recorded, processed, summarized and reported within the timeframes specified by the Commission’s rules and forms. Additionally, they ensure that information required to be disclosed by the issuer is accumulated and communicated to management, including its principal executive and principal financial officers, or persons performing similar functions, to enable timely decision regarding required disclosure. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance levels.

Limitations on the Effectiveness of Controls

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all frauds. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefit of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Innoviva have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

There have been no material changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended September 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

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

On February 22, 2023, La Jolla received a paragraph IV notice of certification (the "Second Notice Letter") from Gland advising that Gland had amended its ANDA filing to include a paragraph IV certification alleging that all claims of the newly-issued and Orange Book-listed U.S. Patent No. 11,559,559 (the "'559 Patent"), which covers GIAPREZA®, are invalid, unenforceable and/or not infringed.

On March 22, 2023, La Jolla filed a First Amended Complaint in this litigation adding Gland's marketing and distribution partners for its ANDA angiotensin II product, Fresenius Kabi USA LLC and Fresenius Kabi SwissBiosim GmbH (collectively, the "Fresenius Kabi Defendants"), as co-defendants. On April 7, 2023, La Jolla filed a Second Amended Complaint in response to the Second Notice Letter, adding claims that the manufacture, use, sale, offer for sale, or import of Gland's ANDA angiotensin II product will infringe the '559 Patent. On November 14, 2023, La Jolla filed a Third Amended Complaint adding additional infringement claims against the Fresenius Kabi Defendants. We intend to vigorously enforce our intellectual property rights relating to GIAPREZA®.

Fact discovery closed on March 31, 2024 and expert discovery was completed on August 19, 2024.

On September 13, 2024, La Jolla filed a motion for partial summary judgment of infringement regarding three claims from U.S. Patent Nos. 10,548,943 and 10,335,451. Briefing for this motion concluded on October 15, 2024. The court has not yet rendered a decision on this motion.

A trial date has not yet been set in this matter.

Given the current status of this matter, we cannot reasonably estimate a potential future loss or a range of potential future losses, if any, and have not recorded a contingent liability accrual as of September 30, 2024.

Item 1A. Risk Factors

Our business is subject to a number of risks, including those identified in Item 1A of Part I of our 2023 Form 10-K. There have been no material changes to the risk factors described in our 2023 Form 10-K.

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

a) Sales of Unregistered Securities

None.

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

None.

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

None.

Item 3: Defaults Upon Senior Securities

None.

Item 4: Mine Safety Disclosures

None.

Item 5: Other Information

None.

Item 6. Exhibits

(a) Index to Exhibits

Exhibit Number	Description	Incorporated by Reference		
		Form	Exhibit	Filing Date/Period End Date
3.1	Amended and Restated Certificate of Incorporation	8-K	99.2	4/28/2016
3.2	Amended and Restated Bylaws, amended and restated as of January 1, 2023	8-K	3.1	1/4/2023
4.1	Specimen certificate representing the common stock of the registrant	10-K	4.1	12/31/2006
4.2	Indenture, dated as of January 4, 2013 by and between Theravance, Inc. and the Bank of New York Mellon Trust Company, N.A., as trustee	8-K	4.1	1/25/2013
4.3	Form of 2.125% Convertible Subordinated Note Due 2023 (included in Exhibit 4.2)	8-K	4.2	1/25/2013
4.4	Indenture (including form of Note) with respect to Innoviva's 2.5% Convertible Senior Notes due 2025, dated as of August 7, 2017, between Innoviva and The Bank of New York Mellon Trust Company, N.A., as trustee	8-K	4.1	8/7/2017
4.5	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934	10-K	4.9	2/19/2020
4.6	Indenture (including form of Note) with respect to Innoviva's 2.125% Convertible Senior Notes due 2028, dated as of March 7, 2022, between Innoviva and The Bank of New York Mellon Trust Company, N.A., as trustee	8-K	4.1	3/8/2022
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14 pursuant to the Securities Exchange Act of 1934			
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14 pursuant to the Securities Exchange Act of 1934			
32*	Certifications Pursuant to 18 U.S.C. Section 1350			
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.			
101.SCH	Inline XBRL Taxonomy Extension Schema Document			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document			
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document			
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)			

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Innoviva, Inc.

Date: November 6, 2024

/s/ Pavel Raifeld

Pavel Raifeld
Chief Executive Officer
(Principal Executive Officer)

Date: November 6, 2024

/s/ Stephen Basso

Stephen Basso
Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.1

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

I, Pavel Raifeld, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2024

/s/ Pavel Raifeld

Pavel Raifeld
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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

I, Stephen Basso, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2024

/s/ Stephen Basso

Stephen Basso
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32

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

I, Pavel Raifeld, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Innoviva, Inc. on Form 10-Q for the period ended September 30, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition of Innoviva, Inc. at the end of the periods covered by such Quarterly Report on Form 10-Q and results of operations of Innoviva, Inc. for the periods covered by such Quarterly Report on Form 10-Q.

Date: November 6, 2024

By: /s/ Pavel Raifeld

Pavel Raifeld
Chief Executive Officer
(Principal Executive Officer)

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

I, Stephen Basso, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Innoviva, Inc. on Form 10-Q for the period ended September 30, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition of Innoviva, Inc. at the end of the periods covered by such Quarterly Report on Form 10-Q and results of operations of Innoviva, Inc. for the periods covered by such Quarterly Report on Form 10-Q.

Date: November 6, 2024

By: /s/ Stephen Basso

Stephen Basso
Chief Financial Officer
(Principal Financial Officer)