

**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 June 30, 2018

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
(State or Other Jurisdiction of
Incorporation or Organization)

94-3265960
(I.R.S. Employer
Identification No.)

**2000 Sierra Point Parkway, Suite 500
Brisbane, CA 94005**
(Address of Principal Executive Offices)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

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 Exchange Act). Yes No

The number of shares of registrant's common stock outstanding on July 19, 2018 was 101,507,745.

PART I — FINANCIAL INFORMATION

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
	<u>(unaudited)</u>	<u>*</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 87,226	\$ 73,336
Short-term marketable securities	20,316	55,739
Related party receivables from collaborative arrangements	70,542	70,540
Prepaid expenses and other current assets	576	754
Total current assets	<u>178,660</u>	<u>200,369</u>
Property and equipment, net	185	209
Capitalized fees paid to a related party, net	159,810	166,722
Other assets	37	37
Total assets	<u>\$ 338,692</u>	<u>\$ 367,337</u>
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 58	\$ 601
Accrued personnel-related expenses	695	1,721
Accrued interest payable	5,115	5,920
Other accrued liabilities	909	1,500
Current portion of long-term debt	—	25,000
Total current liabilities	<u>6,777</u>	<u>34,742</u>
Long-term debt, net of current portion, discount and issuance costs	486,527	574,362
Other long-term liabilities	752	940
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock: \$0.01 par value, 230 shares authorized, no shares issued and outstanding	—	—
Common stock: \$0.01 par value, 200,000 shares authorized, 101,657 and 102,046 shares issued as of June 30, 2018 and December 31, 2017, respectively	1,015	1,019
Treasury stock: 150 shares as of June 30, 2018 and December 31, 2017	(3,263)	(3,263)
Additional paid-in capital	1,259,443	1,258,151

Accumulated other comprehensive loss	(10)	(18)
Accumulated deficit	(1,414,541)	(1,498,748)
Total Innoviva stockholders' deficit	(157,356)	(242,859)
Noncontrolling interest	1,992	152
Total stockholders' deficit	(155,364)	(242,707)
Total liabilities and stockholders' deficit	\$ 338,692	\$ 367,337

*Condensed consolidated balance sheet as of December 31, 2017 has been derived from audited consolidated financial statements.

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Royalty revenue from a related party, net of amortization of capitalized fees paid to a related party of \$3,456 in the three months ended June 30, 2018 and 2017 and \$6,912 in the six months ended June 30, 2018 and 2017	\$ 67,086	\$ 58,341	\$ 119,466	\$ 98,612
Revenue from collaborative arrangements from a related party	—	221	—	442
Total net revenue	<u>67,086</u>	<u>58,562</u>	<u>119,466</u>	<u>99,054</u>
Operating expenses:				
Research and development	—	348	—	702
General and administrative	4,411	10,384	13,396	21,179
General and administrative - related party	—	—	2,700	—
Total operating expenses	<u>4,411</u>	<u>10,732</u>	<u>16,096</u>	<u>21,881</u>
Income from operations	62,675	47,830	103,370	77,173
Other income (expense), net	39	(786)	(3,060)	(739)
Interest income	380	306	771	542
Interest expense	(6,478)	(12,204)	(14,135)	(24,985)
Net income	56,616	35,146	86,946	51,991
Net income attributable to noncontrolling interest	1,990	—	2,739	—
Net income attributable to Innoviva stockholders	<u>\$ 54,626</u>	<u>\$ 35,146</u>	<u>\$ 84,207</u>	<u>\$ 51,991</u>
Basic net income per share attributable to Innoviva stockholders	<u>\$ 0.54</u>	<u>\$ 0.33</u>	<u>\$ 0.84</u>	<u>\$ 0.48</u>
Diluted net income per share attributable to Innoviva stockholders	<u>\$ 0.49</u>	<u>\$ 0.30</u>	<u>\$ 0.77</u>	<u>\$ 0.46</u>
Shares used to compute Innoviva basic and diluted net income per share:				
Shares used to compute basic net income per share	<u>100,873</u>	<u>107,614</u>	<u>100,739</u>	<u>107,468</u>
Shares used to compute diluted net income per share	<u>113,399</u>	<u>120,463</u>	<u>113,483</u>	<u>120,317</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$ 56,616	\$ 35,146	\$ 86,946	\$ 51,991
Unrealized income (loss) on marketable securities, net	12	1	8	(1)
Comprehensive income	56,628	35,147	86,954	51,990
Comprehensive income attributable to noncontrolling interest	1,990	—	2,739	—

Comprehensive income attributable to Innoviva stockholders	\$ 54,638	\$ 35,147	\$ 84,215	\$ 51,990
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See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities		
Net income	\$ 86,946	\$ 51,991
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,936	6,991
Stock-based compensation	3,621	4,934
Amortization of debt discount and issuance costs	4,028	1,401
Loss on extinguishment of debt	3,137	830
Amortization of premium (discount) on short-term investments	(160)	6
Amortization of lease guarantee	(162)	(162)
Changes in operating assets and liabilities:		
Receivables from collaborative arrangements	(2)	(14,949)
Prepaid expenses and other current assets	178	124
Accounts payable	(543)	149
Accrued personnel-related expenses and other accrued liabilities	(1,539)	242
Accrued interest payable	(805)	(725)
Other long-term liabilities	4	10
Deferred revenue	—	(442)
Net cash provided by operating activities	<u>101,639</u>	<u>50,400</u>
Cash flows from investing activities		
Maturities of marketable securities	54,875	36,387
Purchases of marketable securities	(19,284)	(11,969)
Net cash provided by investing activities	<u>35,591</u>	<u>24,418</u>
Cash flows from financing activities		
Repurchase of shares to satisfy tax withholding	(2,840)	(847)
Payments of principal on senior secured term loans	(120,000)	—
Payments of cash dividends to stockholders	(55)	(107)
Proceeds from issuances of common stock, net	454	185
Payment of principal on non-recourse notes due 2029	—	(64,431)
Distributions to noncontrolling interest	(899)	—
Net cash used in financing activities	<u>(123,340)</u>	<u>(65,200)</u>
Net increase in cash and cash equivalents	13,890	9,618
Cash and cash equivalents at beginning of period	73,336	118,016
Cash and cash equivalents at end of period	<u>\$ 87,226</u>	<u>\$ 127,634</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 10,913	\$ 24,310

See accompanying notes to condensed consolidated financial statements.

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

1. Description of Operations and Summary of Significant Accounting Policies

Description of Operations

Innoviva, Inc. (referred to as “Innoviva”, the “Company”, or “we” and other similar pronouns) is focused on royalty management. Innoviva’s portfolio includes the respiratory assets partnered with Glaxo Group Limited (“GSK”), including RELVAR[®]/BREO[®]ELLIPTA[®] (fluticasone furoate/vilanterol, “FF/VI”), ANORO[®] ELLIPTA[®] (umeclidinium bromide/ vilanterol, “UMEC/VI”) and TRELEGY[®] ELLIPTA[®] (the combination FF/UMEC/VI). Under the Long-Acting Beta2 Agonist (“LABA”) Collaboration Agreement, Innoviva is eligible to receive the associated royalty revenues from RELVAR[®]/BREO[®] ELLIPTA[®] and ANORO[®] ELLIPTA[®]. Innoviva is also entitled to 15% of royalty payments made by GSK under its agreements originally entered into with us, and since assigned to our consolidated variable interest entity, Theravance Respiratory Company, LLC (“TRC”), relating to TRELEGY[®] ELLIPTA[®] and any other product or combination of products that may be discovered and developed in the future under the LABA Collaboration Agreement and the Strategic Alliance Agreement with GSK (referred to herein as the “GSK Agreements”), which have been assigned to TRC other than RELVAR[®]/BREO[®] ELLIPTA[®] and ANORO[®] ELLIPTA[®].

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In our opinion, the unaudited condensed consolidated financial statements have been prepared on the same basis as audited consolidated financial statements and include all adjustments, consisting of only 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, 2018 or any other period.

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, 2017 filed with the Securities and Exchange Commission (“SEC”) on February 23, 2018 (“2017 Form 10-K”).

Variable Interest Entity

We evaluate our ownership, contractual and other interest in entities to determine if they are variable interest entities (“VIE”), whether we have a variable interest in those entities and the nature and extent of those interests. Based on our evaluations, if we determine we are the primary beneficiary of such VIEs, we consolidate such entities into our financial statements. We consolidate the financial results of TRC, which we have determined to be a VIE, because we have the power to direct the economically significant activities of TRC and the obligation to absorb losses of, or the right to receive benefits from, TRC.

Recently Issued Accounting Pronouncement Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases*, which supersedes the lease recognition requirements in ASC Topic 840, *Leases*. The standard requires an entity to recognize right-of-use assets and lease liabilities arising from a lease for both financing and operating leases in the consolidated balance sheets but recognize the impact on the consolidated statement of operations and cash flows in a similar manner under current GAAP. The standard also requires additional qualitative and quantitative disclosures. The standard is effective for us at the beginning January 1, 2019 and requires transition under a modified retrospective method. The most significant impact of the update to us is that we will be required to recognize a “right-of-use” asset and lease liability for the operating lease agreement that was not previously included on the balance sheet under the existing lease guidance. We anticipate that the treatment of the lease on our consolidated statement of operations and cash flows will not materially be affected by the adoption of the new standard.

2. Net Income Per Share

Basic net income per share attributable to Innoviva stockholders is computed by dividing net income attributable to Innoviva stockholders by the weighted-average number of shares of common stock outstanding. Diluted net income per share attributable to Innoviva stockholders is computed by dividing net income attributable to Innoviva stockholders by the weighted-average number of shares of common stock and dilutive potential common stock equivalents then outstanding. Dilutive potential common stock

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equivalents include the assumed exercise, vesting and issuance of employee stock awards using the treasury stock method, as well as common stock issuable upon assumed conversion of our convertible subordinated notes due 2023 (the “2023 Notes”) using the if-converted method.

Our convertible senior notes due 2025 (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. Our current intent is to settle the principal amount of the 2025 Notes in cash upon conversion. The impact of the assumed conversion premium to diluted net income per share is computed using the treasury stock method. As the average market price per share of our common stock as reported on The Nasdaq Global Select Market during the relevant periods was lower than the initial conversion price of \$17.26 per share, there was no dilutive effect of the assumed conversion premium for the three and six months ended June 30, 2018.

The following table shows the computation of basic and diluted net income per share for the three and six months ended June 30, 2018 and 2017:

(In thousands except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income attributable to Innoviva stockholders, basic	\$ 54,626	\$ 35,146	\$ 84,207	\$ 51,991
Add: interest expense on 2023 Notes	1,417	1,414	2,829	2,821
Net income attributable to Innoviva stockholders, diluted	<u>\$ 56,043</u>	<u>\$ 36,560</u>	<u>\$ 87,036</u>	<u>\$ 54,812</u>
Denominator:				
Weighted-average shares used to compute basic net income per share attributable to Innoviva stockholders	100,873	107,614	100,739	107,468
Dilutive effect of 2023 Notes	12,189	12,189	12,189	12,189
Dilutive effect of options and awards granted under equity incentive plan and employee stock purchase plan	337	660	555	660
Weighted-average shares used to compute diluted net income per share attributable to Innoviva stockholders	<u>113,399</u>	<u>120,463</u>	<u>113,483</u>	<u>120,317</u>
Net income per share attributable to Innoviva stockholders				
Basic	<u>\$ 0.54</u>	<u>\$ 0.33</u>	<u>\$ 0.84</u>	<u>\$ 0.48</u>
Diluted	<u>\$ 0.49</u>	<u>\$ 0.30</u>	<u>\$ 0.77</u>	<u>\$ 0.46</u>

Anti-Dilutive Securities

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

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Outstanding options and awards granted under equity incentive plan and employee stock purchase plan	1,633	2,019	1,562	2,541

3. Revenue Recognition and Collaborative Arrangements

Revenue is recognized when our customer obtains control of promised goods or services, in an amount that reflects the consideration which we expect to receive in exchange for those goods or services. Revenue is recognized through a five-step process: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price for the contract; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) a performance obligation is satisfied. We recognize the royalty revenue on licensee net sales of products with respect to which we have contractual royalty rights in the period in which the royalties are earned and reported to us. Royalties are recognized net of amortization of capitalized fees associated with any approval and launch milestone payments made to GSK.

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Net Revenue from Collaborative Arrangements

Net revenue recognized under our GSK Agreements was as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Royalties from a related party - RELVAR/BREO	\$ 57,515	\$ 54,645	\$ 103,675	\$ 93,334
Royalties from a related party - ANORO	10,656	7,152	19,380	12,190
Royalties from a related party - TRELEGY	2,371	—	3,323	—
Total royalties from a related party	70,542	61,797	126,378	105,524
Less: amortization of capitalized fees paid to a related party	(3,456)	(3,456)	(6,912)	(6,912)
Royalty revenue	67,086	58,341	119,466	98,612
Strategic alliance - MABA program license	—	221	—	442
Total net revenue from GSK	\$ 67,086	\$ 58,562	\$ 119,466	\$ 99,054

4. Available-for-Sale Securities and Fair Value Measurements

Available-for-Sale Securities

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

(In thousands)	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. corporate notes	\$ 3,879	\$ —	\$ (10)	\$ 3,869
U.S. commercial paper	16,447	—	—	16,447
Money market funds	81,426	—	—	81,426
Total	\$ 101,752	\$ —	\$ (10)	\$ 101,742
(In thousands)	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government securities	\$ 9,943	\$ —	\$ (1)	\$ 9,942
U.S. government agencies	9,987	—	(2)	9,985
U.S. corporate notes	10,881	—	(15)	10,866
U.S. commercial papers	29,945	—	—	29,945
Money market funds	61,971	—	—	61,971
Total	\$ 122,727	\$ —	\$ (18)	\$ 122,709

As of June 30, 2018, all of the available-for-sale securities had contractual maturities within one year and the weighted average maturity of marketable securities was approximately three months.

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Fair Value Measurements

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

Types of Instruments	Estimated Fair Value Measurements as of June 30, 2018 Using:		
	Quoted Price in Active Markets	Significant Other Observable	Significant Unobservable

(In thousands)	for Identical Assets	Inputs	Inputs	Total
	Level 1	Level 2	Level 3	
Assets				
U.S. corporate notes	\$ —	\$ 3,869	\$ —	\$ 3,869
U.S. commercial paper	—	16,447	—	16,447
Money market funds	81,426	—	—	81,426
Total assets measured at estimated fair value	\$ 81,426	\$ 20,316	\$ —	\$ 101,742
Liabilities				
Term B Loan	\$ —	\$ 123,750	\$ —	\$ 123,750
2023 Notes	—	226,525	—	226,525
2025 Notes	—	202,146	—	202,146
Total fair value of liabilities	\$ —	\$ 552,421	\$ —	\$ 552,421

Estimated Fair Value Measurements as of December 31, 2017 Using:

Types of Instruments (In thousands)	Quoted Price in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
	Level 1	Level 2	Level 3	
Assets				
U.S. government securities	\$ —	\$ 9,942	\$ —	\$ 9,942
U.S. government agencies	—	9,985	—	9,985
U.S. corporate notes	—	10,866	—	10,866
U.S. commercial papers	—	29,945	—	29,945
Money market funds	61,971	—	—	61,971
Total assets measured at estimated fair value	\$ 61,971	\$ 60,738	\$ —	\$ 122,709
Liabilities				
Term B Loan	\$ —	\$ 243,750	\$ —	\$ 243,750
2023 Notes	—	241,259	—	241,259
2025 Notes	—	205,975	—	205,975
Total fair value of liabilities	\$ —	\$ 690,984	\$ —	\$ 690,984

The fair value of our marketable securities classified within Level 2 is based upon observable inputs that may include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data, including market research publications.

The fair value of our 2023 Notes and of our 2025 Notes is based on recent trading prices of the instruments. The carrying amount of our initial senior secured term loan (the “Term B Loan”) before deducting debt issuance costs approximates fair value as the loan carries a variable interest rate that is tied to the LIBOR rate plus an applicable spread.

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5. Stock-Based Compensation

Market-Based RSAs and RSUs

2016 Market-Based RSAs and RSUs

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

In February 2018, the Compensation Committee certified the maximum achievement of the TSR as of the first measurement date, January 12, 2018. 69,440 RSAs and 30,862 RSUs representing two-thirds of the amounts were released on February 20, 2018, and the remaining 34,720 RSAs and 15,432 RSUs will vest on February 20, 2019 subject to each eligible person’s continued employment with the Company. Additionally, in connection with certain members of senior management’s separation from the Company in early February 2018, the Board agreed to accelerate the vesting and distribution of an aggregate of 118,821 RSAs to these members of senior management. The remaining 59,411 RSAs for these members of senior management were forfeited. As a net result of the vesting acceleration of the RSAs and the forfeiture of those unvested RSAs, an additional \$0.7 million compensation expense was recognized during the three months ended March 31, 2018.

2017 Market-Based RSAs and RSUs

On January 17, 2017, the Compensation Committee approved and granted 353,508 RSAs and 53,360 RSUs to senior management. These awards include a market condition based on the TSR of Innoviva’s common stock as compared to the TSR of NASDAQ Biotechnology Index (“Index”) and a service condition that requires continued employment, collectively the “Performance Measures II”. The vesting percentages of these awards are calculated based on the two-year performance period with a catch-up provision opportunity measured on December 31, 2019 for RSAs and on September 30, 2019 for RSUs. Two-thirds of amounts earned at the end of year two will vest and be distributed on February 20, 2019, while the final one-third earned after two years as well as the catch-up amount earned will vest and be distributed on February 20, 2020 for RSAs and November 20, 2019 for RSUs. The actual payout of shares may range from a minimum of zero shares to a maximum of 406,868 shares granted upon the actual performance against the Performance Measures II. The

grant date fair value of these awards is determined using a Monte Carlo valuation model. The aggregate value of \$3.2 million is recognized as compensation expense over the implied service period and will not be reversed if the market condition is not met, but with the exception of such person's continued employment with the Company.

In connection with certain members of senior management's separation from the Company mentioned above, an aggregate of 233,448 RSAs for these members of senior management were forfeited, and \$0.8 million of previously recognized compensation expense was reversed during the three months ended March 31, 2018.

2018 Market-Based RSAs and RSUs

On March 2, 2018, the Compensation Committee approved and granted 111,668 RSAs and 49,630 RSUs to senior management. These awards include a market condition based on the TSR of Innoviva's common stock over a three-year performance period from the date of grant for the RSAs and from the date of grant until September 30, 2020 for RSUs, and a service condition that requires continued employment, collectively the "Performance Measures III". The actual payout of shares may range from a minimum of zero shares to a maximum of 161,298 shares granted upon the actual performance against the Performance Measures III. The grant date fair value of these awards was determined using a Monte Carlo valuation model. The aggregate value of \$1.7 million is recognized as compensation expense over the implied service period and will not be reversed if the market condition is not met, but with the exception of such person's continued employment with the Company.

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Stock-Based Compensation Expense

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

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Research and development	\$ —	\$ 175	\$ —	\$ 353
General and administrative	1,452	2,252	3,621	4,581
Total stock-based compensation expense	\$ 1,452	\$ 2,427	\$ 3,621	\$ 4,934

As of June 30, 2018, unrecognized stock-based compensation cost, including performance-contingent RSAs for which the performance milestones were determined to be probable of achievement, was as follows:

(In thousands)	Unrecognized Compensation Cost
Stock options	\$ 19
RSUs	2,096
RSAs	3,521
Market-based RSUs	627
Market-based RSAs	1,493
Total unrecognized compensation cost	\$ 7,756

6. Debt

Our debt consists of:

(In thousands)	June 30, 2018	December 31, 2017
Term B Loan	\$ 123,750	\$ 243,750
2023 Notes	240,984	240,984
2025 Notes	192,500	192,500
Total debt	557,234	677,234
Unamortized debt discount and issuance costs	(70,707)	(77,872)
Current portion of Term B Loan	—	(25,000)
Net long-term debt	\$ 486,527	\$ 574,362

Prepayment of Senior Secured Term Loans

On February 28, 2018, we paid down the principal balance of the Term B Loan by \$120.0 million. With the prepayment, we incurred a loss on the extinguishment of debt of \$3.1 million representing unamortized debt issuance costs. The loss on the extinguishment of debt is presented as part of other income (expense), net in our consolidated statements of operations. As of June 30, 2018, the outstanding principal balance of the Term B Loan was reduced to \$123.8 million.

Convertible Senior Notes Due 2025

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

discount”) is amortized to interest expense using the effective interest method. The equity component is not re-measured as long as it continues to meet the conditions for equity classification.

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Our outstanding 2025 Notes balances as of June 30, 2018, consisted of the following:

<u>(In thousands)</u>	
Liability component	
Principal	\$ 192,500
Debt discount and issuance costs, net	(65,119)
Net carrying amount	<u>\$ 127,381</u>
Equity component, net	<u>\$ 65,361</u>

In connection with the issuance of the 2025 Notes, we incurred approximately \$5.4 million of debt issuance costs, which primarily consisted of placement, legal and other professional fees, and allocated these costs to the liability and equity components based on the allocation of the proceeds. Of the total \$5.4 million of debt issuance costs, \$1.9 million were allocated to the equity component and recorded as a reduction to additional paid-in capital and \$3.5 million were allocated to the liability component and recorded as a reduction to the carrying amount of the liability component on the consolidated balance sheet. The portion allocated to the liability component is amortized to interest expense over the expected life of the 2025 Notes using the effective interest method.

The following table sets forth total interest expense recognized related to the 2025 Notes for the three and six months ended June 30, 2018:

<u>(In thousands)</u>	<u>Three months ended June 30, 2018</u>	<u>Six months ended June 30, 2018</u>
Contractual interest expense	\$ 1,203	\$ 2,393
Amortization of debt issuance costs	125	248
Amortization of debt discount	1,496	2,975
Total interest and amortization expense	<u>\$ 2,824</u>	<u>\$ 5,616</u>

Debt Maturities

The aggregate scheduled maturities of our long-term debt (consisting of our Term B Loan, 2023 Notes and 2025 Notes) as of June 30, 2018, are as follows:

<u>(In thousands)</u>	
Years ending December 31:	
2018 to 2021	\$ —
2022	123,750
Thereafter	433,484
Total	<u>\$ 557,234</u>

7. Related Party Transaction

On February 12, 2018, the Company entered into an agreement with Sarissa Capital Management LP, and certain of its affiliates (collectively, the “Sarissa Group”) related to the Company’s 2018 Annual Meeting of Stockholders (the “2018 Annual Meeting”). The agreement provided for, among other things, the concurrent appointment of three designees of the Sarissa Group as members of the Company’s Board of Directors and an agreement to recommend and nominate a five-person slate of directors for election at the 2018 Annual Meeting composed of the three new directors and two current directors of the Company and partially reimburse the Sarissa Group \$2.7 million for expenses, which reimbursement obligation relating to the 2018 Annual Meeting arose upon execution of the agreement. The Sarissa Group is considered to be a related party due to its representation on the Board of Directors.

8. Income Taxes

There was no income tax expense for the three and six months ended June 30, 2018. Should we continue to generate taxable income in 2018, we expect that the taxable income will be substantially offset by the utilization of net operating losses or other deferred tax assets, and potential release of valuation allowance. The difference between the consolidated effective income tax rate and the U.S. federal statutory rate is primarily attributable to a change in valuation allowance against net deferred tax assets.

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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 that are not 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,” “pursue,” “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[®] and TRELEGY[®] ELLIPTA[®] 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 beyond the existing respiratory portfolio); the timing, manner, amount and planned growth of anticipated potential capital returns to stockholders (including, without limitation, statements regarding the Company's expectations of future purchases under its future share repurchase authorizations and future cash dividends); 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; projections of revenue, expenses and other financial items; and risks discussed in "Risk Factors" in Item 1A of Part I of our 2017 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 document are based on information available to us as of the date hereof and we assume no obligation to update any such forward-looking statements on account of new information, future events or otherwise, except as required by law.

We encourage you to read our 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 2017 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. Therefore, the information in this report should be read together with other reports and documents that we file with the Securities and Exchange Commission (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. ("Innoviva", the "Company" or "we") is focused on the management of royalty revenues from RELVAR[®]/BREO[®] ELLIPTA[®] (fluticasone furoate/ vilanterol, "FF/VI"), ANORO[®] ELLIPTA[®] (umeclidinium bromide/ vilanterol, "UMEC/VI") and TRELEGY[®] ELLIPTA[®] (the combination FF/UMEC/VI). Under the Long-Acting Beta2 Agonist ("LABA") Collaboration Agreement, we are entitled to receive royalties from GSK on sales of RELVAR[®]/BREO[®] ELLIPTA[®] as follows: 15% on the first \$3.0 billion of annual global net sales and 5% for all annual global net sales above \$3.0 billion; and royalties from the sales of ANORO[®] ELLIPTA[®] which tier upward at a range from 6.5% to 10%. Innoviva is also entitled to 15% of royalty payments made by GSK under its agreements originally entered into with us, and since assigned to Theravance Respiratory Company, LLC ("TRC"), including TRELEGY[®] ELLIPTA[®] and any other product or combination of products that may be discovered or developed in the future under the LABA Collaboration Agreement and the Strategic Alliance Agreement with GSK (referred to herein as the "GSK Agreements"), which have been assigned to TRC other than RELVAR[®]/BREO[®] ELLIPTA[®] and ANORO[®] ELLIPTA[®].

Our company structure and organization are tailored to our focused activities of managing our respiratory assets with GSK, the commercial and developmental obligations associated with the GSK Agreements, intellectual property, licensing operations,

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business development activities and providing for certain essential reporting and management functions of a public company. As of June 30, 2018, we had ten employees. Our revenues consist of royalties from our respiratory partnership agreements with GSK.

Recent Highlights

- GSK Net Sales:
 - Second quarter 2018 net sales of RELVAR[®]/BREO[®] ELLIPTA[®] by GSK were \$383.3 million, up 5.3% from \$364.3 million in the second quarter of 2017, with \$208.6 million in net sales from the U.S. market and \$174.7 million from non-U.S. markets.
 - Second quarter 2018 net sales of ANORO[®] ELLIPTA[®] by GSK were \$163.9 million, up 49.0% from \$110.0 million in the second quarter of 2017, with \$111.8 million net sales from the U.S. market and \$52.1 million from non-U.S. markets.
 - Second quarter 2018 net sales of TRELEGY[®] ELLIPTA[®] by GSK were \$36.5 million. TRELEGY[®] ELLIPTA[®] was approved in September 2017.
- Product Updates:
 - GSK announced in April 2018 the expanded label indication in the U.S. for TRELEGY[®] ELLIPTA[®] in patients with COPD.

Collaborative Arrangements with GSK

LABA Collaboration

In November 2002, we entered into our LABA Collaboration Agreement with GSK to develop and commercialize once-daily LABA products for the treatment of chronic obstructive pulmonary disease ("COPD") and asthma. The collaboration has developed three combination products: (1) 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), (2) ANORO[®] ELLIPTA[®] (UMEC/VI), a once-daily medicine combining a long-acting muscarinic antagonist ("LAMA"), umeclidinium bromide (UMEC), with a LABA, VI and (3) TRELEGY[®] ELLIPTA[®], fluticasone furoate/umeclidinium/vilanterol (FF/UMEC/VI), a once-daily combination medicine consisting of an ICS, LAMA and LABA.

As a result of the launch and approval of RELVAR[®]/BREO[®] ELLIPTA[®] and ANORO[®] ELLIPTA[®] in the U.S., Japan and Europe, in accordance with the LABA Collaboration Agreement, we paid milestone fees to GSK totaling \$220.0 million during the year ended December 31, 2014. The milestone fees paid to GSK were recognized as capitalized fees paid to a related party, which are being amortized over their estimated useful lives commencing upon the commercial launch of the products.

2004 Strategic Alliance

In March 2004, we entered into the Strategic Alliance Agreement with GSK where GSK received an option to license exclusive development and commercialization rights to product candidates from certain of our discovery programs on pre-determined terms and on an exclusive, worldwide basis. In 2005, GSK licensed our MABA program for the treatment of COPD, and in October 2011, we and GSK expanded the MABA program by adding six additional Innoviva-discovered preclinical MABA compounds (the “Additional MABAs”). The development program has been funded in full by GSK and is in Phase II clinical studies stage. GSK is in the process of determining next steps for the program. For a detailed discussion of our alliance with GSK, see Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 23, 2018 (“2017 Form 10-K”).

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 U.S. generally accepted accounting principles (“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.

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Revenue recognition

In May 2014, the FASB issued a new comprehensive revenue recognition standard, ASC 606. We adopted this standard on January 1, 2018 on a modified prospective basis. Under the new guidance, revenue is recognized when our customer obtains control of promised goods or services, in an amount that reflects the consideration which we expect to receive in exchange for those goods or services. Revenue is recognized through a five-step process: (i) identify the contract with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price for the contract; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) a performance obligation is satisfied.

The adoption of ASC 606 did not have a material impact on our consolidated financial statements as we do not have any unrecognized transaction price, other than sales-based royalty revenue, or any remaining performance obligations under our collaboration agreements. We continue to recognize the royalty revenue on licensee net sales of products with respect to which we have contractual royalty rights in the period in which the royalties are earned and reported to us. Royalties are recognized net of amortization of capitalized fees associated with any approval and launch milestone payments made to GSK.

Income tax valuation allowance

As of December 31, 2017, we had federal net operating loss carryforwards of approximately \$1.0 billion and federal research and development tax credit carryforwards of approximately \$45.2 million. As of June 30, 2018, the Company continues to maintain a full valuation allowance on its gross deferred taxes. In assessing whether a valuation allowance is required against the deferred tax assets, the Company has considered the positive and negative evidence as well as sources of taxable income in assessing the realizability of the deferred tax assets. Realization of the deferred tax assets is dependent on future taxable income. We have considered our 3-year cumulative income position as well as strategic options available to the Company that may raise uncertainty regarding continued profitability. Provided that Innoviva continues to generate profits in future quarters and also narrows its strategic options to exclude those that raise uncertainty regarding future profitability, it is reasonably possible that the valuation allowance on the federal deferred tax assets could be removed in the near term. This change in estimate on the realization of the deferred tax asset could result in an income tax benefit of approximately \$0.2 billion in the period of change.

Utilization of net operating loss and tax credit carryforwards may be subject to a substantial annual limitation due to ownership change limitations provided by the Internal Revenue Code Section 382. Annual limitations may result in expiration of net operating loss and tax credit carryforwards before some or all of such amounts have been utilized. The Company conducted a Section 382 analysis through December 31, 2016 to determine whether an ownership change had occurred since inception. The Section 382 study concluded that it is more likely than not that the Company did not experience an ownership change during the testing period. However, notwithstanding the applicable annual limitations, no portion of the net operating loss or credit carryforwards are expected to expire before becoming available to reduce federal and state income tax liabilities as a result of those identified ownership changes. If we undergo another ownership change, the utilization of the pre-ownership change net operating loss carryforwards or pre-ownership change tax attributes, such as research tax credits, to offset the post-ownership change income may be subject to an annual limitation, pursuant to Section 382 and 383 of the Internal Revenue Code of 1986, as amended.

There were no other significant changes to our critical accounting policies and estimates. Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 23, 2018 provides a more complete discussion of our critical accounting policies and estimates.

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Results of Operations

Net Revenue

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

(In thousands)	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2018	2017	\$	%	2018	2017	\$	%
Royalties from a related party - RELVAR/BREO	\$ 57,515	\$ 54,645	\$ 2,870	5%	\$ 103,675	\$ 93,334	\$ 10,341	11%
Royalties from a related party - ANORO	10,656	7,152	3,504	49%	19,380	12,190	7,190	59%
Royalties from a related party - TRELEGY	2,371	—	2,371	*	3,323	—	3,323	*
Total royalties from a related party	70,542	61,797	8,745	14%	126,378	105,524	20,854	20%
Less: amortization of capitalized fees paid to a related party	(3,456)	(3,456)	—	—	(6,912)	(6,912)	—	—
Royalty revenue	67,086	58,341	8,745	15%	119,466	98,612	20,854	21%
Strategic alliance - MABA program license	—	221	(221)	(100)%	—	442	(442)	(100)%
Total net revenue from GSK	\$ 67,086	\$ 58,562	\$ 8,524	15%	\$ 119,466	\$ 99,054	\$ 20,412	21%

*Not meaningful

Total net revenue increased to \$67.1 million and \$119.5 million for the three and six months ended June 30, 2018, compared to \$58.6 million and \$99.1 million, respectively, for the same periods a year ago primarily due to the growth in prescriptions and market share quarter over quarter for both RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA®, and initiation of sales by GSK of TRELEGY® ELLIPTA® in the fourth quarter of 2017.

Research & Development

We did not incur research and development expenses during the three and six months ended June 30, 2018. For the three and six months ended June 30, 2017, we incurred \$0.3 million and \$0.7 million, respectively, in research and development activities related to the late-stage partnered respiratory assets with GSK.

General & Administrative

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

(In thousands)	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2018	2017	\$	%	2018	2017	\$	%
General and administrative expenses	\$ 4,411	\$ 10,384	\$ (5,973)	(58)%	\$ 13,396	\$ 21,179	\$ (7,783)	(37)%
General and administrative expenses - related party	—	—	—	—	2,700	—	2,700	—

General and administrative expenses for the three months ended June 30, 2018 were \$4.4 million compared with \$10.4 million in the three months ended June 30, 2017, a decrease of \$6.0 million. The amount for the three months ended June 30, 2017 included \$4.3 million of proxy contest and associated litigation costs. The rest of the decrease in general and administrative expenses in the three months ended June 30, 2018 is mainly attributable to lower personnel-related expenses, including stock-based compensation expenses, as a result of lower headcount.

General and administrative expenses for the six months ended June 30, 2018 were \$13.4 million compared with \$21.2 million in the six months ended June 30, 2017, a decrease of \$7.8 million. The amount for the six months ended June 30, 2017 included \$8.5 million of proxy contest and associated litigation costs. General and administrative expenses for the six months ended June 30, 2018 included \$3.2 million cash severance payments in connection with certain members of senior management's separation from the Company and payment of \$2.7 million to Sarissa to partially reimburse expenses pursuant to a settlement agreement in February 2018. The rest of the decrease in general and administrative expenses in the six months ended June 30, 2018 is mainly attributable to lower personnel-related expenses, including stock-based compensation expenses, as a result of lower headcount.

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Other Income (Expense), net and Interest Income

Other income (expense), net and interest income, as compared to the prior year period, were as follows:

(In thousands)	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2018	2017	\$	%	2018	2017	\$	%
Other (expense) income, net	\$ 39	\$ (786)	\$ 825	*	\$ (3,060)	\$ (739)	\$ (2,321)	*
Interest income	380	306	74	24%	771	542	229	42%

*Not meaningful

Other income (expense), net for the six months ended June 30, 2018, mainly consists of the loss on the extinguishment of debt of \$3.1 million in relation to the \$120.0 million prepayment of our Term B Loan. Other income (expense), net for the three and six months ended June 30, 2017 mainly consists

of the write-off of debt issuance costs of \$0.8 million in relation to our partial prepayment of our non-recourse notes due 2029 (“2029 Notes”).

Interest income increased for the three and six months ended June 30, 2018, as compared to the same period a year ago primarily due to higher interest generated from our investments in marketable securities.

Interest Expense

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

(In thousands)	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2018	2017	\$	%	2018	2017	\$	%
	Interest expense	\$ (6,478)	\$ (12,204)	\$ 5,726	(47)%	\$ (14,135)	\$ (24,985)	\$ 10,850

Interest expense decreased for the three and six months ended June 30, 2018, compared to the same period a year ago primarily due to the lower average outstanding debt balance. See “Liquidity” section below for further information.

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 collaborative arrangements. In the six months ended June 30, 2018, we generated gross royalty revenues from GSK of \$126.4 million. Net cash and cash equivalents, short term investments and marketable securities totaled \$107.5 million, and royalties receivable from GSK totaled \$70.5 million as of June 30, 2018.

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 of 1933, as amended (the “Securities Act”). The 2025 Notes will mature on August 15, 2025, unless repurchased or converted in accordance with their terms prior to such date. Concurrently with the pricing of the offering, we repurchased and retired 1,317,771 shares of our common stock for approximately \$17.5 million of the net proceeds from the offering, in privately negotiated transactions effected through one of the initial purchasers or its affiliate, as our agent. The remaining net proceeds from the sale of the 2025 Notes in the offering were used to redeem a portion of the principal outstanding under the 2029 Notes on August 15, 2017.

On August 18, 2017, we entered into a Credit Agreement and completed a financing of \$250.0 million Term B Loan, the proceeds of which were used to repay the remaining balance of the 2029 Notes. The Term B Loan will mature on August 18, 2022. Two and a half percent (2.5%) of the initial principal amount was originally due quarterly beginning December 31, 2017. The remaining outstanding balance is due at maturity. Prepayments, in whole or in part, can be made at any time without a penalty. The Credit Agreement also provides us the ability to request one or more additional tranches of term loans (or increase an existing term loan) at any time prior to maturity. On February 28, 2018, we paid down the principal balance of the Term B Loan by \$120.0 million. The outstanding principal balance of the Term B Loan as of June 30, 2018 was \$123.8 million.

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Adequacy of Cash Resources to Meet Future Needs

We believe that cash from projected future royalty revenues and our cash, cash equivalents and marketable securities will be sufficient to meet our anticipated debt service and operating needs for at least the next twelve months based upon current operating plans and financial forecasts. 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 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 tender offers, redemptions, amendments, repurchases or otherwise, all consistent with the terms of our debt agreements.

Cash Flows

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

(In thousands)	Six Months Ended June 30,		Change
	2018	2017	
Net cash provided by operating activities	\$ 101,639	\$ 50,400	\$ 51,239
Net cash provided by investing activities	35,591	24,418	11,173
Net cash used in financing activities	(123,340)	(65,200)	(58,140)

Cash Flows from Operating Activities

Cash provided by operating activities for the six months ended June 30, 2018 was \$101.6 million, consisting primarily of our net income of \$86.9 million, adjusted for non-cash items such as \$6.9 million of depreciation and amortization, \$4.0 million amortization of debt discount and issuance costs, \$3.6 million of stock-based compensation expense and \$3.1 million of loss on extinguishment of debt, partially offset by a reduction in accrued personnel-related expenses and other accrued liabilities of \$1.5 million.

Cash provided by operating activities for the six months ended June 30, 2017 was \$50.4 million, consisting primarily of our net income of \$52.0 million, adjusted for non-cash items such as \$7.0 million of depreciation and amortization and \$4.9 million for stock-based compensation expense, offset by changes in operating assets and liabilities, including an increase in receivables from collaborative arrangements of \$14.9 million.

Cash Flows from Investing Activities

Net cash flows from investing activities for the six months ended June 30, 2018 of \$35.6 million was primarily due to \$54.9 million proceeds received from maturities of marketable securities, partially offset by \$19.3 million in purchases of marketable securities.

Net cash flows from investing activities for the six months ended June 30, 2017 of \$24.4 million was primarily due to \$36.4 million proceeds received from maturities of marketable securities, partially offset by \$12.0 million in purchases of marketable securities.

Cash Flows from Financing Activities

Net cash used in financing activities for the six months ended June 30, 2018 of \$123.3 million was primarily due to \$120.0 million prepayment on our Term B Loan and \$2.8 million paid for the repurchase of shares to satisfy tax withholding.

Net cash used in financing activities for the six months ended June 30, 2017 of \$65.2 million was primarily due to \$64.4 million principal repayments of the 2029 Notes and \$0.8 million paid for repurchase of shares to satisfy tax withholding.

Off-Balance Sheet Arrangements

In June 2014, our facility leases in South San Francisco, California were assigned to Theravance Biopharma, Inc. (“Theravance Biopharma”) in connection with the spin-off of Theravance Biopharma. However, if Theravance Biopharma were to default on its lease obligations, we would be held liable by the landlord and thus, we have in substance guaranteed the lease payments for these facilities. We would also be responsible for lease-related payments including utilities, property taxes, and common area maintenance, which may be as much as the actual lease payments. As of June 30, 2018, the total remaining lease payments for the duration of the lease, which runs through May 2020, were \$12.4 million. The carrying value of this lease guarantee was \$0.6 million as of June 30, 2018 and is reflected in other long-term liabilities in our condensed consolidated balance sheet.

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Contractual Obligations and Commercial Commitments

In the table below, we set forth our significant enforceable and legally binding obligations and future commitments as of June 30, 2018.

(In thousands)	Total	Payment Due by Period			
		Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
2023 Notes	\$ 266,589	\$ 5,121	\$ 10,242	\$ 251,226	\$ —
2025 Notes	228,594	4,813	9,625	9,625	204,531
Term B Loan	123,750	—	—	123,750	—
Facility leases	2,088	398	831	859	—
Total	\$ 621,021	\$ 10,332	\$ 20,698	\$ 385,460	\$ 204,531

The Term B Loan balances reflect the principal repayment obligations and do not include the interest payments as the loan bears interest at a varying rate of three-month LIBOR plus 4.5% margin.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

There have been no significant changes in our market risk or how our market risk is managed compared to those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

We conducted an evaluation as of June 30, 2018, under the supervision and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures, which are defined under SEC rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Securities Exchange Act of 1934 (“Exchange Act”) is recorded, processed, summarized and reported within required time periods. Based upon that evaluation, our Interim Principal 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 were no material changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

[Table of Contents](#)**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

From time to time, we may be involved in legal proceedings in the ordinary course of business.

Item 1A. Risk Factors

Our business is subject to a number of risks, including those identified in Item 1A of Part I of our 2017 Form 10-K. There have been no material changes to the risk factors described in our 2017 Form 10-K, except as set forth in the “Risk Factors” section in Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, which is incorporated by reference herein.

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

None.

Item 6. Exhibits**(a) Index to Exhibits**

Exhibit Number	Description	Form	Exhibit	Incorporated by Reference Filing Date/Period End Date
10.81	Second Amendment to 2009 Severance Plan			
10.82	Offer Letter with Geoffrey Hulme dated as of May 18, 2018			
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14 pursuant to the Securities Exchange Act of 1934			
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14 pursuant to the Securities Exchange Act of 1934			
32	Certifications Pursuant to 18 U.S.C. Section 1350			
101	Interactive Data File (Quarterly Report on Form 10-Q, for the quarterly period ended June 30, 2018)			

[Table of Contents](#)**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: July 26, 2018

/s/ Geoffrey Hulme

Geoffrey Hulme
Interim Principal Executive Officer
(Principal Executive Officer)

Date: July 26, 2018

/s/ Eric d'Esparbes

Eric d'Esparbes
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

**SECOND AMENDMENT TO
2009 SEVERANCE PLAN**

THIS SECOND AMENDMENT to the Innoviva, Inc. (the "Corporation") 2009 Severance Plan, as amended (the "Plan") is made effective as of May 18, 2018 (the "Effective Date").

WHEREAS, the Corporation maintains the Plan;

WHEREAS, pursuant to Article III, Section 6 of the Plan, the Corporation's Board of Directors or Compensation Committee may amend the Plan at any time;

WHEREAS, the Corporation desires to amend the definition of "Eligible Executive" to exclude officers hired on or after the Effective Date or employees promoted to an officer level position on or after the Effective Date; and

WHEREAS, capitalized terms not otherwise defined herein shall have the meanings set forth in the Plan.

NOW, THEREFORE, the Plan is hereby amended as follows:

1. Eligibility Requirements: In addition to the all of the other eligibility requirements set forth in Article I of the Plan, to be an Eligible Employee for severance benefits under the Plan the officer may not have been (a) hired on or after the Effective Date or (b) promoted to an officer level position on or after the Effective Date.

2. Except as amended herein, all of the terms of the Plan shall remain and continue in full force and effect.

INNOVIVA, INC.
2000 SIERRA POINT PARKWAY, SUITE 500
BRISBANE CA 94005

MAY 18, 2018

Geoffrey L. Hulme

Dear Geoffrey,

Innoviva, Inc. (the "Company") is pleased to offer you employment on the following terms:

1. **Position.** Your initial title will be interim Principal Executive Officer and you will report to the Company's Board of Directors. This is a full-time position. While you render services to the Company, you will not engage in any other employment, consulting or other business activity (whether full-time or part-time) that would create a conflict of interest with the Company. By signing this letter agreement, you confirm to the Company that you have no contractual commitments or other legal obligations that would prohibit you from performing your duties for the Company.
2. **Cash Compensation.** The Company will pay you a starting annual base salary of \$300,000, payable in accordance with the Company's standard payroll schedule. This salary will be subject to adjustment by the Company's Board of Directors or its Compensation Committee. In addition, you will be eligible to be considered for an incentive bonus for each fiscal year of the Company. The bonus (if any) will be awarded based on objective or subjective criteria established and approved by the Company's Board of Directors or its Compensation Committee. Your target bonus will be equal to 60% of your annual base salary. Any bonus for the fiscal year in which your employment begins will be prorated, based on the number of days you are employed by the Company during that fiscal year. Any bonus for a fiscal year is expected to be paid within 2.5 months after the close of that fiscal year, but only if you are still an active employee of the Company in good standing at the time of payment. The determinations of the Company's Board of Directors or its Compensation Committee with respect to your bonus will be final and binding.
3. **Employee Benefits.** As a regular employee of the Company, you will be eligible to participate in a number of Company-sponsored benefits, including medical, vision and dental coverage, and the Company's 401(k) plan and Employee Stock Purchase Plan, to the extent such plans remain in existence. In addition, you will be entitled to 4 weeks paid time off in accordance with the Company's paid time off policy, as in effect from time to time.
4. **Stock Options.** Subject to the approval of the Company's Board of Directors or its Compensation Committee, you will be granted an option to purchase a number of shares of the Company's Common Stock to be determined by the Company's Board of Directors or its Compensation Committee at a later date (the "Option"). The exercise price per share of the Option will be determined by the Company's Board of Directors or its Compensation Committee when the Option is granted. The Option will be subject to the terms and conditions applicable to options granted under the Company's 2012 Equity Incentive Plan (the "Plan") and the applicable Stock Option Agreement. You will vest in 25% of the Option shares after 12 months of continuous service with the Company (the "One-year Anniversary"), and the balance will vest in 12 equal installments on each Company Vesting Date thereafter, provided you remain in continuous service

through each such vesting date, as described in the applicable Stock Option Agreement. A "Company Vesting Date" means February 20, May 20, August 20 or November 20.

5. **Severance Benefits.**
 - a. **General.** If you are subject to an Involuntary Termination, then you will be entitled to the benefits described in this Section 5. However, this Section 5 will not apply unless you (i) have returned all Company property in your possession, (ii) have resigned as a member of the Board of Directors of the Company and all of its subsidiaries, to the extent applicable, and (iii) have executed a general release of all claims that you may have against the Company or persons affiliated with the Company. The release must be in the form prescribed by the Company, without alterations. You must execute and return the release on or before the date specified by the Company in the prescribed form (the "Release Deadline"). The Release Deadline will in no event be later than 50 days after your Separation. If you fail to return the release on or before the Release Deadline, or if you revoke the release, then you will not be entitled to the benefits described in this Section 5.
 - b. **Separation Payment.** If you are subject to an Involuntary Termination prior to the One-year Anniversary, then the Company will pay you a lump-sum in cash equal to the product of (i) \$25,000, multiplied by (ii) the number of full months remaining until the One-year Anniversary. Such payment will be made within 60 days after your Separation; however, if such 60-day period spans two calendar years, then the payment will be made on the first pay period in the second calendar year after expiration of any revocation period.
 - c. **Cash Bonus.** If you are subject to an Involuntary Termination following the One-year Anniversary, you will remain eligible to receive a pro-rata bonus (based on the number of full months of employment completed in the year of termination) for the year of termination, subject to the terms and conditions of the Company's bonus program in effect at the time of termination (other than continued employment) including the achievement of any performance conditions, payable at the same time as bonuses are paid to active employees.
 - d. **Severance Plan.** You hereby agree that you are not entitled to any payments, equity acceleration or other benefits pursuant to the Company's 2009 Severance Plan, as amended, and that the only benefits you may be entitled to upon the termination of your employment with the Company are set forth in this Section 5.
6. **Confidentiality, Non-Competition and Work Product Agreement.** Like all Company employees, you will be required, as a condition of your employment with the Company, to sign the Company's standard "Proprietary Information and Inventions Agreement", a copy of which is attached hereto as **Exhibit A**.

7. **Employment Relationship.** Employment with the Company is for no specific period of time. Your employment with the Company will be “at will,” meaning that either you or the Company may terminate your employment at any time and for any reason, with or without Cause, subject to the severance benefits you may be entitled to under this letter. Any contrary representations that may have been made to you are superseded by this letter agreement. This is the full and complete agreement between you and the Company on this term. Although your job duties, title, compensation and benefits, as well as the Company’s personnel policies and procedures, may change from time to time, the “at will” nature of your employment may only be changed in an express written agreement signed by you and a duly authorized officer of the Company or a member of the Company’s Board of Directors (in each case, other than you).
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8. **Tax Matters.**

- a. **Withholdings.** All forms of compensation referred to in this letter agreement are subject to applicable with holding and payroll taxes and other deductions required by law.
- b. **Section 409A.** To the extent that any payment or benefit described in this letter agreement constitutes “non-qualified deferred compensation” under Section 409A of the Internal Revenue Code (the “Code”), and to the extent that such payment or benefit is payable upon your termination of employment, then such payments or benefits shall be payable only upon your “separation from service.” It is intended that payments under this letter satisfy, to the greatest extent possible, the exemption from the application of Section 409A of the Code (the (and any state law of similar effect) provided under Treasury Regulation Section 1.409A-1(b)(4) (as a “short-term deferral”). The determination of whether and when a separation from service has occurred shall be made in accordance with the presumptions set forth in Treasury Regulation Section 1.409A-1(h). The parties intend that this letter shall be administered in accordance with Section 409A of the Code. To the extent that any provision of this letter is ambiguous as to its compliance with Section 409A of the Code, the provision shall be read in such a manner so that all payments hereunder comply with Section 409A of the Code. Each payment pursuant to this letter is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2). The parties agree that this letter may be amended, as reasonably requested by either party, and as may be necessary to fully comply with Section 409A of the Code and all related rules and regulations in order to preserve the payments and benefits provided hereunder without additional cost to either party.
- c. **Tax Advice.** You are encouraged to obtain your own tax advice regarding your compensation from the Company. You agree that the Company does not have a duty to design its compensation policies in a manner that minimizes your tax liabilities, and you will not make any claim against the Company, its Board of Directors or its Compensation Committee related to tax liabilities arising from your compensation.

9. **Interpretation, Amendment and Enforcement.** This letter agreement and Exhibit A supersede and replace any prior agreements, representations or understandings (whether written, oral, implied or otherwise) between you and the Company and constitute the complete agreement between you and the Company regarding the subject matter set forth herein. This letter agreement may not be amended or modified, except by an express written agreement signed by both you and a duly authorized officer of the Company or a member of the Company’s Board of Directors (in each case, other than you). The terms of this letter agreement and the resolution of any disputes as to the meaning, effect, performance or validity of this letter agreement or arising out of, related to, or in any way connected with, this letter agreement, your employment with the Company or any other relationship between you and the Company (the “Disputes”) will be governed by California law, excluding laws relating to conflicts or choice of law. You and the Company submit to the exclusive personal jurisdiction of the federal and state courts located in California in connection with any Dispute or any claim related to any Dispute.

Definitions. The following terms have the meaning set forth below wherever they are used in this letter agreement:

“Cause” means (a) your unauthorized use or disclosure of the Company’s confidential information or trade secrets, which use or disclosure causes material harm to the Company, (b) your material breach of any written agreement between you and the Company, (c) your material failure to comply with the Company’s written policies or rules, (d) your conviction of, or your plea of “guilty” or “no contest” to, a felony under the laws of the United

States or any State, (e) your gross negligence or willful misconduct in performance of your duties, (f) your continuing failure to perform assigned duties after receiving written notification of the failure from the Company’s Board of Directors or (g) your failure to cooperate in good faith with a governmental or internal investigation of the Company or its directors, officers or employees, if the Company has requested your cooperation.

“Involuntary Termination” means your Termination Without Cause.

“Separation” means a “separation from service,” as defined in the regulations under Section 409A of the Code.

“Termination Without Cause” means a Separation as a result of a termination of your employment by the Company without Cause.”

* * * * *

We hope that you will accept our offer to join the Company. You may indicate your agreement with these terms and accept this offer by signing and dating both the enclosed duplicate original of this letter agreement and the Proprietary Information and Inventions Agreement and returning them to me. This offer, if not accepted, will expire at the end of the day on May 20, 2018. As required by law, your employment with the Company is contingent upon your providing legal proof of your identity and authorization to work in the United States. Your employment is also contingent upon (i) your starting work with the Company on or before May 21, 2018, (ii) your completing the Company’s standard employment documentation and (iii) a background and/or reference check to the Company’s satisfaction.

If you have any questions, please call me.

Very truly yours,

Signed: /s/ Odysseas Kostas, M.D.

Title Chairman of the Board

Date: May 18, 2018

I have read and accept this employment offer:

Signed: /s/ Geoffrey L. Hulme

Date: May 18, 2018

Attachment

Exhibit A: Proprietary Information and Inventions Agreement

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

I, Geoffrey Hulme, certify that:

1. I have reviewed this 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: July 26, 2018

/s/ Geoffrey Hulme

Geoffrey Hulme
Interim Principal Executive Officer
((Principal Executive Officer))

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

I, Eric d'Esparbes, 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: July 26, 2018

/s/ Eric d'Esparbes

Eric d'Esparbes

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

**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, Geoffrey Hulme, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Innoviva, Inc. on Form 10-Q for the period ended June 30, 2018 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: July 26, 2018

By: _____
/s/ Geoffrey Hulme
Geoffrey Hulme
Interim Principal 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, Eric d'Esparbes, 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 June 30, 2018 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: July 26, 2018

By: _____
/s/ Eric d'Esparbes
Eric d'Esparbes
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
