Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

o 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.)

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 x No o

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 x No o

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of registrant's common stock outstanding on July 31, 2016 was 111,202,828.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2016 (unaudited)	December 31, 2015 *
Assets		
Current assets:		
Cash and cash equivalents	$ 112,945	$ 159,180
Short-term marketable securities	40,921	28,103
Related party receivables from collaborative arrangements	35,817	26,228
Prepaid expenses and other current assets	738	814
Total current assets	190,421	214,325
Property and equipment, net	174	221
Capitalized fees paid to a related party, net	187,456	194,368
Other assets	58	18
Total assets	$ 378,109	$ 408,932
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 137	$ 818
Accrued personnel-related expenses	1,126	1,659
Accrued interest payable	7,823	7,911
Other accrued liabilities	1,392	2,218
Non-recourse notes, due 2029, current	3,266	—
Deferred revenue	885	885
Total current liabilities	14,629	13,491
Convertible subordinated notes, due 2023, net of issuance costs	241,408	250,992
Non-recourse notes, due 2029, net of issuance costs	480,879	482,139
Other long-term liabilities	1,639	1,856
Deferred revenue	2,656	3,099
Commitments and contingencies (Note 9)		
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, 111,617 and 114,933 shares issued as of June 30, 2016 and December 31, 2015, respectively	1,116	1,149
Treasury stock: 150 shares as of June 30, 2016 and December 31, 2015	(3,263)	(3,263)
Additional paid-in capital	1,312,434	1,351,898
Accumulated other comprehensive income (loss)	6	(2)
Accumulated deficit	(1,673,395)	(1,692,427)

Total stockholders' deficit	(363,102)	(342,645)
Total liabilities and stockholders' deficit	$ 378,109	$ 408,932

See accompanying notes to condensed consolidated financial statements.

* Condensed consolidated balance sheet as of December 31, 2015 has been derived from audited consolidated financial statements.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Royalty revenue from a related party, net of amortization for capitalized fees paid to a related party of $3,456 and $3,456 for the three months ended June 30, 2016 and 2015 and $6,912 and $6,912 for the six months ended June 30, 2016 and 2015	$ 32,251	$ 10,434	$ 56,206	$ 17,108
Revenue from collaborative arrangements from a related party, net	221	221	442	443
Total net revenue	32,472	10,655	56,648	17,551
Operating expenses:				
Research and development	370	638	762	1,350
General and administrative	6,225	4,909	12,477	10,348
Total operating expenses	6,595	5,547	13,239	11,698
Income from operations	25,877	5,108	43,409	5,853
Other income (expense), net	1,719	(16)	1,687	1,162
Interest income	157	85	249	201
Interest expense	(13,156)	(12,987)	(26,313)	(25,693)
Net income (loss)	$ 14,597	$ (7,810)	$ 19,032	$ (18,477)
Basic and diluted net income (loss) per share	$ 0.13	$ (0.07)	$ 0.17	$ (0.16)
Shares used to compute basic and diluted net income (loss) per share:				
Shares used to compute basic net income (loss) per share	111,359	115,329	112,005	115,096
Shares used to compute diluted net income (loss) per share	124,316	115,329	112,531	115,096
Cash dividend declared per common share	$ —	$ 0.25	$ —	$ 0.50

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income (loss)	$ 14,597	$ (7,810)	$ 19,032	$ (18,477)
Other comprehensive income:				
Unrealized gain on marketable securities, net	8	2	9	1,228
Less: realized gain on marketable securities, net	(1)	—	(1)	(1,151)
Comprehensive income (loss)	$ 14,604	$ (7,808)	$ 19,040	$ (18,400)

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Six months ended June 30,	
	2016	2015
Cash flows from operating activities		
Net income (loss)	$ 19,032	$ (18,447)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,967	6,966
Stock-based compensation	4,705	3,755
Amortization of premium (discount) on short-term investments	(14)	392
Interest added to the principal balance of the non-recourse term notes due 2029	855	12,836
Gain on repurchase of convertible subordinated notes due 2023	(1,752)	—
Amortization of debt issuance costs	1,414	1,527
Realized gain on sale of marketable securities, net	1	(1,204)
Amortization of lease guarantee	(28)	—
Other non-cash items	—	(2)
Changes in operating assets and liabilities:		
Receivables from collaborative arrangements	(9,589)	(3,447)
Prepaid expenses and other current assets	76	437
Other assets	(40)	—
Accounts payable	(681)	462
Payable to Theravance Biopharma, Inc., net	—	(906)
Accrued personnel-related expenses and other accrued liabilities	(627)	(1,709)
Accrued interest payable	(88)	374
Other long-term liabilities	(78)	(3)
Deferred revenue	(443)	(443)
Net cash provided by operating activities	19,710	558
Cash flows from investing activities		
Maturities of marketable securities	44,101	59,120
Purchases of marketable securities	(59,893)	(8,457)
Sales of marketable securities	2,995	57,098
Purchases of property and equipment	(8)	(6)
Net cash (used in) provided by investing activities	(12,805)	107,755
Cash flows from financing activities		
Repurchase of common stock	(44,331)	—
Repurchase of convertible subordinated notes due 2023	(8,095)	—
Payments of cash dividends to stockholders	(843)	(58,045)
Repurchase of shares to satisfy tax withholding	(597)	(2,121)
Proceeds from capped-call options	391	—
Proceeds from issuances of common stock, net	335	4,632
Net cash used in financing activities	(53,140)	(55,534)
Net (decrease) increase in cash and cash equivalents	(46,235)	52,779
Cash and cash equivalents at beginning of period	159,180	96,800
Cash and cash equivalents at end of period	$ 112,945	$ 149,579
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 24,132	$ 10,954

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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 bringing compelling new medicines to patients in areas of unmet need by leveraging its significant expertise in the development, commercialization and financial management of bio-pharmaceuticals. Innoviva's portfolio is anchored by the 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 Beta*2* Agonist ("LABA") Collaboration Agreement and the Strategic Alliance Agreement with GSK (referred to herein as the "GSK Agreements"), Innoviva is eligible to receive the associated royalty revenues from RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA®. Innoviva is also entitled to 15% of any future payments made by GSK under its agreements originally entered into with us, and since assigned to Theravance Respiratory Company, LLC ("TRC"), relating to the combination FF/UMEC/VI and the Bifunctional Muscarinic Antagonist- Beta*2* Agonist ("MABA") program, as monotherapy and in combination with other therapeutically active components, such as an inhaled corticosteroid, and any other product or combination of products that may be discovered and developed in the future under the LABA Collaboration Agreement ("LABA Collaboration"), which has 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, 2016 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, 2015 filed with the Securities and Exchange Commission ("SEC") on February 24, 2016.

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. The financial position and results of operations of TRC are not material for the periods presented.

Recently Issued Accounting Pronouncements Not Yet Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 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 beginning January 1, 2019, although early adoption is permitted. We are currently evaluating adoption methods and whether this standard will have a material impact on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which provides guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. This standard is effective for us beginning January 1, 2018. We are evaluating the effects of the adoption of this ASU to our consolidated financial statements.

Table of Contents

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, requiring an entity to recognize the amount of revenue to which it expects to be entitled to in exchange for the transfer of promised goods or services to customers. The standard will replace nearly all existing revenue recognition guidance under GAAP when it becomes effective. In July 2015, the FASB decided to defer the effective date by one year. Thus, the standard will be effective for us beginning January 1, 2018, at which time we may adopt the standard under either the full retrospective method or the modified retrospective method. Early adoption on or after January 1, 2017 would be permitted. We are currently evaluating the effect that the new standard will have on our consolidated financial statements and related disclosures.

Recently Adopted Accounting Pronouncement

In April 2015, the FASB issued ASU 2015-03, *Interest — Imputation of Interest* ("ASU 2015-03"), to simplify the presentation of debt issuance costs. This standard amended existing guidance to require the presentation of debt issuance costs associated with term loans in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. We adopted ASU 2015-03 on January 1, 2016. Upon adoption of ASU 2015-03, we applied the guidance retrospectively to all periods presented and classified our debt issuance costs, which prior to adoption were included in other assets in the condensed consolidated financial statements, as a deduction to our respective long-term debts.

2. Net Income (Loss) per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common shares outstanding. Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common shares and dilutive potential common share equivalents then outstanding. Dilutive potential common share equivalents include the assumed exercise, vesting and issuance of employee stock awards using the treasury stock method, as well as common shares issuable upon assumed conversion of our convertible debt using the if-converted method.

The following table shows the computation of basic and diluted net income per share for the three and six months ended June 30, 2016 and 2015:

(In thousands except for per share amounts)	Three Months Ended June 30, 2016 (1)(2)	2015	Six Months Ended June 30 2016 (3)	2015
Numerator:				
Net income (loss) attributable to common stockholders, basic	$ 14,597	$ (7,810)	$ 19,032	$ (18,477)
Add: Interest expense on convertible subordinated notes due 2023, net of tax	1,457	—	—	—
Net income (loss) attributable to common stockholders, diluted	$ 16,054	$ (7,810)	$ 19,032	$ (18,477)
Denominator:				
Weighted-average shares used to compute basic net income (loss) per share	111,359	115,329	112,005	115,096
Dilutive effect of convertible subordinated notes due 2023	12,602	—	—	—
Dilutive effect of options and awards granted under equity incentive plan and employee stock purchase plan	355	—	526	—
Weighted-average shares used to compute diluted net income (loss) per share	124,316	115,329	112,531	115,096
Net income (loss) per share				
Basic	$ 0.13	$ (0.07)	$ 0.17	$ (0.16)
Diluted	$ 0.13	$ (0.07)	$ 0.17	$ (0.16)

Table of Contents

Anti-Dilutive Securities

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

(In thousands)	Three Months Ended June 30, 2016 (1)	2015 (4)	Six Months Ended June 30, 2016 (3)	2015 (5)
Outstanding options and awards granted under equity incentive plan and employee stock purchase plan	4,276	7,178	4,383	7,516
Shares issuable upon conversion of convertible subordinated notes	—	12,678	12,753	12,678
	4,276	19,856	17,136	20,194

(1) Includes 2.9 million options, 0.1 million restricted stock units, and 0.1 million unvested restricted stock awards (“RSAs”) retained by former employees who were transferred to Theravance Biopharma, Inc. (“Theravance Biopharma”) in connection with the Spin-Off of Theravance Biopharma in June 2014 (the “Spin-Off”). Subsequent to the Spin-Off, stock-based compensation expense associated with the awards held by Theravance Biopharma employees granted prior to the Spin-Off is recognized by Theravance Biopharma. Stock options of 2.9 million were excluded from the diluted net income per share calculation as their effect was anti-dilutive.

(2) For the three months ended June 30, 2016, the effect of assumed conversion of convertible subordinated notes due 2023 became dilutive under the if-converted method and was included in the computation of diluted net income per share.

(3) Includes 3.2 million options, 0.1 million restricted stock units, and 0.3 million unvested RSAs retained by former employees who were transferred to Theravance Biopharma in connection with the Spin-Off. Subsequent to the Spin-Off, stock-based compensation expense associated with the awards held by Theravance Biopharma employees granted prior to the Spin-Off is recognized by Theravance Biopharma. Stock options for 3.2 million shares of common stock were excluded from the diluted net income per share calculation as their effect was anti-dilutive.

(4) Includes 4.2 million options, 0.4 million restricted stock units, and 1.1 million unvested RSAs retained by former employees who were transferred to Theravance Biopharma in connection with the Spin-Off. All of these awards were excluded from the diluted net loss per share calculation as their effect was anti-dilutive.

(5) Includes 4.4 million options, 0.5 million restricted stock units, and 1.2 million unvested RSAs retained by former employees who were transferred to Theravance Biopharma in connection with the Spin-Off. All of these awards were excluded from the diluted net loss per share calculation as their effect was anti-dilutive.

3. Collaborative Arrangements

Net Revenue from Collaborative Arrangements

Net revenue recognized under our GSK Agreements was as follows:

(In thousands)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Royalties from a related party	$ 35,707	$ 13,890	$ 63,118	$ 24,020
Less: amortization of capitalized fees paid to a related party	(3,456)	(3,456)	(6,912)	(6,912)
Royalty revenue	32,251	10,434	56,206	17,108
Strategic alliance - MABA program	221	221	442	443

Total net revenue from GSK	$ 32,472	$ 10,655	$ 56,648	$ 17,551

LABA Collaboration

As a result of the launch and approval of RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA® in the U.S., Japan and Europe, we paid milestone fees to GSK totaling $220.0 million during the year ended December 31, 2014. Although we have no further milestone payment obligations to GSK pursuant to the LABA Collaboration Agreement, we continue to have ongoing development and commercialization activities under the GSK Agreements that are expected to continue over the life of the agreements. The milestone fees paid to GSK were recognized as capitalized fees paid to a related party, which are being amortized over their estimated useful lives commencing upon the commercial launch of the product. The amortization expense is recorded as a reduction to the royalties from GSK.

Table of Contents

We are entitled to receive annual royalties from GSK on sales of RELVAR®/BREO® ELLIPTA® as follows: 15% on the first $3.0 billion of annual global net sales and 5% for all annual global net sales above $3.0 billion. Sales of single-agent LABA medicines and combination medicines would be combined for the purposes of this royalty calculation. For other products combined with a LABA from the LABA Collaboration, such as ANORO® ELLIPTA®, royalties are upward tiering and range from 6.5% to 10%.

Agreements Entered into with GSK in Connection with the Spin-Off

On March 3, 2014, in contemplation of the Spin-Off, we, Theravance Biopharma and GSK entered into a series of agreements, including amendments to the GSK Agreements, clarifying how the companies would implement the Spin-Off and operate following the Spin-Off. Pursuant to a three-way master agreement, by and among us, Theravance Biopharma and GSK, we agreed to sell a certain number of Theravance Biopharma shares withheld from a taxable dividend of Theravance Biopharma shares to GSK. After such Theravance Biopharma shares were sent to the transfer agent, we agreed to purchase the Theravance Biopharma shares from the transfer agent, rather than have them sold on the open market, in order to satisfy tax withholdings. GSK had a right to purchase these shares of Theravance Biopharma from us, but this right expired unexercised. During the six months ended June 30, 2015, we sold all 436,802 ordinary shares of Theravance Biopharma that we held as of December 31, 2014. Refer to Note 4 “Available-for-Sale Securities and Fair Value Measurements” for further information.

GSK Contingent Payments and Revenue

The potential future contingent payments receivable related to the MABA program of $363 million are not deemed substantive milestones due to the fact that the achievement of the event underlying the payment predominantly relates to GSK’s performance of future development, manufacturing and commercialization activities for product candidates after licensing the program. We are entitled to 15% of any milestone payments through our ownership interest in TRC.

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

Available-for-Sale Securities

The classification of available-for-sale securities in the condensed consolidated balance sheets is as follows:

(In thousands)	June 30, 2016	December 31, 2015
Cash and cash equivalents	$ 110,228	$ 148,673
Short-term marketable securities	40,921	28,103
Total	$ 151,149	$ 176,776

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:

	June 30, 2016		
(In thousands)	Amortized Cost	Gross Unrealized Gains	Estimated Fair Value
U.S. government agencies	$ 19,970	$ 6	$ 19,976
U.S. commercial paper	52,535	—	52,535
Money market funds	78,638	—	78,638
Total	$ 151,143	$ 6	$ 151,149

	December 31, 2015		
(In thousands)	Amortized Cost	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies	$ 14,406	$ (1)	$ 14,405
U.S. corporate notes	2,702	(1)	2,701
U.S. commercial paper	10,997	—	10,997
Money market funds	148,673	—	148,673
Total	$ 176,778	$ (2)	$ 176,776

As of June 30, 2016, all of the available-for-sale securities had contractual maturities within one year and the weighted average maturity of marketable securities was approximately four months. We have determined that the gross unrealized gains on our marketable securities as of June 30, 2016 were temporary in nature.

During the six months ended June 30, 2015, we sold all of the ordinary shares of Theravance Biopharma, which resulted in a gain on sale of $1.2 million, which is included in other income (expense), net in the condensed consolidated statement of operations.

Table of Contents

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:

	Estimated Fair Value Measurements as of June 30, 2016 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				
U.S. government agencies	$ —	$ 19,976	$ —	$ 19,976
U.S. commercial paper	—	52,535	—	52,535
Money market funds	78,638	—	—	78,638
Total assets measured at estimated fair value	$ 78,638	$ 72,511	$ —	$ 151,149
Liabilities				
Convertible subordinated notes due 2023	$ —	$ 197,825	$ —	$ 197,825
Non-recourse notes due 2029	—	494,017	—	494,017
Total fair value of liabilities	$ —	$ 691,842	$ —	$ 691,842

	Estimated Fair Value Measurements as of December 31, 2015 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				
U.S. government agencies	$ —	$ 14,405	$ —	$ 14,405
U.S. corporate notes	—	2,701	—	2,701
U.S. commercial paper	—	10,997	—	10,997
Money market funds	148,673	—	—	148,673
Total assets measured at estimated fair value	$ 148,673	$ 28,103	$ —	$ 176,776
Liabilities				
Convertible subordinated notes due 2023	$ —	$ 189,100	$ —	$ 189,100
Non-recourse notes due 2029	—	470,970	—	470,970
Total fair value of liabilities	$ —	$ 660,070	$ —	$ 660,070

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 convertible subordinated notes due 2023 and non-recourse notes due 2029 is based on recent trading prices of the instruments.

5. Capitalized Fees Paid to a Related Party

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

	June 30, 2016				December 31, 2015		
(In thousands)	Weighted Average Remaining Amortization Period (Years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Approval and launch related milestone payments under the LABA Collaboration	13.6	$ 220,000	$ (32,544)	$ 187,456	$ 220,000	$ (25,632)	$ 194,368

These milestone fees are being amortized over their estimated useful lives commencing upon the commercial launch of the product in their respective regions with the amortization expense recorded as a reduction in revenue from collaborative arrangements.

Table of Contents

Additional information regarding these milestone fees is included in Note 3, “Collaborative Arrangements.” Amortization expense for the three and six months ended June 30, 2016 and 2015 was $3.5 million and $6.9 million, respectively. As of June 30, 2016, the remaining estimated amortization expense is $6.9 million for 2016, $13.8 million for each of the years from 2017 to 2021, and an aggregate of $111.4 million thereafter.

6. Stock-Based Compensation

Performance-Contingent RSAs and RSUs

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

Included in these performance-contingent RSAs is the grant of 1,290,000 special long-term retention and incentive performance-contingent RSAs to senior management in 2011. The awards have dual triggers of vesting based upon the achievement of certain performance conditions over a six-year timeframe from 2011 through December 31, 2016 and require continued employment. In connection with the Spin-Off, our Compensation Committee approved the modification of the remaining tranches related to these awards as the performance conditions associated with the remaining portions of these awards were unlikely to be consistent with the new strategies of each company following the Spin-Off. The remaining 63,135 RSAs for which service-based vesting was not triggered at the time of the Spin-Off remain subject to new performance conditions (as well as the original service conditions). In addition, the RSAs for which both the performance and service-based conditions were not achieved prior to the Spin-Off were entitled to the pro rata dividend distribution made by Innoviva on June 2, 2014 of one ordinary share of Theravance Biopharma for every 3.5 shares of Innoviva common stock subject to their awards, which will also be subject to the same new performance and service conditions as the original RSAs to which they relate. As of June 30, 2016, we determined that the achievement of the requisite performance conditions was probable and, as a result, $1.2 million compensation cost was recognized for the remaining equity awards.

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 Relative Total Shareholder Return ("TSR") and a service condition that requires continued employment, collectively the "Performance Measures". 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 will 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. The grant date fair value of these awards is 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.

Stock-Based Compensation Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2016**	**2015**	**2016**	**2015**
Research and development	$ 172	$ 232	$ 347	$ 467
General and administrative	2,669	1,590	4,358	3,288
Total stock-based compensation	$ 2,841	$ 1,822	$ 4,705	$ 3,755

As of June 30, 2016, unrecognized compensation expense, net of expected forfeitures for awards expected to vest, including the market based awards was as follows: $1.2 million related to unvested stock options; $2.0 million related to unvested RSUs; and $11.3 million related to unvested RSAs.

At the time of the Spin-Off, all outstanding stock options, RSUs and RSAs held by former employees and directors, who transferred to Theravance Biopharma, were retained by them. As the vesting of these options and awards is based on continuing employment or service with Theravance Biopharma, all stock-based compensation expense associated with these options and awards is recognized by Theravance Biopharma.

Table of Contents

7. Long-Term Debt

Our long-term debt consists of:

(In thousands)	**June 30, 2016**	**December 31, 2015**
Convertible Subordinated Notes due 2023	$ 245,109	$ 255,109
Non-Recourse Notes Payable due 2029	494,017	493,162
Total long-term debt	739,126	748,271
Unamortized debt issuance costs	(13,573)	(15,140)
Current portion of long-term debt	(3,266)	—
Net long-term debt	$ 722,287	$ 733,131

Convertible Subordinated Notes Due 2023

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

The 2023 Notes were convertible, at the option of the holder, into shares of our common stock at an initial conversion rate of 35.9903 shares per $1,000 principal amount of the 2023 Notes, subject to adjustment in certain circumstances, which represents an initial conversion price of approximately $27.79 per share. Following the Spin-Off of Theravance Biopharma, a number of adjustments to the initial conversion rate have been made as described below. Holders of the 2023 Notes will be able to require us to repurchase some or all of their notes upon the occurrence of a fundamental change, as defined in the 2013 Notes, at 100% of the principal amount of the notes being repurchased plus accrued and unpaid interest. We may not redeem the notes prior to their stated maturity date.

In connection with the offering of the 2023 Notes, we entered into two privately-negotiated capped call option transactions with a single counterparty. The capped call option transaction is an integrated instrument consisting of a call option on our common stock purchased by us with a strike price equal to the initial conversion price of $27.79 per share for the underlying number of shares and a cap price of $38.00 per share, both of which are subject to adjustments consistent with the 2023 Notes. The cap component is economically equivalent to a call option sold by us for the underlying number of shares with an initial strike price of $38.00 per share. As an integrated instrument, the settlement of the capped call coincides with the due date of the convertible debt. Upon settlement, we would receive from our hedge counterparty a number of shares of our common shares that would range from zero, if the stock price was below $27.79 per share, to a maximum of 2,779,659 shares, if the stock price is above $38.00 per share. However, if the market price of our common stock, as measured under the terms of the capped call transactions, exceeds $38.00 per share, there is no incremental anti-dilutive benefit from the capped call.

In accordance with the agreement for the 2023 Notes, the conversion rate was adjusted as a result of the completion of the Spin-Off of Theravance Biopharma. The conversion rate was adjusted based on the conversion rate immediately prior to the record date for the Spin-Off and the average of the stock dividend distributed to our common stockholders and our stock prices. This resulted in an adjusted conversion rate of 46.9087 shares per $1,000 principal amount of the 2023 Notes, which represents an adjusted conversion price of approximately $21.32 per share. As a result of the conversion rate adjustment, the capped call strike price and cap price were also adjusted accordingly to $21.32 and $29.16, respectively. On July 15, 2014, certain holders of the 2023 Notes converted their notes into 1,519,402 shares of our common stock at the adjusted conversion price of $21.32 per share. In connection with the partial conversion of the 2023 Notes, we received 149,645 shares of our common stock from our capped call option counterparty and the shares of common stock received were recorded as treasury stock.

In connection with the payments of the cash dividends during the years ended December 31, 2015 and 2014, the adjusted conversion rate with respect to our 2023 Notes was further adjusted in total from 46.9087 shares of our common stock per $1,000 principal amount of the 2023 Notes to 50.5818 shares of our common stock per $1,000 principal amount of the 2023 Notes, which represents an adjusted conversion price of approximately $19.77 per share. As a result of the conversion rate adjustment, the capped call strike price and cap price were also adjusted accordingly to $19.77 and $27.04.

In May 2016, we retired a portion of our 2023 Notes with a face value of $10.0 million and carrying value of $9.8 million by way of purchase in the open market. The 2023 Notes were purchased for a total settlement price of $8.1 million resulting in a gain of $1.7 million, which is included in other income (expense), net in the condensed consolidated statement of operations. As a result of the partial retirement of our 2023 Notes, we entered into a partial termination agreement of the capped call option transaction

described above. The partial termination agreement of the capped call option transaction enabled us to receive $0.4 million from the counterparty, which was recorded as an increase in additional paid-in capital in our condensed consolidated balance sheet as of June 30, 2016.

Non-Recourse Notes Due 2029

In April 2014, we entered into certain note purchase agreements relating to the private placement of $450.0 million aggregate principal amount of non-recourse fixed rate term notes due 2029 (the “2029 Notes”) issued by our wholly-owned subsidiary.

The 2029 Notes bear an annual interest rate of 9%, with interest and principal paid quarterly beginning November 15, 2014. The 2029 Notes may be redeemed at any time prior to maturity, in whole or in part, at specified redemption premiums. Prior to and including May 15, 2016, in the event that the specified portion of royalties received in a quarter was less than the interest accrued for the quarter, the principal amount of the 2029 Notes was increased by the interest shortfall amount for that period, and considered as payment in kind (“PIK”). Since issuance, $44.0 million of interest expense has been added to the principal balance of the 2029 Note, of which $0.2 million and $0.9 million was added during the three and six months ended June 30, 2016, respectively, and $6.4 million and $12.8 million was added during the three and six months ended June 30, 2015, respectively. Since the principal and interest payments on the 2029 Notes are based on royalties from product sales recorded by GSK, which will vary from quarter to quarter and are unknown to us, the 2029 Notes may be repaid prior to the final maturity date in 2029. The 2029 Notes can be prepaid subject to a prepayment premium of 2.5% until April 17, 2017, and without premium afterwards.

As of June 30, 2016, the principal balance of the 2029 Notes was $494.0 million, which will be partially paid down by $3.3 million in the next quarterly payment expected to be made in August 2016. This payment is based on our royalty revenues of $35.7 million for the three months ended June 30, 2016.

8. Shareholders’ Deficit

For the six months ended June 30, 2016, we repurchased 4,138,852 shares of our common stock in the open market at an average price of $10.71 per share for a total purchase price of $44.3 million, which were retired upon repurchase.

9. Commitments and Contingencies

Operating Lease and Lease Guarantee

Upon the Spin-Off, our facility leases in South San Francisco, California were assigned to 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, 2016, the total remaining lease payments, which run through May 2020, were $24.7 million. The carrying value of this lease guarantee was $1.3 million as of June 30, 2016 and is reflected in other long-term liabilities in our consolidated balance sheet. Amortization on the lease guarantee for the three and six months ended June 30, 2016 was not material.

On June 10, 2016, we executed a lease for our new corporate headquarters in Brisbane, California. The term of the new lease is seven years, subject to our right to extend the lease. Minimum lease payments under the new lease are as follows as of June 30, 2016:

(In thousands)	

Years Ending December 31:		
Remainder of 2016	$	112
2017		380
2018		392
2019		403
2020		416
Thereafter		1,070
Total	$	2,773

In connection with entering into the New Lease, we terminated our Sublease by and between us and Theravance Biopharma, dated June 2, 2014 (the "Gateway Sublease"). The Gateway Sublease was set to expire on May 31, 2020. On June 10, 2016, we executed a Sublease Termination Agreement with Theravance Biopharma to terminate the Gateway Sublease (the "Gateway Sublease Termination Agreement"). No termination fee was payable to Theravance Biopharma as a result of this Gateway Sublease Termination Agreement.

Table of Contents

10. Income Taxes

The effective tax rate for the three and six months ended June 30, 2016 was 0.15%, compared to 0.00% for the same periods in 2015. Should we generate taxable income in 2016, we expect that the taxable income will be substantially offset by the utilization of net operating losses or other deferred tax assets. 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.

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 materially differ from the plans, intentions, expectations and objectives disclosed in the forward-looking statements that we make. Factors that we believe could cause actual results or events to differ materially from our forward-looking statements include, but are not limited, to those discussed below in "Risk Factors" in Item 1A of Part II and 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.

OVERVIEW

Executive Summary

Innoviva, Inc. is focused on bringing compelling new medicines to patients in areas of unmet need by leveraging its significant expertise in the development, commercialization and financial management of bio-pharmaceuticals, to maximize the commercial potential of its 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 "LABA" Collaboration Agreement and the Strategic Alliance Agreement with GSK (referred to herein collectively as the "GSK Agreements"), we are entitled to receive annual royalties from GSK on sales of RELVAR®/BREO® ELLIPTA® as follows: 15% on the first $3.0 billion of annual global net sales and 5% for all annual global net sales above $3.0 billion. For other products combined with a LABA from the LABA collaboration, such as ANORO™ ELLIPTA™, royalties are upward tiering and range from 6.5% to 10%. Innoviva is also entitled to 15% of any future payments made by GSK under its agreements originally entered into with us, and since assigned to Theravance Respiratory Company, LLC ("TRC"), including the closed triple combination therapy for COPD (FF/UMEC/VI). In June 2014, we spun-off our research and development activities by distributing the outstanding shares of Theravance Biopharma on a pro-rata basis to our stockholders (the "Spin-Off"), which resulted in Theravance Biopharma becoming an independent, publicly traded company.

We have designed our company structure and organization to be 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, business development activities and providing for certain essential reporting and management functions of a public company. As of June 30, 2016, we had 13 employees. Our revenues consist of royalties and potential milestone payments, if any, from our respiratory partnership agreements with GSK.

Financial Highlights

- In the second quarter of 2016, net sales of RELVAR®/BREO® ELLIPTA® by GSK were $209.9 million, up 156% from $82.0 million in the second quarter of 2015, with $112.2 million net sales in the U.S. and $97.7 million from non-U.S. markets.

Table of Contents

- In the second quarter of 2016, net sales of ANORO® ELLIPTA® by GSK were $65.0 million, up 174% from $23.7 million in the second quarter of 2015, with $44.1 million of sales generated in the U.S. and $20.9 million from non-U.S. markets.

- During the second quarter and up to July 27, 2016, we repurchased $21.4 million of stock. During the quarter, we also repurchased $10.0 million face value of our convertible subordinated notes due 2023 ("2023 Notes") for net cash consideration of $7.7 million.

Capital Return Plan

Declaration and Payment of Cash Dividends

During the first three quarters of 2015, our Board of Directors declared a quarterly dividend of $0.25 per share of common stock to stockholders resulting in aggregate cash dividends of $87.3 million paid to our stockholders in the year ended December 31, 2015. In connection with the payments of these cash dividends, the conversion rate with respect to our 2023 Notes was adjusted.

Share Repurchase Plan

On October 28, 2015, we announced the acceleration of our capital return plan with a $150 million share repurchase program effective through the end of 2016 approved by our Board of Directors, replacing our quarterly dividend. The repurchases may be made by a combination of tender offers, open market purchases, private transactions, exchange offers or other means. The repurchase program will be funded using our working capital. Our announcement of the share repurchase program does not obligate us to repurchase any specific dollar amount or number of shares of common stock. We will determine when, if and how to proceed with any repurchase transactions under the program, as well as the amount of any such repurchase transactions, based upon, among other things, the results of the tender offer and our evaluation of our liquidity and capital needs (including for strategic and other opportunities), our business, results of operations, and financial position and prospects, general financial, economic and market conditions, prevailing market prices for our shares of common stock and notes, corporate, regulatory and legal requirements, and other conditions and factors deemed relevant by our management and Board of Directors from time to time. The share repurchase program may be suspended or discontinued at any time. There can be no assurance as to the actual volume of any share repurchases in any given period or over the term of the program or as to the manner or terms of any such repurchases.

On October 30, 2015, we commenced a "modified Dutch auction" tender offer as a component of the share repurchase plan to purchase up to $75 million of our common stock, at a price per share of not less than $8.50 and not greater than $9.25. The tender offer expired on December 1, 2015 and we purchased an aggregate of 2,576,236 shares of our common stock at a purchase price of $9.25 per share for a total value of approximately $23.8 million, excluding fees and expenses relating to the tender offer.

From December 1, 2015 to December 31, 2015, we purchased 100,000 shares of our common stock at an average purchase price of $9.95 per share for a total value of approximately $1.0 million in the open market. From January 1, 2016 to June 30, 2016, we purchased 4,138,852 shares of our common stock at an average purchase price of $10.71 per share for a total value of approximately $44.3 million in the open market.

Repurchase of Notes Payable

In May 2016, we retired a portion of our 2023 Notes with a face value of $10.0 million and carrying value of $9.8 million by way of purchase in the open market. The 2023 Notes were purchased for a total settlement price of $8.1 million resulting in a gain of $1.7 million.

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 "COPD" and asthma. For the treatment of COPD, the collaboration has developed two 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) and (2) ANORO® ELLIPTA® (UMEC/VI), a once-daily medicine combining a long-acting muscarinic antagonist ("LAMA"), umeclidinium bromide (UMEC), with a LABA, 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 GSK Agreements, we were obligated to pay milestone fees to GSK totaling $220.0 million, all of which was paid as of December 31, 2014. Although we have no further milestone payment obligations to GSK pursuant to the LABA Collaboration Agreement, we continue to have ongoing development and commercialization activities under the GSK Agreements that

Table of Contents

are expected to continue over the life of the agreements. The milestone fees paid to GSK were recognized as capitalized fees paid to a related party, which are being amortized over their estimated useful lives commencing upon the commercial launch of the product.

We are entitled to receive annual royalties from GSK on sales of RELVAR®/BREO® ELLIPTA® as follows: 15% on the first $3.0 billion of annual global net sales and 5% for all annual global net sales above $3.0 billion. For other products combined with a LABA from the LABA collaboration, such as ANORO™ ELLIPTA™, royalties are upward tiering and range from 6.5% to 10%.

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"). GSK is responsible for funding all future development,

manufacturing and commercialization activities for product candidates in that program. As a result of the Spin-Off, we are only entitled to receive 15% of any contingent payments and royalties payable by GSK from sales of FF/UMEC/VI (and MABA, and MABA/FF) while Theravance Biopharma receives 85% of those same payments. 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, 2015 filed with the SEC on February 24, 2016.

Agreements Entered into with GSK in Connection with the Spin-Off

On March 3, 2014, in contemplation of the Spin-Off, we, Theravance Biopharma and GSK entered into a series of agreements, including amendments to the GSK Agreements, clarifying how the companies would implement the Spin-Off and operate following the Spin-Off. Pursuant to a three-way master agreement, by and among us, Theravance Biopharma and GSK, we agreed to sell a certain number of Theravance Biopharma shares withheld from a taxable dividend of Theravance Biopharma shares to GSK. After such Theravance Biopharma shares were sent to the transfer agent, we agreed to purchase the Theravance Biopharma shares from the transfer agent, rather than have them sold on the open market, in order to satisfy tax withholdings. GSK had a right to purchase these shares of Theravance Biopharma from us, but this right expired unexercised. During the six months ended June 30, 2015, we sold all shares of Theravance Biopharma.

Purchases of Common Stock by GSK

Pursuant to its periodic "top-up" rights under our Amended and Restated Governance Agreement, dated as of June 4, 2004, as amended, among us, GSK and certain GSK affiliates, affiliates of GSK purchased an aggregate of 32.0 million shares of our common stock for an aggregate purchase price of $6.5 million until the expiration of the governance agreement in September 2015. As of July 31, 2016, GSK beneficially owned approximately 28.8% of our outstanding capital stock.

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 at 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.

During the six months ended June 30, 2016, we adopted ASU 2015-03, *Interest — Imputation of Interest*, to simplify the presentation of debt issuance costs. 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, 2015 filed with the SEC on February 24, 2016 provides a more complete discussion of our critical accounting policies and estimates.

Table of Contents

Results of Operations

Net Revenue

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

(In thousands)	Three Months Ended June 30, 2016	2015	Change $	%	Six Months Ended June 30, 2016	2015	Change $	%
Royalties from a related party	$ 35,707	$ 13,890	$ 21,817	157%	$ 63,118	$ 24,020	$ 39,098	163%
Less: amortization of capitalized fees paid to a related party	(3,456)	(3,456)	—	—	(6,912)	(6,912)	—	—
Royalty revenue	32,251	10,434	21,817	209%	56,206	17,108	39,098	229%
Strategic alliance - MABA program	221	221	—	—	442	443	(1)	—
Total net revenue from GSK	$ 32,472	$ 10,655	$ 21,817	205%	$ 56,648	$ 17,551	$ 39,097	223%

Total net revenue increased for the three and six months ended June 30, 2016 compared to the same periods a year ago primarily due to the growth in prescriptions and market shares quarter over quarter for both RELVAR®/BREO® ELLIPTA® and ANORO™ ELLIPTA™.

Research & Development

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

(In thousands)	Three Months Ended June 30, 2016	2015	Change $	%	Six Months Ended June 30, 2016	2015	Change $	%
Research and development expenses	$ 370	$ 638	$ (268)	(42)%	$ 762	$ 1,350	$ (588)	(44)%

Research and development expenses decreased for the three and six months ended June 30, 2016 compared to the same periods a year ago primarily due to reduced activities and lower stock-based compensation expense. Currently, our research and development expenses are primarily due to expenses related to the late-stage partnered respiratory assets with GSK.

General & Administrative

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

(In thousands)	Three Months Ended June 30, 2016	2015	Change $	%	Six Months Ended June 30, 2016	2015	Change $	%
General and administrative expenses	$ 6,225	$ 4,909	$ 1,316	27%	$ 12,477	$ 10,348	$ 2,129	21%

General and administrative expenses increased for the three and six months ended June 30, 2016 compared to the same periods a year ago primarily due to higher employee costs related to the addition of headcount during the course of 2015 and the recognition of the stock-based compensation expense related to pre-Spin-Off legacy performance-contingent RSAs which are now deemed probable of vesting.

Other Income (Expense), net and Interest Income

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

(In thousands)	Three Months Ended June 30, 2016	2015	Change $	%	Six Months Ended June 30, 2016	2015	Change $	%
Other income (expense), net	$ 1,719	$ (16)	$ 1,735	*	$ 1,687	$ 1,162	$ 525	45%
Interest income	157	85	72	85%	249	201	48	24%

*Not meaningful

Table of Contents

Other income (expense), net increased for the three and six months ended June 30, 2016 compared to the same period in 2015 primarily related to a realized gain of $1.7 million from the repurchase of our 2023 Notes.

Interest income increased for the three and six months ended June 30, 2016 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 periods, was as follows:

(In thousands)	Three Months Ended June 30, 2016	2015	Change $	%	Six Months Ended June 30, 2016	2015	Change $	%
Interest expense	$ 13,156	$ 12,987)	$ 169	1%	$ 26,313	$ 25,693	$ 620	2%

Interest expense increased for the three and six months ended June 30, 2016 compared to the same periods a year ago primarily due an increase of $10.7 million to the outstanding principal balance on our non-recourse fixed rate term notes due 2029 (the “2029 Notes”) since June 30, 2015 in the form of payment in kind, of which $0.2 million was added during the quarter ended June 30, 2016. 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 2015 and the six months ended June 30, 2016, we have also received royalty payments from GSK from sales of RELVAR®/ BREO® ELLIPTA®, which was launched in the fourth quarter of 2013, and from ANORO® ELLIPTA®, which was launched during 2014. As of June 30, 2016, we had $153.9 million in cash, cash equivalents, and marketable securities.

As discussed above, on October 28, 2015, we announced that our Board of Directors approved a $150 million share repurchase program to be in effect through December 31, 2016. As of June 30, 2016, we had repurchased an aggregate of $70.0 million of our common stock through the combination of a tender offer and open market purchases. There can be no assurance as to the actual volume of any share repurchases in any given period or over the term of the program or as to the manner or terms of any such repurchases. During the quarter, we also repurchased $10.0 million face value of our 2023 Notes for net cash consideration of $7.7 million.

Our Board of Directors declared a $0.25 per share dividend for each of the first, second and third quarters of 2015 for all stockholders of record as of the close of business on specified dates resulting in a total of $87.3 million in cash dividends to our stockholders in the year ended December 31, 2015.

In April 2014, we entered into certain note purchase agreements relating to the 2029 Notes. The 2029 Notes are secured exclusively by a security interest in a segregated bank account established to receive 40% of the royalties from global net sales and ending upon the earlier of full repayment of principal or May 15, 2029 due to us under the LABA Collaboration Agreement with GSK. Prior to and including May 15, 2016, in the event that the specified portion of royalties received in a quarter was less than the interest accrued for the quarter, the principal amount of the 2029 Notes was increased by the interest shortfall amount for that period, and considered as payment in kind (“PIK”). We incurred approximately $15.3 million in debt issuance costs, which are being amortized to interest expense over the estimated life of the 2029 Notes. As of June 30, 2016, the principal balance of the 2029 Notes was $494.0 million, which will be partially paid down by $3.3 million with the next quarterly payment expected to be made in August 2016.

Adequacy of cash resources to meet future needs

We believe that cash from future royalty revenues and cash on hand will be sufficient to meet our debt service and anticipated operating needs, including the funding of the share repurchase program discussed above, for at least the next twelve months based upon current operating plans and financials 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, 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:

	Six Months Ended June 30,		
(In thousands)	**2016**	**2015**	**Change**
Net cash provided by operating activities	$ 19,710	$ 558	$ 19,152
Net cash (used in) provided by investing activities	(12,805)	107,755	(120,560)
Net cash used in financing activities	(53,140)	(55,534)	2,394

Cash Flows from Operating Activities

Cash provided by or used in operating activities is primarily driven by net income (loss), excluding the effect of non-cash charges and net changes in our operating assets and liabilities.

Table of Contents

Net cash provided by operating activities for the six months ended June 30, 2016 of $19.7 million was primarily due to:

- $53.5 million provided by receipt of royalties from a related party and revenue from collaborative arrangements, after adjusting for a $9.6 million increase in receivables from collaborative arrangements
- $9.1 million used for operating expenses, after adjusting for $4.8 million of non-cash related items, consisting primarily of stock-based compensation expense; and
- $24.1 million used for interest payments on 2023 Notes and 2029 Notes.

Net cash provided by operating activities for the six months ended June 30, 2015 of $0.6 million was primarily due to:

- $20.6 million provided by receipt of royalties from a related party, after adjusting for a $3.4 million increase in receivables from collaborative arrangements;
- $6.4 million used for operating expenses, after adjusting for $5.3 million of non-cash related items, consisting primarily of stock-based compensation expense of $3.8 million and amortization of debt issuance costs of $1.5 million;
- $11.0 million used for interest payments on convertible subordinated notes, due 2023 and non-recourse notes, due 2029; and
- $1.7 million used to decrease accrued personnel-related expenses and other accrued liabilities due to the timing of payments.

Cash Flows from Investing Activities

Net cash used in investing activities for the six months ended June 30, 2016 of $12.8 million was primarily due to purchases of marketable securities of $59.9 million, partially offset by $47.1 million of proceeds received from sales and maturities of marketable securities.

Net cash provided by investing activities for the six months ended June 30, 2015 of $107.8 million was primarily due to $116.2 million of proceeds received from the sale of marketable securities and maturities of marketable securities, partially offset by $8.5 million in purchases of marketable securities.

Cash Flows from Financing Activities

Net cash used in financing activities for the six months ended June 30, 2016 of $53.1 million was primarily due to $44.3 million paid for the repurchase of common stock. Additionally, $8.1 million was paid for the repurchase of our 2023 Notes and $0.4 million was received from the termination of the corresponding portion of the capped call arrangement, which resulted in net cash consideration of $7.7 million.

Net cash used in financing activities for the six months ended June 30, 2015 of $55.5 million was primarily due to $58.0 million of cash dividends paid to our stockholders and $2.1 million paid for repurchase of shares to satisfy tax withholding, offset by $4.6 million of net proceeds received from the issuance of our common stock.

Off-Balance Sheet Arrangements

Upon the Spin-Off, our facility leases in South San Francisco, California were assigned to 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, 2016, the total remaining lease payments, which run through May 2020, were $24.7 million. The carrying value of this lease guarantee was $1.3 million as of June 30, 2016 and is reflected in other long-term liabilities in our condensed consolidated balance sheet.

Commitments and Contingencies

We indemnify our officers and directors for certain events or occurrences, subject to certain limits. We may be subject to contingencies that may arise from matters such as product liability claims, legal proceedings, shareholder suits and tax matters, as such, we are unable to estimate the potential exposure related to these indemnification agreements. We have not recognized any liabilities relating to these agreements as of June 30, 2016.

Table of Contents

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, 2016.

		Payment Due by Period			
(In thousands)	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
2023 Notes	$ 281,569	$ 5,209	$ 10,417	$ 10,417	$ 255,526
2029 Notes	494,017	*	*	*	*
Facility leases**	2,773	300	784	831	858
Total	$ 778,359	$ 5,509	$ 11,201	$ 11,248	$ 256,384

* The 2029 Notes are secured by a security interest in a segregated bank account established to receive 40% of royalties due to us under the LABA Collaboration with GSK . Since the principal and interest payments on the 2029 Notes are based on royalties from product sales recorded by GSK, which can vary from quarter to quarter and are unknown to us, these amounts are not included in the above table on a period by period basis. See Note 7, “Long-Term Debt” of the accompanying consolidated financial statements for further information.

** On June 10, 2016, we executed a lease for our new corporate headquarters in Brisbane, California. The term of the new lease is seven years, subject to our right to extend the lease. In connection with entering into the New Lease on June 10, 2016, we terminated our Sublease by and between us and Theravance Biopharma, dated June 2, 2014 (the “Gateway Sublease”). The Gateway Sublease was set to expire on May 31, 2020.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

During the six months ended June 30, 2016, 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, 2015.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

We conducted an evaluation as of June 30, 2016, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, 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 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, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. 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 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, 2016 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 1A. Risk Factors

Risks Related to our Business

For the foreseeable future we will derive all of our royalty revenues from GSK and our future success depends on GSK’s ability to successfully develop and commercialize the products in the respiratory programs partnered with GSK.

Pursuant to the GSK Agreements, GSK is responsible for the development and commercialization of products in the partnered respiratory programs. Through June 30, 2016, sales of both BREO ® ELLIPTA ® and especially ANORO® ELLIPTA® by GSK have been significantly below our expectations which resulted in a decline in our stock price. Although we may receive milestone payments from GSK if certain development milestones are achieved in our MABA program, we believe that royalty revenues from BREO ® ELLIPTA ® and ANORO® ELLIPTA® will represent the majority of our future revenues from GSK. The amount and timing of revenue from such royalties and milestones is unknown and highly uncertain. Our future success depends upon the performance by GSK of its commercial obligations under the GSK Agreements and the commercial success of BREO® ELLIPTA® and ANORO® ELLIPTA®. We have no control over GSK's marketing and sales efforts, and GSK might not be successful, which would harm our business and cause the price of our securities to fall.

The amount of royalties and milestone payments, if any, we receive will depend on many factors, including the following:

- the extent and effectiveness of the sales and marketing and distribution support GSK provides our partnered products;
- market acceptance and demand for our partnered products;
- the competitive landscape of generic and branded products and developing therapies that compete with our partnered products, including other products owned by GSK (such as Advair®) but which are not partnered with us and pricing pressure in the respiratory markets targeted by our partnered products;
- the size of the market for our partnered products;
- decisions as to the timing of product launches, pricing and discounts;
- GSK's ability to expand the indications for which our partnered products can be marketed;
- a satisfactory efficacy and safety profile as demonstrated in a broad patient population;
- acceptance of, and ongoing satisfaction with, our partnered products by the medical community, patients receiving therapy and third party payors;
- the ability of patients to be able to afford our partnered products or obtain health care coverage that covers our partnered products;
- safety concerns in the marketplace for respiratory therapies in general and with our partnered products in particular;
- regulatory developments relating to the manufacture or continued use of our partnered products;
- the requirement to conduct additional post-approval studies or trials for our partnered products;
- GSK's ability to successfully achieve development milestones with respect to our partnered MABA program;
- GSK's ability to obtain regulatory approval of our partnered products in additional countries;
- the unfavorable outcome of any potential litigation relating to our partnered products; or
- general economic conditions in the jurisdictions where our partnered products are sold, including microeconomic disruptions or slowdowns.

Table of Contents

Reduced prices and reimbursement rates due to the actions of governments, payors, or competition or other healthcare cost containment initiatives such as restrictions on use, may negatively impact royalties generated under the GSK Agreements.

The continuing efforts of governments, pharmaceutical benefit management organizations (PBMs), insurance companies, managed care organizations and other payors of health care costs to contain or reduce costs of health care has adversely affected the price, market access, and total revenues of BREO ® ELLIPTA ® and ANORO® ELLIPTA® and may continue to adversely affect them in the future. In addition, we have experienced and expect to continue to experience increased competitive activity which has resulted in lower overall prices for our products.

The Patient Protection and Affordable Care Act and other legislative or regulatory requirements or potential legislative or regulatory actions regarding healthcare and insurance matters, along with the trend toward managed healthcare in the United States (U.S.), could adversely influence the purchase of healthcare products and reduce demand and prices for our partnered products. This could harm GSK's ability to market our partnered products and significantly reduce future revenues. For example, when GSK launched BREO® ELLIPTA® for the treatment of COPD in the U.S. in October 2013, GSK experienced significant challenges gaining coverage at some of the largest PBMs, healthcare payors, and providers and lower overall prices than expected. Recent actions by U.S. PBMs in particular have increased discount levels for respiratory products resulting in lower net sales pricing realized for products in our collaboration. Further, if the ongoing Phase 3b studies with FF/VI do not show improved outcomes relative to the standard of care, obtaining payor coverage for RELVAR®/BREO® ELLIPTA® could become more difficult in the future. In addition, in certain foreign markets, the pricing of prescription drugs is subject to government control and reimbursement may in some cases be unavailable. We believe that pricing pressures will continue and may increase. This may make it difficult for GSK to sell our partnered products a price acceptable to us or GSK or to generate revenues in-line with our analysts' or investors' expectations, which may cause the price of our securities to fall.

If the commercialization of RELVAR ® /BREO ® ELLIPTA ® or ANORO® ELLIPTA® in the countries in which they have received regulatory approval encounters any delays or adverse developments, or perceived delays or adverse developments, or if sales or payor coverage do not meet investor, analyst or our expectations, our business will be harmed, and the price of our securities could fall.

Under our agreements with our collaborative partner GSK, GSK has full responsibility for commercialization of RELVAR®/ BREO® ELLIPTA® and ANORO® ELLIPTA®. GSK has launched RELVAR®/ BREO® ELLIPTA® in a number of countries including the United States (U.S.), Canada, Japan, the United Kingdom, and Germany among others. The commercial launch of both products has been below our expectations primarily due to lower overall pricing levels in the U.S. and longer timeframes to obtain payor coverage. For example, GSK recently stated that it has experienced more restrictive formulary access and lower net pricing in the U.S. respiratory market than it expected, which may indicate broader weakness in the respiratory markets targeted by RELVAR®/ BREO® ELLIPTA® and ANORO® ELLIPTA®. As a result, a number of analysts have adjusted their sales forecasts downward from previous projections. Any further delays or adverse developments or perceived additional delays or adverse developments with respect to the commercialization of RELVAR®/ BREO® ELLIPTA® and ANORO® ELLIPTA® including if sales or payor coverage do not meet investor or our expectations, will significantly harm our business and the price of our securities could fall.

We are dependent on GSK for the successful commercialization and development of products under the GSK Agreements. If GSK does not devote sufficient resources to the commercialization or development of these products, is unsuccessful in its efforts, or chooses to reprioritize its commercial programs, including the closed triple product for COPD, our business will 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 royalty revenues under the GSK Agreements may not meet our, or investors' expectations, due to a number of important factors. GSK has a substantial respiratory product portfolio in addition to the partnered products that are covered by the GSK Agreements. GSK may make respiratory product portfolio decisions or statements about its portfolio which may be, or may be perceived to be, harmful to the respiratory products partnered with us. For instance, GSK has wide discretion in determining the efforts and resources that it will apply to the commercialization of our partnered products. The timing and amount of royalties that we may receive will depend on, among other things, the efforts, allocation of resources and successful development and commercialization of these product candidates by GSK. In addition, GSK may determine to focus its commercialization efforts on its own products or the closed triple product for COPD following approval, if any. For example, in January 2015, GSK launched Incruse® (Umec) in the U.S., which is a LAMA for the treatment of COPD. GSK may determine to focus its marketing efforts on Incruse, which could have the effect of decreasing the potential market share of ANORO® ELLIPTA® and lowering the royalties we may receive for such product. Alternatively, GSK may decide to market Incruse® in combination with RELVAR®/BREO® ELLIPTA® as an open triple therapy in anticipation of future commercialization of the closed triple therapy for which we only receive limited amount of royalty revenues, and eventually compete directly against sales of RELVAR®/BREO® ELLIPTA®. GSK recently announced that it plans to make regulatory submissions for the approval of the closed triple combination therapy for COPD in the U.S. and EU by the end of 2016. If GSK prioritizes the closed triple product for COPD following regulatory approval, if any, we will only be entitled to a 15% economic interest of the royalties paid pursuant to the GSK Agreements. In the event GSK does not devote

sufficient resources to the commercialization of our partnered products or chooses to reprioritize its commercial programs, our business, operations and stock price would be negatively affected.

If GSK's commercialization efforts to market BREO® ELLIPTA® for asthma encounters any delays or adverse developments, or perceived delays or adverse developments, or if sales or payor coverage do not meet investor, analyst or our expectations, our business will be harmed, and the price of our securities could fall.

On April 30, 2015, the U.S. Food and Drug Administration ("FDA") approved BREO® ELLIPTA® (FF/VI) as a once-daily inhaled treatment for asthma in patients aged 18 years and older in the U.S. If GSK's commercialization efforts to market BREO® ELLIPTA® for asthma in the U.S. encounters any delays or adverse developments, or perceived delays or adverse developments, or if sales or payor coverage do not meet investor, analyst or our expectations, our business will be harmed, and the price of our securities could fall.

Any adverse change in FDA policy or guidance regarding the use of LABAs to treat asthma may significantly harm our business and the price of our securities could fall.

On February 18, 2010, the FDA announced that LABAs should not be used alone in the treatment of asthma and it will require manufacturers to include this warning in the product labels of these drugs, along with taking other steps to reduce the overall use of these medicines. The FDA now requires that the product labels for LABA medicines reflect, among other things, that the use of LABAs is contraindicated without the use of an asthma controller medication such as an inhaled corticosteroid, that LABAs should only be used long-term in patients whose asthma cannot be adequately controlled on asthma controller medications, and that LABAs should be used for the shortest duration of time required to achieve control of asthma symptoms and discontinued, if possible, once asthma control is achieved. In addition, in March 2010, the FDA held an Advisory Committee to discuss the design of medical research studies (known as "clinical trial design") to evaluate serious asthma outcomes (such as hospitalizations, a procedure using a breathing tube known as intubation, or death) with the use of LABAs in the treatment of asthma in adults, adolescents, and children. Further, in April 2011, the FDA announced that to further evaluate the safety of LABAs, it is requiring the manufacturers of currently marketed LABAs to conduct additional randomized, double-blind, controlled clinical trials comparing the addition of LABAs to inhaled corticosteroids versus inhaled corticosteroids alone. Results from these post-marketing studies are expected in 2017. It is unknown at this time what, if any, effect these or future FDA actions will have on the prospects for FF/VI. The current uncertainty regarding the FDA's position on LABAs for the treatment of asthma and the lack of consensus expressed at the March 2010 Advisory Committee may result in the FDA requiring additional asthma clinical trials in the U.S. for FF/VI and increase the overall risk of FF/VI for the treatment of asthma in the U.S. We cannot predict the extent to which new FDA policy or guidance might significantly impede the discovery, development, production and marketing of FF/VI. Any adverse change in FDA policy or guidance regarding the use of LABAs to treat asthma may significantly harm our business and the price of our securities could fall.

Any adverse developments to the regulatory status of either RELVAR ® /BREO ® ELLIPTA ® or ANORO® ELLIPTA® in the countries in which they have received regulatory approval including labeling restrictions, safety findings, or any other limitation to usage, will harm our business and may cause the price of our securities to fall.

Although RELVAR®/BREO® ELLIPTA® or ANORO® ELLIPTA® are approved and marketed in a number of countries, it is possible that adverse changes to the regulatory status of these products could occur in the event new safety issues are identified, treatment guidelines are changed, or new studies fail to demonstrate product benefits. A number of notable pharmaceutical products have experienced adverse developments during commercialization that

have resulted in the product being withdrawn, approved uses being limited, or new warnings being included. In the event that any adverse regulatory change was to occur to any of our products, our business will be harmed and the price of our securities will fall.

Any adverse developments or results or perceived adverse developments or results with respect to the ongoing studies for FF/VI in asthma or COPD, for UMEC/VI in COPD, or any future studies will significantly harm our business and the price of our securities could fall, and if regulatory authorities in those countries in which approval has not yet been granted determine that the ongoing studies for FF/VI in asthma or COPD or the ongoing studies for UMEC/VI for COPD do not demonstrate adequate safety and efficacy, the continued development of FF/VI or UMEC/VI or both may be significantly delayed, they may not be approved by these regulatory authorities, and even if approved it may be subject to restrictive labeling, any of which will harm our business, and the price of our securities could fall.

Although we have announced the completion of, and reported certain top- line data from, the Phase 3 registrational program for FF/VI in COPD and asthma, additional studies of FF/VI are underway. For example, in September 2015, GSK and we announced that the Study to Understand Mortality and MorbidITy" (SUMMIT) did not meet its primary endpoints, which resulted in a significant decline in the price of our stock. Any adverse developments or perceived adverse developments with respect to any prior, current or future studies in these programs will significantly harm our business and the price of our securities could fall.

Although the FDA, the European Medicines Agency, the Japanese Ministry of Health, Labour and Welfare and Health Canada have approved ANORO® ELLIPTA®, it has not yet been approved in other jurisdictions.

Table of Contents

Any adverse developments or results or perceived adverse developments or results with respect to other pending or future regulatory submissions for the FF/VI program or the UMEC/VI program will significantly harm our business and the price of our securities could fall. Examples of such adverse developments include, but are not limited to:

- not every study, nor every dose in every study, in the Phase 3 programs for FF/VI achieved its primary endpoint and regulatory authorities may determine that additional clinical studies are required;
- safety, efficacy or other concerns arising from clinical or non-clinical studies in these programs having to do with the LABA VI, which is a component of FF/VI and UMEC/VI;
- analysts adjusting their sales forecasts downward from previous projections based on results or interpretations of results of prior, current or future studies;
- safety, efficacy or other concerns arising from clinical or non-clinical studies in these programs;
- regulatory authorities determining that the Phase 3 programs in asthma or in COPD raise safety concerns or do not demonstrate adequate efficacy; or
- any change in FDA policy or guidance regarding the use of LABAs to treat asthma or the use of LABAs combined with a LAMA to treat COPD.

If the FDA or other applicable regulatory authorities approve generic products, including but not limited generic forms of Advair®, that compete with RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA®, or generic form of RELVAR®/BREO® ELLIPTA®, the royalties payable to us pursuant to the LABA Collaboration Agreement will be less than anticipated, which in turn would harm our business and the price of our securities could fall.

Once an NDA or marketing authorization application outside the United States is approved, the product covered thereby becomes a "listed drug" that can, in turn, be cited by potential competitors in support of approval of an Abbreviated New Drug Application ("ANDA") in the United States. Agency regulations and other applicable regulations and policies provide incentives to manufacturers to create modified, non-infringing versions of a drug to facilitate the approval of an ANDA or other application for generic substitutes in the United States and in nearly every pharmaceutical market around the world. Numerous companies like Mylan N.V. and Teva Pharmaceuticals Industries Ltd. have publicly stated their intentions to bring generic forms of the ICS/LABA drug Advair®, when certain patents covering the Advair® delivery device expire in 2016. Mylan N.V. has recently announced that its ANDA for fluticasone propionate 100, 250, 500 mcg and salmeterol 50 mcg inhalation powder has been accepted for filing by the FDA with a GDUFA goal date of March 28, 2017. Hikma Pharmaceuticals PLC (Hikma) also recently announced that their ANDA for fluticasone propionate and salmeterol inhalation powder has been accepted for filing by the FDA with a GDUFA goal date of May 10, 2017. These manufacturers might only be required to conduct a relatively inexpensive study to show that their product has the same active ingredient(s), dosage form, strength, route of administration and conditions of use, or labeling, as the branded product and that the generic product is bioequivalent to the branded product, meaning it is absorbed in the body at the same rate and to the same extent. These generic equivalents, which must meet the same quality standards as branded products, may be significantly less costly to bring to market, and companies that produce generic equivalents are generally able to offer their products at lower prices. Thus, after the introduction of a generic competitor, a significant percentage of the sales of any branded product and products that may compete with such branded product is typically lost to the generic product. In addition, on April 14, 2016, the FDA issued draft guidelines documents covering Fluticasone Furoate/Vilanterol Trifenatate (FF/VI), the active ingredients used in RELVAR®/BREO® ELLIPTA®. Accordingly, introduction of generic products that compete against ICS/LABA products, like RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA®, would materially adversely impact our future royalty revenue, profitability and cash flows. We cannot yet ascertain what impact these generic products and any future approved generic products will have on any sales of RELVAR®/BREO® ELLIPTA® or ANORO® ELLIPTA®, if approved.

RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA® face substantial competition for their intended uses in the targeted markets from products discovered, developed, launched and commercialized both by GSK and by other pharmaceutical companies, which could cause the royalties payable to us pursuant to the LABA Collaboration Agreement to be less than expected, which in turn would harm our business and the price of our securities could fall.

GSK has responsibility for obtaining regulatory approval, launching and commercializing RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA® for their intended uses in the targeted markets around the world. While these products have received regulatory approval and been launched and commercialized in the U.S. and certain other targeted markets, the products face substantial competition from existing products previously developed and

commercialized both by GSK and by other competing pharmaceutical companies and can expect to face additional competition from new products that are discovered, developed and commercialized by the same pharmaceutical companies and other competitors going forward. For example, sales of Advair®, GSK's approved medicine for both COPD and asthma, continue to be significantly greater than sales of RELVAR®/BREO® ELLIPTA®, and GSK has indicated publicly that it intends to continue commercializing Advair®.

Table of Contents

Many of the pharmaceutical companies competing in respiratory markets are international in scope with substantial financial, technical and personnel resources that permit them to discover, develop, obtain regulatory approval and commercialize new products in a highly efficient and low cost manner at competitive prices to consumers. In addition, many of these competitors have substantial commercial infrastructures that facilitate commercializing their products in a highly efficient and low cost manner at competitive prices to consumers. The market for products developed for treatment of COPD and asthma continues to experience significant innovation and reduced cost in bringing products to market over time. There can be no assurance that RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA® will not be replaced by new products that are deemed more effective at lower cost to consumers. The ability of RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA® to succeed and achieve the anticipated level of sales depends on the commercial and development performance of GSK to achieve and maintain a competitive advantage over other products with the same intended use in the targeted markets.

In addition, GSK recently announced that it plans to make regulatory submissions for the approval of the closed triple combination therapy for COPD in the U.S. and EU by the end of 2016. In the event the closed triple combination therapy for COPD is approved for sale, we would only be entitled to a 15% economic interest in the future payments made by GSK under the GSK Agreements with respect to this product.

If sales of RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA® are less than anticipated because of existing or future competition in the markets in which they are commercialized, including competition from existing and new products that are perceived as lower cost or more effective, our royalty payments will be less than anticipated, which in turn would harm our business and the price of our securities could fall.

We and GSK are developing UMEC/VI/FF (LAMA/LABA/ICS) and MABA/FF as potential triple combination treatments for COPD and, potentially, asthma. As a result of the Spin-Off, most of our economic rights in these programs were assigned to Theravance Biopharma. If these programs are successful and GSK and the respiratory market in general views triple combination therapy as significantly more beneficial than existing therapies, including RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA®, our business could be harmed, and the price of our securities could fall.

Under our LABA Collaboration Agreement with GSK, we and GSK are exploring various paths to create triple therapy respiratory medications. The use of triple therapy is supported by the GOLD ("Global initiative for chronic Obstructive Lung Disease") guidelines in high-risk patients with severe COPD and a high risk of exacerbations. One potential triple therapy path is the combination of UMEC/VI (two separate bronchodilators) and FF (an inhaled corticosteroid), to be administered via the ELLIPTA ® dry powder inhaler, referred to as UMEC/VI/FF or the "closed triple." Prior to the Spin-Off, we were entitled to receive 100% of any royalties payable under the GSK Agreements arising from sales of UMEC/VI/FF (as well as MABA and MABA/FF) if such products were successfully developed, approved and commercialized. In June 2016, we and GSK announced positive top-line results from the pivotal phase III FULFIL study of the investigational once-daily 'closed' triple combination therapy (FF/UMEC/VI) in patients with COPD. GSK plans to make regulatory submissions for the approval of the closed triple combination therapy for COPD in the U.S. and EU by the end of 2016. The commercial success of RELVAR®/BREO® ELLIPTA may be adversely effected if GSK or the respiratory markets view this closed triple combination or other combination therapies more beneficial. Furthermore, if the closed triple (or MABA /FF) receives regulatory approval in either the U.S. or the EU, GSK's diligent efforts obligations regarding commercialization matters will have the objective of focusing on the best interests of patients and maximizing the net value of the overall portfolio of products under the GSK Agreements. Since GSK's commercialization efforts following such regulatory approval will be guided by a portfolio approach across products in which we have retained our full interest and also products in which we now have only a small portion of our former interest, GSK's commercialization efforts may have the effect of reducing the overall value of our remaining interests in the GSK Agreements in the future. As a result of the transactions effected by the Spin-Off, however, we are now only entitled to receive 15% of any contingent payments and royalties payable by GSK from sales of FF/UMEC/VI (and MABA, and MABA/FF) while Theravance Biopharma receives 85% of those same payments.

In the event that Theravance Biopharma defaults or breaches the agreements we entered into with them in connection with the Spin-Off, our business and results of operations may be materially harmed.

Upon the Spin-Off, our facility leases in South San Francisco, California were assigned to 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, 2016, the total remaining lease payments, which run through May 2020, were $24.7 million. In the event that Theravance Biopharma defaults on such obligations, our business and results of operations may be materially harmed.

Under the terms of a separation and distribution agreement entered into between us and Theravance Biopharma, Theravance Biopharma will indemnify us from (i) all debts, liabilities and obligations transferred to Theravance Biopharma in connection with the Spin-Off (including its failure to pay, perform or otherwise promptly discharge any such debts, liabilities or obligations after the Spin-Off), (ii) any misstatement or omission of a material fact in its information statement filed with the SEC, resulting in a misleading statement and (iii) any breach by it of certain agreements entered into between the parties in connection with the Spin-Off. Theravance Biopharma's ability to satisfy these indemnities, if called upon to do so, will depend upon its future financial strength and if we are not able to collect on indemnification rights from Theravance Biopharma, our financial condition may be harmed

Table of Contents

We may not be able to utilize all of our net operating loss carryforwards.

We have net operating loss carryforwards and other significant U.S. tax attributes that we believe could offset otherwise taxable income in the U.S. As a part of the overall Spin-Off transaction, the transfer of certain assets by us to Theravance Biopharma and our distribution of Theravance Biopharma ordinary shares resulted in taxable transfers pursuant to applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code") and Treasury Regulations. The taxable gain recognized by us attributable to the transfer of certain assets to Theravance Biopharma will generally equal the excess of the

fair market value of each asset transferred over our adjusted tax basis in such asset. Although we will not recognize any gain with respect to the cash we transferred to Theravance Biopharma, we may recognize substantial gain based on the fair market value of the other assets (other than cash) transferred to Theravance Biopharma. The determination of the fair market value of these assets is subjective and could be subject to adjustments or future challenge by the Internal Revenue Service ("IRS"), which could result in an increase in the amount of gain realized by us as a result of the transfer. Our U.S. federal income tax resulting from any gain recognized upon the transfer of our assets to Theravance Biopharma (including any increased U.S. federal income tax that may result from a subsequent determination of higher fair market values for the transferred assets), may be reduced by our net operating loss carryforward. The net operating loss carryforwards available in any year to offset our net taxable income will be reduced following a more than 50% change in ownership during any period of 36 consecutive months (an "ownership change") as determined under the Internal Revenue Code of 1986 (the "Code"). We have conducted an analysis to determine whether an ownership change had occurred since inception through December 31, 2014, and concluded that we had undergone two ownership changes in prior years. We have approximately $1.2 billion of net operating loss carryforward as of December 31, 2015. There may be certain annual limitations for utilization based on the above-described ownership change provisions. In addition, we may not be able to have sufficient future taxable income prior to their expiration because net operating losses have carryforward periods. Future changes in federal and state tax laws pertaining to net operating loss carryforwards may also cause limitations or restrictions from us claiming such net operating losses. If the net operating loss carryforwards become unavailable to us or are fully utilized, our future taxable income will not be shielded from federal and state income taxation absent certain U.S. federal and state tax credits, and the funds otherwise available for general corporate purposes would be reduced.

If any product candidates in any respiratory program partnered with GSK are not approved by regulatory authorities or are determined to be unsafe or ineffective in humans, our business will be adversely affected and the price of our securities could fall.

The FDA must approve any new medicine before it can be marketed and sold in the U.S. Our partner GSK must provide the FDA and similar foreign regulatory authorities with data from preclinical and clinical studies that demonstrate that the product candidates are safe and effective for a defined indication before they can be approved for commercial distribution. GSK will not obtain this approval for a partnered product candidate unless and until the FDA approves a NDA. The processes by which regulatory approvals are obtained from the FDA to market and sell a new product are complex, require a number of years and involve the expenditure of substantial resources. In order to market medicines in foreign countries, separate regulatory approvals must be obtained in each country. The approval procedure varies among countries and can involve additional testing, and the time required to obtain approval may differ from that required to obtain FDA approval. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries or by the FDA. Conversely, failure to obtain approval in one or more country may make approval in other countries more difficult.

Clinical studies involving product candidates partnered with GSK may reveal that those candidates are ineffective, inferior to existing approved medicines, unacceptably toxic, or that they have other unacceptable side effects. In addition, the results of preclinical studies do not necessarily predict clinical success, and larger and later-stage clinical studies may not produce the same results as earlier-stage clinical studies.

Frequently, product candidates that have shown promising results in early preclinical or clinical studies have subsequently suffered significant setbacks or failed in later clinical or non-clinical studies. In addition, clinical and non-clinical studies of potential products often reveal that it is not possible or practical to continue development efforts for these product candidates. If these studies are substantially delayed or fail to prove the safety and effectiveness of product candidates in development partnered with GSK, GSK may not receive regulatory approval for such product candidates and our business and financial condition will be materially harmed and the price of our securities may fall.

Several well-publicized Complete Response letters issued by the FDA and safety-related product withdrawals, suspensions, post-approval labeling revisions to include boxed warnings and changes in approved indications over the last several years, as well as growing public and governmental scrutiny of safety issues, have created a conservative regulatory environment. The implementation of new laws and regulations and revisions to FDA clinical trial design guidance have increased uncertainty regarding the approvability of a new drug. Further, there are additional requirements for approval of new drugs, including advisory committee meetings for new

chemical entities, and formal risk evaluation and mitigation strategy at the FDA's discretion. These laws, regulations, additional requirements and changes in interpretation could cause non-approval or further delays in the FDA's review and approval of any product candidates in any respiratory program partnered with GSK.

Even if product candidates in any respiratory program partnered with GSK receive regulatory approval, as is the case with RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA®, commercialization of such products may be adversely affected by regulatory actions and oversight.

Even if GSK receives regulatory approval for product candidates in any respiratory program partnered with GSK, this approval may include limitations on the indicated uses for which GSK can market the medicines or the patient population that may utilize the medicines, which may limit the market for the medicines or put GSK at a competitive disadvantage relative to alternative therapies. These restrictions make it more difficult to market the approved products.

For example, at the joint meeting of the Pulmonary-Allergy Drugs Advisory Committee and Drug Safety and Risk Management Advisory Committee of the FDA regarding the sNDA for BREO® ELLIPTA® as a treatment for asthma, the advisory committee recommended that a large LABA safety trial with BREO® ELLIPTA® should be required in adults and in 12-17 year olds, similar to the ongoing LABA safety trials being conducted as an FDA Post-Marketing Requirement by each of the manufacturers of LABA containing asthma treatments.

In addition, the manufacturing, labeling, packaging, adverse event reporting, advertising, promotion and recordkeeping for the approved product remain subject to extensive and ongoing regulatory requirements. If we or GSK become aware of previously unknown problems with an approved product in the U.S. or overseas or at contract manufacturers' facilities, a regulatory authority may impose restrictions on the product, the contract manufacturers or on GSK, including requiring it to reformulate the product, conduct additional clinical studies, change the labeling of the product, withdraw the product from the market or require the contract manufacturer to implement changes to its facilities. GSK is also subject to regulation by regional, national, state and local agencies, including the Department of Justice, the Federal Trade Commission, the Office of Inspector General of the U.S. Department of Health and Human Services and other regulatory bodies as well as governmental authorities in those foreign countries in which any of the product candidates in any respiratory program partnered with GSK are approved for commercialization. The Federal Food, Drug, and Cosmetic Act, the Public Health Service Act and other federal and state statutes and regulations govern to varying degrees the research, development, manufacturing and commercial activities relating to prescription

pharmaceutical products, including non-clinical and clinical testing, approval, production, labeling, sale, distribution, import, export, post-market surveillance, advertising, dissemination of information and promotion. Any failure to maintain regulatory approval will limit GSK's ability to commercialize the product candidates in any respiratory program partnered with GSK, which would materially and adversely affect our business and financial condition and which may cause the price of our securities to fall.

We may not be successful in our efforts to expand our portfolio of royalty generating products.

In the future, we may choose to acquire rights to one or more additional royalty generating products. However, we may be unable to license or acquire rights to suitable royalty generating products for a number of reasons. In particular, the licensing and acquisition of pharmaceutical product rights is a competitive area. Several more established companies are also pursuing strategies to license or acquire rights to royalty generating products. These established companies may have a competitive advantage over us. Other factors that may prevent us from licensing or otherwise acquiring rights to suitable royalty generating products include the following:

- we may be unable to license or acquire the rights on terms that would allow us to make an appropriate return from the product;
- companies that perceive us to be their competitors may be unwilling to assign or license their product rights to us; or
- we may be unable to identify suitable royalty generating products.

If we are unable to acquire or license rights to suitable royalty generating product candidates, our business may suffer.

We have a significant amount of debt including Convertible Subordinated Notes and Non-Recourse Notes that are senior in capital structure and cash flow, respectively, to our common stockholders. Satisfying the obligations relating to our debt could adversely affect the amount or timing of distributions to our stockholders.

As of June 30, 2016, we had approximately $739.1 million in total long-term debt outstanding, comprised primarily of $245.1 million in principal that remains outstanding under our convertible subordinated notes, due 2023 (the "2023 Notes") and $494.0 million in principal that remains outstanding under our non-recourse fixed rate term notes due 2029 (the "2029 Notes") (the 2023 Notes and 2029 Notes hereinafter, the "Notes"). The 2023 Notes are unsecured debt and are not redeemable by us prior to the maturity date. Holders of the Notes may require us to purchase all or any portion of their Notes at 100% of their principal amount, plus any unpaid interest, upon a fundamental change. A fundamental change is generally defined to include a merger involving us, an acquisition of a majority of our outstanding common stock, and the change of a majority of our board without

Table of Contents

the approval of the board. In addition, to the extent we pursue and complete a monetization transaction, the structure of such transaction may qualify as a fundamental change under the Notes, which could trigger the put rights of the holders of the Notes, in which case we would be required to use a portion of the net proceeds from such transaction to repurchase any Notes put to us. Our 2029 Notes have rights to 40% of all royalty payments received from GSK related to RELVAR®/BREO® ELLIPTA®, ANORO® ELLIPTA®, and VI monotherapy until the notes are paid in full.

Satisfying the obligations of this debt could adversely affect the amount or timing of any distributions to our stockholders. We may choose to satisfy repurchase, or refinance this debt through public or private equity or debt financings if we deem such financings available on favorable terms. If any or all of the Convertible Subordinated Notes are not converted into shares of our common stock before the maturity date, we will have to pay the holders the full aggregate principal amount of the Notes then outstanding. If the Fixed Rate Royalty are not refinanced or paid in full, then they will receive 40% of all future economics associated with RELVAR®/BREO® ELLIPTA®, ANORO® ELLIPTA®, and VI monotherapy, until the notes are paid in full. Any of the above payments could have a material adverse effect on our cash position. If we fail to satisfy these obligations, it may result in a default under the indenture, which could result in a default under certain of our other debt instruments, if any. Any such default would harm our business and the price of our securities could fall.

If we lose key management personnel, or if we fail to retain our key employees, our ability to manage our business will be impaired.

We have a small management team and very few employees. We are highly dependent on principal members of our management team and a small group of key employees to operate our business. Our company is located in northern California, which is headquarters to many other biotechnology and biopharmaceutical companies and many academic and research institutions. As a result, competition for certain skilled personnel in our market remains intense. None of our employees have employment commitments for any fixed period of time and they all may leave our employment at will. If we fail to retain our qualified personnel or replace them when they leave, we may be unable to continue our business operations, which may cause the price of our securities to fall.

We rely and will continue to rely on outsourcing arrangements for many of our activities, including financial reporting and accounting and human resources.

As of June 30, 2016, we had only 13 full-time employees and, as a result, we rely, and expect to continue to rely, on outsourcing arrangements for a significant portion of our activities, including financial reporting and accounting and human resources, as well as for certain functions as a public company. We may have limited control over these third parties and we cannot guarantee that they will perform their obligations in an effective and timely manner.

If we fail to maintain proper and effective internal control over financial reporting or if the interpretations, estimates or judgments utilized in preparing our financial statements prove to be incorrect, our operating results and our ability to operate our business could be harmed.

The Sarbanes-Oxley Act requires, among other things, that we establish and maintain effective internal control over financial reporting and disclosure controls and procedures. Under the SEC's current rules, we are required to perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our independent registered public accounting firm is also required to report on our internal control over financial reporting. Our testing and our independent registered public accounting firm's testing may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses and render our internal control over financial reporting ineffective. We have and expect to continue to incur substantial accounting and

auditing expense and to expend significant management time in complying with the requirements of Section 404. If we are not able to maintain compliance with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to investigations or sanctions by the SEC, FINRA, NASDAQ or other regulatory authorities. In addition, we could be required to expend significant management time and financial resources to correct any material weaknesses that may be identified or to respond to any regulatory investigations or proceedings.

We are also subject to complex tax laws, regulations, accounting principles and interpretations thereof. The preparation of our financial statements requires us to interpret accounting principles and guidance and make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenue generated and expenses incurred during the reporting periods. Our interpretations, estimates and judgments 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 the preparation of our financial statements. GAAP presentation is subject to interpretation by the SEC, the Financial Accounting Standards Board and various other bodies formed to interpret and create appropriate accounting principles and guidance. In the event that one of these bodies disagrees with our accounting recognition, measurement or

Table of Contents

disclosure or any of our accounting interpretations, estimates or assumptions, it may have a significant effect on our reported results and may retroactively affect previously reported results. The need to restate our financial results could, among other potential adverse effects, result in us incurring substantial costs, affect our ability to timely file our periodic reports until such restatement is completed, divert the attention of our management and employees from managing our business, result in material changes to our historical and future financial results, result in investors losing confidence in our operating results, subject us to securities class action litigation, and cause our stock price to decline.

As we continue to develop our business, our mix of assets and our sources of income may require that we register with the SEC as an "investment company" in accordance with the Investment Company Act of 1940.

We have not been and have no current intention to register as an "investment company" under the Investment Company Act of 1940, or the 40 Act, because we believe the nature of our assets and the sources of our income currently exclude us from the definition of an investment company pursuant to Sections (3)(a)(1)(A), (3)(a)(1)(C) under the 40 Act and Rule 270.3a-1 of Title 17 of the Code of Federal Regulations. Accordingly, we are not currently subject to the provisions of the 40 Act, such as compliance with the 40 Act's registration and reporting requirements, capital structure requirements, affiliate transaction restrictions, conflict of interest rules, requirements for disinterested directors, and other substantive provisions. Generally, to avoid being a company that is an "investment company" under the 40 Act, it must both: (a) not be or hold itself out as being engaged primarily in the business of investing, reinvesting or trading in securities, and (b) either (i) not be engaged or propose to engage in the business of investing in securities or own or propose to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis or (ii) not have more than 45% of the value of its total assets (exclusive of Government securities and cash items) consist of or more than 45% of its net income after taxes (for the last four fiscal quarters combined) be derived from securities. In addition, we would not be an "investment company" if an exception, exemption, or safe harbor under the 40 Act applies.

We monitor our assets and income for compliance with the tests under the 40 Act and seek to conduct our business activities to ensure that we do not fall within its definitions of "investment company." If we were to become an "investment company" and be subject to the strictures of the 40 Act, the restrictions imposed by the 40 Act would likely require changes in the way we do business and add significant administrative burdens to our operations. In order to ensure that we do not fall within the 40 Act, we may need to take various actions which we might otherwise not pursue. These actions may include restructuring the Company and/or modifying our mixture of assets and income.

Specifically, our mixture of debt vs. royalty assets is important to our classification as an "investment company" or not. In this regard, while we currently believe that none of the definitions of "investment company" apply to us, we may in the future rely on an exception under the 40 Act provided by Section 3(c)(5)(A). To qualify for Section 3(c)(5)(A), as interpreted by the staff of the SEC, we would be required to have at least 55% of our total assets in "notes, drafts, acceptances, open accounts receivable, and other obligations representing part or all of the sales price of merchandise, insurance, and services" (or Qualifying Assets). In a no-action letter issued to Royalty Pharma on August 13, 2010, the staff stated that royalty interests are Qualifying Assets under this exception. If the SEC or its staff in the future adopts a contrary interpretation or otherwise restricts the conclusions in the staff's no-action letter such that our royalty interests are no longer Qualifying Assets for purposes of Section 3(c)(5)(A), we could be required to register under the 40 Act.

The rules and interpretations of the SEC and the courts, relating to the definition of "investment company" are highly complex in numerous respects. While we currently intend to conduct our operations so that we will not be deemed an investment company, we can give no assurances that we will not determine it to be in the Company's and our stockholders' interest to register as an "investment company", not be deemed an "investment company" and not be required to register under the 40 Act.

Prolonged economic uncertainties or downturns, as well as unstable market, credit and financial conditions, may exacerbate certain risks affecting our business and have serious adverse consequences on our business.

The global economic downturn and market instability has made the business climate more volatile and more costly. For instance, the United Kingdom's recent decision to exit the European Union ("Brexit") has provided further uncertainty and potential volatility around European currencies. These economic conditions, and uncertainty as to the general direction of the macroeconomic environment, are beyond our control and may make any necessary debt or equity financing more difficult, more costly, and more dilutive. While we believe we have adequate capital resources to meet current working capital and capital expenditure requirements, a lingering economic downturn or significant increase in our expenses could require additional financing on less than attractive rates or on terms that are excessively dilutive to existing stockholders. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on our stock price and could require us to delay or abandon clinical development plans.

Sales of our partnered products will be dependent, in large part, on reimbursement from government health administration authorities, private health insurers, distribution partners and other organizations. As a result of negative trends in the general economy in the U.S. or other jurisdictions in which we may do business, these organizations may be unable to satisfy their reimbursement obligations or may delay payment. In addition, federal and state health authorities may reduce Medicare and Medicaid

Table of Contents

reimbursements, and private insurers may increase their scrutiny of claims. A reduction in the availability or extent of reimbursement could negatively affect our or our partners' product sales and revenue.

In addition, we rely on third parties for several important aspects of our business. During challenging and uncertain economic times and in tight credit markets, there may be a disruption or delay in the performance of our third party contractors, suppliers or partners. If such third parties are unable to satisfy their commitments to us, our business and results of operations would be adversely affected.

Risks Related to our Alliance with GSK

Because all our current and projected revenues are derived from products under the GSK Agreements, disputes with GSK could harm our business and cause the price of our securities to fall.

All of our current and projected revenues are derived from products under the GSK Agreements. Any action or inaction by either GSK or us that results in a material dispute, allegation of breach, litigation, arbitration, or significant disagreement between the parties may be interpreted negatively by the market or by our investors, could harm our business and cause the price of our securities to fall. Examples of these kinds of issues include but are not limited to non-performance of contractual obligations and allegations of non-performance, disagreements over the relative marketing and sales efforts for our partnered products and other GSK respiratory products, disputes over public statements, and similar matters. In addition, while we obtained GSK's consent to the Spin-Off as structured, GSK could decide to challenge various aspects of our post-Spin-Off operation of Theravance Respiratory Company, LLC ("TRC"), the limited liability company jointly owned by us and Theravance Biopharma as violating or allowing it to terminate the GSK Agreements. Although we believe our operation of TRC fully complies with the GSK Agreements and applicable law, there can be no assurance that we would prevail against any such claims by GSK. Moreover, regardless of the merit of any claims by GSK, we may incur significant cost and diversion of resources in defending them. In addition, any market or investor uncertainty about the respiratory programs partnered with GSK or the enforceability of the GSK Agreements could result in significant reduction in the market price of our securities and other material harm to our business.

Because GSK is a strategic partner as well as a significant stockholder, it may take actions that in certain cases are materially harmful to both our business or to our other stockholders.

Although GSK beneficially owns approximately 28.8% of our outstanding capital stock as of July 31, 2016, it is also a strategic partner with rights and obligations under the GSK Agreements that cause its interests to differ from the interests of us and our other stockholders. In particular, GSK has a substantial respiratory product portfolio in addition to the partnered products that are covered by the GSK Agreements. GSK may make respiratory product portfolio decisions or statements about its portfolio which may be, or may be perceived to be, harmful to the respiratory products partnered with us. For example, GSK could promote its non-GSK/Innoviva respiratory products or a partnered product for which we are entitled to receive a lower percentage of royalties, delay or terminate the development or commercialization of the respiratory programs covered by the GSK Agreements, or take other actions, such as making public statements, that have a negative effect on our stock price. In this regard and by way of example, sales of Advair®, GSK's approved medicine for both COPD and asthma, continue to be significantly greater than sales of RELVAR®/BREO® ELLIPTA®, and GSK has indicated publicly that it intends to continue commercializing Advair®. Also, given the potential future royalty payments GSK may be obligated to pay under the GSK Agreements, GSK may seek to acquire us to reduce those payment obligations. The timing of when GSK may seek to acquire us could potentially be when it possesses information regarding the status of drug programs covered by the GSK Agreements that has not been publicly disclosed and is not otherwise known to us. As a result of these differing interests, GSK may take actions that it believes are in its best interest but which might not be in the best interests of either us or our other stockholders. In addition, upon regulatory approval of UMEC/VI/FF or a MABA/ICS in either the U.S. or the EU, GSK's diligent efforts obligations as to commercialization matters under the GSK Agreements will have the objective of focusing on the best interests of patients and maximizing the net value of the overall portfolio of products under the GSK Agreements. Since GSK's commercialization efforts following such regulatory approval will be guided by a portfolio approach across products in which we have retained our full interest and also products in which we now have only a portion of our former interest, GSK's commercialization efforts may have the effect of reducing the overall value of our remaining interests in the products covered by the GSK Agreements in the future. In addition, following the expiration of our governance agreement with GSK in September 2015, GSK is no longer subject to the restrictions thereunder regarding the voting of the shares of our capital stock owned by it.

GSK has also indicated to us that it believes its consent may be required before we can engage in certain royalty monetization transactions with third parties, which may inhibit our ability to engage in these transactions.

In the course of our discussions with GSK concerning the Spin-Off of Theravance Biopharma, GSK indicated to us that it believes that its consent may be required before we can engage in certain transactions designed to monetize the future value of royalties that may be payable to us from GSK under the GSK Agreements. GSK has informed us that it believes that there may be certain covenants included in these types of transactions that might violate certain provisions of the GSK Agreements. Although we believe that we can structure royalty monetization transactions in a manner that fully complies with the requirements of the GSK

Table of Contents

Agreements without GSK's consent, a third party in a proposed monetization transaction may nonetheless insist that we obtain GSK's consent for the transaction or re-structure the transaction on less favorable terms. We have obtained GSK's agreement that (i) we may grant certain pre-agreed covenants in connection with monetization of our interests in RELVAR®/BREO® ELLIPTA®, ANORO® ELLIPTA® and vilanterol monotherapy and portions of our interests in TRC, and (ii) it will not unreasonably withhold its consent to our requests to grant other covenants, provided, among other conditions, that in each case, the covenants are not granted in favor of pharmaceutical or biotechnology company with a product either being developed or commercialized for the treatment of respiratory disease. If we seek GSK's consent to grant covenants other than pre-agreed covenants, we may not be able to obtain GSK's consent on reasonable terms, or at all. If we proceed with a royalty monetization transaction that is not otherwise covered by the GSK Agreement without GSK's consent, GSK could request that its consent be obtained or seek to enjoin or otherwise challenge the transaction as violating or allowing it to terminate the GSK Agreements. Regardless of the merit of any claims by GSK, we would incur significant cost and diversion of resources in defending against GSK's claims or asserting our own claims and GSK may seek concessions from us in order to provide its consent. Any uncertainty about whether or when we could

engage in a royalty monetization transaction, the potential impact on the enforceability of the GSK Agreements or the loss of potential royalties from the respiratory programs partnered with GSK, could impair our ability to pursue a return of capital strategy for our stockholders ahead of our receipt of significant royalties from GSK, result in significant reduction in the market price of our securities and cause other material harm to our business.

GSK's ownership of a significant percentage of our stock and its ability to acquire additional shares of our stock may create conflicts of interest, and may inhibit our management's ability to continue to operate our business in the manner in which it is currently being operated.

As of July 31, 2016, GSK beneficially owned approximately 28.8% of our outstanding capital stock. As such, GSK could have substantial influence in the election of our directors, delay or prevent a transaction in which stockholders might receive a premium over the prevailing market price for their shares and have significant control over certain changes in our business. The procedures previously governing and restricting GSK offers to our stockholders to acquire outstanding voting stock and the restrictions regarding the voting of shares of our capital stock owned by it terminated upon the expiration of the governance agreement on September 1, 2015. Further, pursuant to our Certificate of Incorporation, we renounce our interest in and waive any claim that a corporate or business opportunity taken by GSK constitutes a corporate opportunity of ours unless such corporate or business opportunity is expressly offered to one of our directors who is a director, officer or employee of GSK, primarily in his or her capacity as one of our directors.

GSK's significant ownership position may deter or prevent efforts by other companies to acquire us, which could prevent our stockholders from realizing a control premium.

As of July 31, 2016, GSK beneficially owned approximately 28.8% of our outstanding capital stock. As a result of GSK's significant ownership, other companies may be less inclined to pursue an acquisition of us and therefore we may not have the opportunity to be acquired in a transaction that stockholders might otherwise deem favorable, including transactions in which our stockholders might realize a substantial premium for their shares.

GSK could sell or transfer a substantial number of shares of our common stock, which could depress the price of our securities or result in a change in control of our company.

GSK is not subject to any contractual restrictions with us on its ability to sell or transfer our common stock on the open market, in privately negotiated transactions or otherwise, and these sales or transfers could create substantial declines in the price of our securities or, if these sales or transfers were made to a single buyer or group of buyers, could contribute to a transfer of control of our company to a third party. Sales by GSK of a substantial number of shares, or the expectation of such sales, could cause a significant reduction in the market price of our common stock.

Risks Related to Legal and Regulatory Uncertainty

If our trademarks and trade names are not adequately protected, then we may not be able to build name recognition in our markets of interest and our business may be adversely affected.

Our registered or unregistered trademarks or trade names may be challenged, infringed, circumvented, declared generic or determined to be infringing on other marks. We may not be able to protect our rights to these trademarks and trade names, which are necessary to build name and brand recognition among potential partners or customers in our markets of interest. At times, competitors may adopt trademarks or trade names similar to ours, thereby impeding our ability to build name and brand identity and possibly leading to market confusion. In addition, there could be potential trademark or trade name infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of our registered or unregistered trademarks or trade names. There was also a risk that if there is confusion in the marketplace, the reputation, performance and/or actions of such third parties may negatively impact our stock price and our business. We therefore have, as of January 2016, adopted a new brand, Innoviva. Over the long term, if we are unable to establish name and brand recognition based on our trademarks and trade names, then we may not be able to compete effectively and our business may be adversely affected. If we fail to promote and maintain our brand successfully, or if we incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, our business may be harmed.

Table of Contents

If the efforts of our partner, GSK, to protect the proprietary nature of the intellectual property related to products in any respiratory program partnered with GSK are not adequate, the future commercialization of any such product could be delayed, limited or prevented, which would materially harm our business and the price of our securities could fall.

To the extent the intellectual property protection of products in any respiratory program partnered with GSK are successfully challenged or encounter problems with the U.S. Patent and Trademark Office or other comparable agencies throughout the world, the commercialization of these products could be delayed, limited or prevented. Any challenge to the intellectual property protection of a late-stage development asset or approved product arising from any respiratory program partnered with GSK could harm our business and cause the price of our securities to fall.

Our commercial success depends in part on products in any respiratory program partnered with GSK not infringing the patents and proprietary rights of third parties. Third parties may assert that these products are using their proprietary rights without authorization. In addition, third parties may obtain patents in the future and claim that use of GSK's technologies infringes upon these patents. Furthermore, parties making claims against GSK may obtain injunctive or other equitable relief, which could effectively block GSK's ability to further develop or commercialize one or more of the product candidates or products in any respiratory program partnered with GSK.

In the event of a successful claim of infringement against GSK, it may have to pay substantial damages, obtain one or more licenses from third parties or pay royalties. In addition, even in the absence of litigation, GSK may need to obtain licenses from third parties to advance its research or allow commercialization of the products. GSK may fail to obtain any of these licenses at a reasonable cost or on reasonable terms, if at all. In that event, GSK would be unable to further develop and commercialize one or more of the products, which could harm our business significantly. In addition, in the future GSK could be required to initiate litigation to enforce its proprietary rights against infringement by third parties. Prosecution of these claims to enforce its rights against others would involve substantial litigation expenses. If GSK fails to effectively enforce its proprietary rights related to our partnered respiratory programs against others, our business will be harmed, and the price of our securities could fall.

Risks Related to Ownership of our Common Stock

The price of our securities has been volatile and may continue to be so, and purchasers of our securities could incur substantial losses.

The price of our securities has been volatile and may continue to be so. Between January 1, 2016 and June 30, 2016, the high and low sales prices of our common stock as reported on The NASDAQ Global Select Market varied between $8.23 and $13.77 per share. The stock market in general and the market for biotechnology and biopharmaceutical companies in particular have experienced extreme volatility that has often been unrelated to the companies' operating performance, in particular during the last several years. The following factors, in addition to the other risk factors described in this section, may also have a significant impact on the market price of our securities:

· any adverse developments or results or perceived adverse developments or results with respect to the commercialization of RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA® with GSK, including, without limitation, if payor coverage is lower than anticipated or if sales of RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA® are less than anticipated because of pricing pressure in the respiratory markets targeted by our partnered products or existing or future competition in the markets in which they are commercialized, including competition from existing and new products that are perceived as lower cost or more effective, and our royalty payments are less than anticipated;

· any positive developments or results or perceived positive developments or results with respect to the development of UMEC/VI/FF with GSK, including, if GSK and the respiratory market in general view this triple combination therapy as significantly more beneficial than existing therapies, including RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA®;

· any adverse developments or results or perceived adverse developments or results with respect to the on-going development of FF/VI with GSK, including, without limitation, any difficulties or delays encountered with the regulatory path for FF/VI or any indication from clinical or non-clinical studies, including the large Phase 3b program, that FF/VI is not safe or efficacious or does not sufficiently differentiate itself from alternative therapies;

· any adverse developments or results or perceived adverse developments or results with respect to the on-going development of UMEC/VI with GSK, including, without limitation, any difficulties or delays encountered with regard to the regulatory path for UMEC/VI, any indication from clinical or non-clinical studies that UMEC/VI is not safe or efficacious;

· any adverse developments or perceived adverse developments in the field of LABAs, including any change in FDA policy or guidance (such as the pronouncement in February 2010 warning that LABAs should not be used alone in the treatment of asthma and related labeling requirements, the impact of the March 2010 FDA Advisory Committee discussing LABA clinical trial design to evaluate serious asthma outcomes or the FDA's April 2011 announcement that manufacturers of currently marketed LABAs conduct additional clinical studies comparing the addition of LABAs to inhaled corticosteroids versus inhaled corticosteroids alone);

· the occurrence of a fundamental change triggering a put right of the holders of the Notes or our inability, or perceived inability, to satisfy the obligations under the Notes when they become due;

· our incurrence of expenses in any particular quarter that are different than market expectations;

· the extent to which GSK advances (or does not advance) FF/VI, UMEC/VI, UMEC/VI/FF, VI monotherapy and the MABA program through development into commercialization in all indications in all major markets;

· any adverse developments or perceived adverse developments with respect to our relationship with GSK, including, without limitation, disagreements that may arise between us and GSK;

· announcements regarding GSK generally;

· announcements of patent issuances or denials, technological innovations or new commercial products by GSK;

· publicity regarding actual or potential study results or the outcome of regulatory review relating to products under development by GSK;

· regulatory developments in the U.S. and foreign countries;

· economic and other external factors beyond our control;

· sales of stock by us or by our stockholders, including sales by certain of our employees and directors whether or not pursuant to selling plans under Rule 10b5-1 of the Securities Exchange Act of 1934;

· relative illiquidity in the public market for our common stock (our three largest stockholders other than GSK collectively owned approximately 28.8% of our outstanding capital stock as of July 31, 2016 based on our review of publicly available filings); and

· potential sales or purchases of our capital stock by GSK.

We may be unable to or elect not to continue returning capital to our stockholders.

We have a corporate goal of returning capital to stockholders and have paid quarterly dividends during the third and fourth quarters of 2014 and during the first three quarters of 2015. On October 28, 2015, we announced the acceleration of our capital return plan with a $150 million share repurchase program approved by our Board of Directors, replacing our quarterly dividend. As of June 30, 2016, we had repurchased an aggregate of $70.0 million of our common stock under the repurchase program through a combination of a tender offer and open market purchases and $8.1 million of our 2023 Notes. Our announcement of our share repurchase program does not obligate us to repurchase any specific dollar amount or number of shares of common stock.

The payment of, or continuation of, capital returns to stockholders is at the discretion of our board of directors and is dependent upon our financial condition, results of operations, capital requirements, general business conditions, tax treatment of capital returns, potential future contractual restrictions contained in credit agreements and other agreements and other factors deemed relevant by our board of directors. Future capital returns may also be affected by, among other factors: our views on potential future capital requirements for investments in acquisitions and our working capital and debt maintenance requirements; legal risks; stock repurchase programs; changes in federal and state income tax laws or corporate laws; and changes to our business model. Our capital returns may change from time to time, and we cannot provide assurance that we will continue to provide any particular amounts. A reduction or suspension in our capital returns programs could have a negative effect on our stock price.

Table of Contents

Concentration of ownership will limit your ability to influence corporate matters.

As of July 31, 2016, GSK beneficially owned approximately 28.8% of our outstanding capital stock and our directors, executive officers and investors affiliated with these individuals beneficially owned approximately 1.7% of our outstanding capital stock. Based on our review of publicly available filings as of July 31, 2016, our three largest stockholders other than GSK collectively owned approximately 47.1% of our outstanding capital stock. These stockholders could control the outcome of actions taken by us that require stockholder approval, including a transaction in which stockholders might receive a premium over the prevailing market price for their shares. Following the expiration of the governance agreement in September 2015, GSK is no longer subject to the restrictions thereunder regarding the voting of the shares of our capital stock owned by it.

Anti-takeover provisions in our charter and bylaws and in Delaware law could prevent or delay a change in control of our company.

Provisions of our Certificate of Incorporation and Bylaws may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. These provisions include:

· requiring supermajority stockholder voting to effect certain amendments to our Certificate of Incorporation and Bylaws;

· restricting the ability of stockholders to call special meetings of stockholders;

· prohibiting stockholder action by written consent; and

· establishing advance notice requirements for nominations for election to the Board or for proposing matters that can be acted on by stockholders at meetings.

In addition, some provisions of Delaware law may also discourage, delay or prevent someone from acquiring us or merging with us.

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

Purchases of Equity Securities by the Issuer

On October 28, 2015, we announced that our Board of Director approved the acceleration of our capital return plan with a $150 million share repurchase program effective through the end of 2016.

The following table reflects the repurchases of our common stock under the share repurchase program during the three months ended June 30, 2016:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
April 1, 2016 to April 30, 2016	1,220	$ 12.01	1,220	
May 1, 2016 to May 31, 2016	370,000	$ 11.55	370,000	
June 1, 2016 to June 30, 2016	1,318,000	$ 11.14	1,318,000	
				$ 80,033,008

In May 2016, we retired a portion of our 2023 Notes with a face value of $10.0 million and carrying value of $9.8 million by way of purchase in the open market. The 2023 Notes were purchased for a total settlement price of $8.1 million resulting in a gain of $1.7 million. As a result of the said partial retirement of our 2023 Notes, we entered into a partial termination agreement of our capped-call option transaction described above. The partial termination agreement of the capped-call option transaction enabled us to receive $0.4 million from the counterparty.

Table of Contents

Item 6. Exhibits

(a) **Index to Exhibits**

Exhibit Number	Description	Form	Incorporated by Reference Filing Date/Period End Date
3.3	Amended and Restated Certificate of Incorporation	S-1	7/26/04

3.4	Certificate of Amendment of Restated Certificate of Incorporation	10-Q	3/31/07
3.6	Amended and Restated Bylaws (as amended by the board of directors January 15, 2016)	8-K	1/15/16
3.7	Certificate of Ownership and Merger Merging LABA Merger Sub, Inc. with and into Theravance, Inc.	8-K	1/8/2016
10.68	Office Lease Agreement by and between Innoviva, Inc. and 2000 Sierra Point Parkway LLC, dated June 10, 2016.		
10.69	Sublease Termination Agreement by and between Innoviva, Inc. and Theravance Biopharma US, Inc., dated June 10, 2016.		
10.70	Partial Termination Agreement by and between Innoviva, Inc. and Bank of America, N.A., dated May 16, 2016.		
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated pursuant to the Securities Exchange Act of 1934, as amended		
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated pursuant to the Securities Exchange Act of 1934, as amended		
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, 2016)		

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: August 4, 2016

/s/ Michael W. Aguiar

Michael W. Aguiar
Chief Executive Officer
(principal executive officer)

Date: August 4, 2016

/s/ Eric d'Esparbes

Eric d'Esparbes
Senior Vice President, Finance and Chief Financial Officer (principal financial and principal accounting officer)

OFFICE LEASE

by and between

2000 SIERRA POINT PARKWAY LLC, a Delaware limited liability company

as Landlord

and

INNOVIVA, INC., a Delaware corporation,

as Tenant

2000 Sierra Point Parkway

Brisbane, California 94005

June 10, 2016

OFFICE LEASE

THIS LEASE is entered into as of June 10, 2016 (the ***"Effective Date"***), by and between 2000 SIERRA POINT PARKWAY LLC, a Delaware limited liability company (***"Landlord"***), and INNOVIVA, INC., a Delaware corporation (***"Tenant"***).

1. BASIC LEASE INFORMATION. The following is a summary of basic lease information. Each item in this Article 1 incorporates all of the terms set forth in this Lease pertaining to such item and to the extent there is any conflict between the provisions of this Article 1 and any other provisions of this Lease, the other provisions shall control. Any capitalized term not defined in this Lease shall have the meaning set forth in the Glossary that appears at the end of this Lease.

Building:	2000 Sierra Point Parkway Brisbane, California 94005
Premises and Rentable Area:	Suite 500, the rentable area of a portion of the Fifth Floor of the Building, consisting of approximately 8,427 square feet of Rentable Area. A Floor Plan of the Premises is included with this Lease and attached hereto as ***"Exhibit A"***.
Term:	The Term is Eighty-Four (84) Months, or as extended under Tenant's Renewal Option (Section 4.4).
Commencement Date:	June 13, 2016.
Landlord Work:	Landlord at Landlord's expense shall perform "Landlord Work" pursuant to the terms of Section 9.1 and the "Work Letter" attached hereto as ***"Exhibit E"***.
Base Rent Rate Schedule:	The Rent Commencement Date is the Commencement Date, and the Base Rent shall be paid by Tenant based on the following schedule:

Period	Monthly Base Rent	
Months 1-12	$	31,180
Months 13-24	$	32,115
Months 25-36	$	33,079
Months 37-48	$	34,071
Months 49-60	$	35,093
Months 61-72	$	36,146
Months 73-84	$	37,230

Abated Rent:	Notwithstanding the foregoing rent schedule, the first three (3) months of Base Rent and Operating Expenses shall be fully abated.
Tenant's Pro Rata Share:	The Premises contains approximately 3.8% of the Rentable Area of the Building.
Base Year:	Calendar Year 2016
Security Deposit:	$37,230
Parking:	That number of parking spaces available for Tenant's use is determined by multiplying Tenant's Pro

	Rata Share by the total number of parking spaces then available upon the Property available on an unassigned and unreserved basis, which is twenty-seven (27) parking spaces as of the Effective Date.
Use:	General office and administrative uses consistent with Class A office buildings.
Normal Business Hours:	7:00 a.m. to 6:00 p.m. on each Business Day.

Addresses for Notice:

Landlord:	2000 Sierra Point Parkway LLC 2000 Sierra Point Parkway, Suite 100 Brisbane, CA 94005 Attention: Stephen P. Diamond, Manager
with a copy to:	Kent Mitchell, Esq. Jorgenson, Siegel, McClure & Flegel 1100 Alma Street, Suite 210 Menlo Park, CA 94025
Tenant:	On and after the Commencement Date, notices shall be sent to Tenant at the Premises, Attn: Eric d'Esparbes. Prior to the Commencement Date, notices shall be sent to Tenant at the following address: Innoviva, Inc. 951 Gateway Blvd. South San Francisco, CA 94080 Attn: Eric d'Esparbes
Brokers:	Landlord's Broker: Newmark Cornish & Carey Tenant's Broker: Avison Young

Rent (defined in Section 5.2) is payable to the order of Landlord at the following address:

2000 Sierra Point Parkway, Suite 100
Brisbane, CA 94005

2. PREMISES

2.1. Premises. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord for Tenant's own use in the conduct of Tenant's business and not for purposes of speculating in real estate, for the Term and upon the terms and subject to the conditions of this Lease, that certain interior space described in Article 1 as the "***Premises***", reserving and excepting to Landlord (a) such access as may be required (including but not limited to elevator access) by Landlord to the Building roof and heating, ventilating, air conditioning, ducting, cabling systems, and other Building Systems, (b) the right to place additional vertical penetrations in the Premises as needed for heating, ventilating, air conditioning, ducting, cabling, and other Building Systems, and (c) the right to access the Premises for the management of the Property and fulfillment of Landlord's duties and obligations under this Lease. Tenant's lease of the Premises, together with the appurtenant right to use the Common Areas as described in Paragraph 2.2 below, shall be conditioned upon and be subject to the continuing compliance by Tenant with (i) all the terms and conditions of this Lease, (ii) all Applicable Laws governing the use of the Premises and the Property, (iii) all private restrictions, easements and other matters now of public record respecting the use of the Premises and Property, and (iv) all reasonable rules and regulations from time to time established by Landlord. The building in which the Premises is located is sometimes referred to herein as the "***Building***".

2.2. Common Area. Landlord hereby grants to Tenant and its employees, agents, contractors and invitees (collectively, ***"Tenant's Agents"***) a non-exclusive license to use the public areas, sidewalks, driveways, parking areas and other public amenities (the ***"Common Area"***) associated with the Premises during the Term. Together, the Premises, the Building and the Common Area are sometimes referred to in this Lease as the ***"Property."*** Tenant's rights to the Common Area shall be subject to the Rules and Regulations described in Section 23.1 and to Landlord's reserved rights described in Article 16.

2.3. Parking. Throughout the Term of this Lease, and any extensions thereof, Tenant shall have the right to use the number of parking spaces specified in Article 1, at no additional cost to Tenant. Tenant's license shall not be assigned, sublet or otherwise transferred separately from the Premises. Tenant agrees that neither Tenant nor Tenant's Agents shall use parking spaces in excess of the number of spaces allocated to Tenant or in areas designated for other uses. Landlord shall have the right, at Landlord's sole discretion, to specifically designate the location of Tenant's parking spaces within the parking areas of the Common Area, and Tenant's designated parking spaces (if any) may be relocated by Landlord from time to time upon written notice. Tenant shall not at any time park, or permit the parking of the trucks or vehicles of Tenant or Tenant's Agents in any portion of the Common Area not designated by Landlord for such use by Tenant. Tenant shall not park nor permit to be parked any inoperative vehicles or store any materials or equipment on any portion of the parking area or other areas of the Common Area. Tenant agrees to assume responsibility for compliance by Tenant's Agents with the parking provisions contained in this Section. Tenant hereby authorizes Landlord at Tenant's expense to attach violation stickers or notices to such vehicles not parked in compliance with this Section and to tow away any such vehicles. In addition, Landlord may set a specific section of the parking area aside for visitor or specially assigned parking for the Property.

2.4. Fitness Center. Tenant's employees may use the existing fitness center facilities located in 2000 Sierra Point Parkway (***"Fitness Center"***) on a non-exclusive basis at

no charge during the Term, subject to the Rules and Regulations, so long as Landlord operates the Fitness Center as part of the Common Area.

2.5. Conference Center. Subject to Landlord's reserved rights described in Article 16, Tenant may utilize the Conference Center located in 2000 Sierra Point Parkway subject to the Rules and Regulations for Landlord's standard charge, so long as Landlord operates the Conference Center as part of the Common Area.

3. ACCEPTANCE

Landlord shall warrant to Tenant that the Building Systems and structure, including but not limited to the roof, foundation, plumbing, fire sprinkler and life safety system, lighting, HVAC systems, electrical systems, and the passenger and freight elevators serving the Premises shall be in good operating condition and repair, and that it shall deliver the Premises with the Landlord Work pursuant to Section 9.1 and **Exhibit E** complete, but otherwise Tenant accepts the Premises as furnished by Landlord, which consist of the improvements as they exist as of the Effective Date in their existing "as-is" condition, and Landlord shall have no obligation for construction work or improvements on or to the Premises, the Building or the Common Area.

Prior to entering into this Lease, Tenant has made a thorough and independent examination of the Property and all matters related to Tenant's decision to enter into this Lease. Tenant is thoroughly familiar with all aspects of the Property and is satisfied that it is in an acceptable condition and meets Tenant's needs. Except as otherwise expressly provided in this Lease, Tenant does not rely on, and Landlord does not make, any express or implied representations or warranties as to any matters including, without limitation, (a) the physical condition of the Property, the Building Structure, or the Building Systems, (including, without limitation, indoor air quality), (b) the existence, quality, adequacy or availability of utilities serving the Property, (c) the use, habitability, merchantability, fitness or suitability of the Premises for Tenant's intended use, (d) the likelihood of deriving business from Tenant's location or the economic feasibility of Tenant's business, (e) Hazardous Materials in the Premises, or on, in under or around the Property, (f) zoning, entitlements or any laws, ordinances or regulations which may apply to Tenant's use of the Premises or business operations, or (g) any other matter. Tenant has satisfied itself as to such suitability and other pertinent matters by Tenant's own inquiries and tests into all matters relevant in determining whether to enter into this Lease. Tenant shall, by entering into and occupying the Premises, be deemed to have accepted the Premises and to have acknowledged that the same are in good order, condition and repair, subject to punch list items. Upon the Commencement Date, Tenant shall execute and deliver to Landlord the Acceptance Form attached hereto as **Exhibit D**.

4. TERM

4.1. Term. The Premises are leased for a term (the ***"Term"***) commencing on the Commencement Date and expiring upon the completion of the Term, or such earlier date on which this Lease terminates pursuant to its terms. The date upon which this Lease actually terminates, whether by expiration of the Term or earlier termination pursuant to the terms of this Lease, is sometimes referred to in this Lease as the ***"Termination Date"***. Upon delivery of possession, Landlord shall specify in a written notice to Tenant, substantially in the form of

Exhibit B, the Commencement Date, Rent Commencement Date and Expiration Date of this Lease. Such notice shall be delivered promptly after all of the information set forth in the notice has been determined; provided that Landlord's failure to do so shall not in any way affect either party's rights or obligations under this Lease.

4.2. Delivery of Possession. Upon the Commencement Date, Landlord shall deliver for Tenant's temporary and immediate occupancy approximately 10,000 square feet on the 9th Floor of the Building in its current "As-Is" condition, but otherwise subject to all of the terms and conditions of the Lease (the ***"Temporary Premises"***). Landlord shall use its commercially reasonable best efforts to deliver the Premises (Suite 500) with the Landlord Work complete by September 1, 2016. Tenant agrees that upon Landlord's completion of the Landlord Work, whether before or after September 1, 2016, that it shall promptly (within fifteen days) relocate into the Premises and vacate Temporary Premises.

4.3. Intentionally Omitted.

4.4. Renewal Option. Tenant shall have one (1) option (the ***"Renewal Option"***) to extend the Term of the Lease for the entire Premises then being leased to Tenant. The Renewal Option shall be for a five (5) year term (the ***"Renewal Term"***). The Renewal Term shall commence on the day after the Expiration Date. The Renewal Option shall be void if a default beyond any applicable notice and cure period by Tenant exists, either at the time of exercise of the Renewal Option or the time of commencement of a Renewal Term. The Renewal Option must be exercised, if at all, by written notice from Tenant to Landlord given not more than twelve (12) months and not less than nine (9) months prior to the expiration of the Term. The Renewal Term shall be upon the same terms and conditions as the original Term, except that (a) the Base Rent payable pursuant to Section 4.1 with respect to the Renewal Term shall be equal to the Prevailing Market Rent as of the commencement of the Renewal Term, as determined pursuant to **Exhibit C**; from and after the exercise of the Renewal Option escalating annually thereafter by three percent (3%) per annum, (i) all references to "Expiration Date" shall be deemed to refer to the last day of the Renewal Term, and (ii) all references to "Term" shall be deemed to include the Renewal Term. The Renewal Option is personal to Tenant and any Permitted Transferee and shall be inapplicable and null and void if Tenant assigns or sublets any of its interest under this Lease (other than to a Permitted Transferee) or if the Tenant or any Permitted Transferee is not occupying the Premises.

5. RENT

5.1. Base Rent. Commencing upon the Rent Commencement Date, and thereafter during the Term, Tenant shall pay to Landlord the monthly Base Rent specified in Article 1 on or before the first day of each month, in advance, at the address specified for Landlord in Article 1, or at such other place as Landlord designates in writing, without any prior notice or demand and without any deductions or setoff whatsoever (except as otherwise expressly provided in this Lease). Tenant shall pay the first month's rent due in advance, upon execution of this Lease. If the Rent Commencement Date occurs on a day other than the first day of a calendar month, or the Termination Date occurs on a day other than the last day of a calendar month, then the

Base Rent for such fractional month will be prorated on the basis of the actual number of days in such month. The Rentable Area of the Premises shall be conclusively presumed to be as stated in Article 1, and shall not be subject to adjustment by

either Landlord or Tenant during the Term. Notwithstanding the foregoing, the first three (3) months of Base Rent and Operating Expenses shall be fully abated.

5.2. Additional Rent. All sums due from Tenant to Landlord or to any third party under the terms of this Lease (other than Base Rent) shall be additional rent (***"Additional Rent"***), including without limitation the charges for Tenant's Pro Rata Share of Operating Expenses (described in Article 7) and all sums incurred by Landlord due to Tenant's failure to perform its obligations under this Lease. All Additional Rent that is payable to Landlord shall be paid at the time and place that Base Rent is paid. Landlord will have the same remedies for a default in the payment of any Additional Rent as for a default in the payment of Base Rent. Together, Base Rent and Additional Rent are sometimes referred to in this Lease as ***"Rent"***.

5.3. Late Payment. Any unpaid Rent shall bear interest from the date due until paid at the lesser of the published "prime" interest rate (that rate quoted by Wells Fargo Bank from time to time as its prime rate) plus six (6) percent (6%) per annum or the then maximum interest rate allowed by law (the ***"Interest Rate"***). In addition, Tenant recognizes that late payment of any Rent will result in administrative expense to Landlord, the extent of which expense is difficult and economically impracticable to determine. Therefore, Tenant agrees that if Tenant fails to pay any Rent within five (5) days after its due date, an additional late charge of five percent (5%) of the sums so overdue shall become immediately due and payable; provided, however, that such late charge shall not be assessed upon Tenant's first (1st) late payment in any twelve (12) month period and after Tenant has not cured such late payment within five (5) days from receipt of such notice, provided that no other notices will be required during the following twelve (12) months for a late charge to be incurred. Tenant agrees that the late payment charge is a reasonable estimate of the additional administrative costs and detriment that will be incurred by Landlord as a result of such failure by Tenant. In the event of nonpayment of interest or late charges on overdue Rent, Landlord shall have, in addition to all other rights and remedies, the rights and remedies provided in this Lease and by law for nonpayment of Rent.

5.4. Security Deposit. Concurrently with the execution of this Lease, Tenant shall deliver to Landlord the cash payment to fulfill the Security Deposit requirement described in Article 1. The Security Deposit shall be held by Landlord as security for the faithful performance of this Lease by Tenant of all of the terms, covenants and conditions of this Lease. If there is an Event of Default by Tenant with respect to any provisions of this Lease (including but not limited to the payment of Rent); if Tenant files a petition in bankruptcy, insolvency, reorganization, dissolution or liquidation under any law; makes an assignment for the benefit of its creditors; consents to or acquiesces in the appointment of a receiver of itself or the Premises, or if a court of competent jurisdiction enters an order or judgment appointing a receiver of Tenant or the Premises; or if a court of competent jurisdiction enters an order or judgment approving a petition filed against Tenant under any bankruptcy, insolvency or liquidation law, then in any such case Landlord may, without waiving any of Landlord's other rights or remedies under this Lease, apply the Security Deposit in whole or in part to remedy any failure by Tenant to pay any sums due under this Lease, to repair or maintain the Premises, to perform any other terms, covenants or conditions contained in this Lease, to compensate Landlord for any loss or damages which Landlord may suffer as a result thereof, including without limitation any lost rent to which Landlord is entitled in the event the Lease terminates or is rejected as a result of any of the foregoing. Should Landlord so apply any portion of the Security Deposit, Tenant shall replenish the Security Deposit to the original amount within fifteen (15) days after written demand by Landlord. Landlord shall not be required to keep the Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on the Security Deposit.

6. USE OF PREMISES AND CONDUCT OF BUSINESS

6.1. Permitted Use. Tenant may use and occupy the Premises during the Term solely for the uses specified and permitted in Article 1 and for no other purpose without the prior written consent of Landlord, such consent to be granted or withheld in Landlord's sole and unfettered discretion. Tenant's use of the Property shall in all respects comply with all Applicable Laws (as defined in Section 11.1).

6.2. Prohibited Uses. Tenant shall not use the Premises or allow the Premises to be used for any illegal or immoral purpose, or so as to create waste, or constitute a private or public nuisance. Tenant shall not place any loads upon the floors, walls, or ceiling that endanger the structure, or place any Hazardous Material in the drainage system of the Premises, or overload existing electrical or other mechanical systems. The maximum headcount that Tenant may have in the Premises is one (1) person per one hundred and fifty (150) rentable square feet. Tenant shall not use any machinery or equipment that causes any substantial noise or vibration. No waste materials or refuse shall be dumped upon or permitted to remain upon any part of the Premises or outside of the Premises except in trash containers placed inside exterior enclosures designated by Landlord for that purpose or inside of the Premises where approved by Landlord. No materials, supplies, equipment, finished products or semi-finished products, raw materials or articles of any nature shall be stored upon or permitted to remain outside the Premises or on any portion of the Common Area unless otherwise approved by Landlord in its sole discretion. No loudspeaker or other device, system, or apparatus which can be heard outside the Premises shall be used in or at the Premises without the prior written consent of Landlord. No explosives or firearms shall be brought into the Premises.

7. BUILDING SERVICES; OPERATING EXPENSES

7.1. Building Services.

(a) Landlord agrees to furnish Tenant with the following services: (1) Water service for use in the lavatories on each floor on which the Premises are located; (2) Heat and air conditioning in season during Normal Business Hours, at such temperatures and in such amounts as are standard for comparable buildings or as required by governmental authority. Tenant, upon such advance notice as is reasonably required by Landlord, shall have the right to receive HVAC service during hours other than Normal Business Hours. Tenant shall pay Landlord the standard charge for the additional service as reasonably determined by Landlord from time to time (which amount as of the Effective Date is $75.00 per hour per floor); (3) Maintenance and repair of the Property as described in Section 8.1; (4) Janitor service on Business Days. If Tenant's use, floor covering or other improvements require special services in excess of the standard services for the Building, Tenant shall pay the additional cost attributable to the special services; (5) Elevator service; (6) Electricity to the Premises for general office use but not less than five (5) watts per usable square foot of the Premises; (7) Trash pick-up; and (8) such other services as Landlord reasonably determines are necessary or appropriate for the Property.

(b) Tenant shall have access to the Premises 24 hours per day, 7 days per week.

(c) Landlord's failure to furnish, or any interruption or termination of, services due to the application of Applicable Laws, the failure of any equipment, the performance of repairs, improvements or alterations, or the occurrence of any event or cause beyond the reasonable control of Landlord shall not render Landlord liable to Tenant, constitute a constructive eviction of Tenant, give rise to an abatement of Rent, nor relieve Tenant from the obligation to fulfill any covenant or agreement, subject only to the provisions of Section 17.1.

7.2. Operating Expenses. ***"Operating Expenses"*** means the total costs and expenses paid or incurred by Landlord in connection with the ownership, management, operation, maintenance, repair and replacement of the Property, including, without limitation, all costs of:

(a) taxes, assessments and charges levied upon or with respect to the Property or any personal property of Landlord used in the operation of the Property, or on Landlord's interest in the Property or its personal property (***"Real Estate Taxes"***). Real Estate Taxes shall include, without limitation, all general real property taxes and general and special assessments, charges, fees, or assessments for transit, housing, police, fire, or other governmental services or purported benefits to the Property or the occupants thereof, service payments in lieu of taxes that are now or hereafter levied or assessed against Landlord by the United States of America, the State of California or any political subdivision thereof, or any other political or public entity, and shall also include any other tax, assessment or fee, however described, that may be levied or assessed as a substitute for, or as an addition to, in whole or in part, any other Real Estate Taxes, whether or not now customary or in the contemplation of the parties as of the Effective Date. Real Estate Taxes shall also include reasonable legal fees, costs, and disbursements incurred in connection with proceedings to contest, determine, or reduce Real Estate Taxes. Real Estate Taxes shall not include franchise, transfer, succession, gift, inheritance, gross receipts or capital stock taxes or income taxes measured by the net income of Landlord unless, due to a change in the method of taxation, any of such taxes is levied or assessed against Landlord as a substitute for, or as an addition to, in whole or in part, any other tax that would otherwise constitute a Real Estate Tax, or any penalties, late fees or interest incurred as a result of Landlord's failure to timely pay taxes;

(b) repair, maintenance, replacement and supply of air conditioning, electricity, steam, water, heating, ventilating, mechanical, escalator and elevator systems, sanitary and storm drainage systems and all other utilities and mechanical systems (the ***"Building Systems"***), subject to 7.2(n) below;

(c) landscaping and gardening of the Common Area;

(d) lighting, repaving, repairing, maintaining and restriping of parking areas and sidewalks; provided, however, the cost of any capital improvements shall only be included in Operating Expenses to the extent provided in Section 7.2(n) below;

(e) lighting, repairs and maintenance to the Common Area;

(f) repair, maintenance and replacement of any security systems and fire protection systems installed in the Premises; provided, however, the cost of any capital improvements shall only be included in Operating Expenses to the extent provided in Section 7.2(n) below;

(g) general maintenance, janitorial services, trash removal, cleaning and service contracts and the cost of all supplies, tools and equipment required in connection therewith;

(h) all premiums and costs for insurance carried by Landlord on the Premises, the Common Area and the Property, or in connection with the use or occupancy thereof (including all amounts paid as a result of loss sustained that would be covered by such policies but for deductibles or self-insurance provisions), including, but not limited to, the premiums and costs of fire and extended coverage, earthquake, vandalism and malicious mischief, public liability and property damage, worker's compensation insurance, rental income insurance and any other insurance commonly carried by prudent owners of comparable buildings, provided, however, that the Landlord may, but shall not be obligated to carry earthquake insurance;

(i) wages, salaries, payroll taxes and other labor costs and employee benefits for all persons engaged in the operation, management, maintenance and security of the Property;

(j) management fees at commercially reasonable rates (whether or not Landlord employs a third party managing agent), but not in excess of 3% of gross rents of the Building;

(k) fees, charges and other costs of all independent contractors engaged by Landlord;

(l) license, permit and inspection fees;

(m) the cost of supplies, tools, machines, materials and equipment used in operation and maintenance of the Common Area;

(n) any capital improvements to the Property (i) are reasonably intended to reduce current or future Operating Expenses, (ii) replacements or modifications of the nonstructural portions of the Building or Common Areas that are required to keep the Building or Common Areas or Building Systems in good condition, or (iii) required under any Law not in effect as of the Commencement Date; provided that the cost of any such capital improvements shall be amortized over the useful life of the improvement in question (determined in accordance with GAAP), together with interest on the unamortized balance at the Interest Rate;

(o) the cost of contesting the validity or applicability of any governmental enactments that may affect Operating Expenses, including, without limitation, the costs of audits by certified public accountants of Operating Expense records;

(p) audit and bookkeeping fees, legal fees and expenses incurred in connection with the operation or management of the Property;

(q) legal and accounting services for the Property; and

(r) any other expenses of any kind whatsoever reasonably incurred in connection with the management, operation, maintenance, repair and replacement of the Property.

Notwithstanding anything in the definition of Operating Expenses to the contrary, Operating Expenses shall not include the following:

(i) Costs actually reimbursed to Landlord by insurance proceeds for the repair of damage to the Property;

(ii) Financing and refinancing costs, interest, principal, points and fees on debts or amortization on any mortgage or mortgages or any other debt instrument encumbering the Property;

(iii) legal fees, leasing commissions, cash allowances, buy-out amounts, advertising expenses, promotional expenses, and other costs of a similar nature incurred in the leasing of space at the Property;

(iv) ground rent or any other payments paid under any present or future ground or overriding or underlying lease and/or grant affecting the Property and/or the Premises (other than payments which, independent of such lease, would constitute an Operating Expense hereunder); and

(v) costs incurred due to a violation of the provisions of this Lease by Landlord;

(vi) costs arising from the presence of any Hazardous Materials or violation of Environmental Laws as of or prior to the Commencement Date or caused solely by Landlord or its agents; or

(vii) capital improvements except as provided in Section 7.2(n) above.

7.3. Occupancy Assumption. If the Building is not 100% occupied during any calendar year or if Landlord is not supplying services to 100% of the total Rentable Area of the Building at any time during a calendar year, Operating Expenses shall, at Landlord's option, be determined as if the Building had been 100% occupied and Landlord had been supplying services to 100% of the Rentable Area of the Building during that calendar year. If Tenant pays for its Pro Rata Share of Operating Expenses based on increases over a "Base Year" and Operating Expenses for a calendar year are determined as provided in the prior sentence, Operating Expenses for the Base Year shall also be determined as if the Building had been 100% occupied and Landlord had been supplying services to 100% of the Rentable Area of the Building. The extrapolation of Operating Expenses under this Section shall be performed by appropriately adjusting the cost of those components of Operating Expenses that are impacted by changes in the occupancy of the Building.

7.4. Payment of Operating Expenses. Tenant shall pay to Landlord, as Additional Rent, Tenant's Pro Rata Share of the amount, if any, by which Operating Expenses for each calendar year during the Term exceed Operating Expenses for the Base Year (***"Expense Excess"***). Tenant shall pay one twelfth of Tenant's Pro Rata Share of the Expense Excess in advance, on or before the first day of each month in an amount estimated by Landlord as stated in a written notice to Tenant. Landlord may by written notice to Tenant revise such estimates from time to time and Tenant shall thereafter make payments on the basis of such revised estimates. With reasonable promptness after the expiration of each calendar year, Landlord will furnish Tenant with a statement (***"Landlord's Expense Statement"***) setting forth in reasonable detail the actual Operating Expenses for the prior calendar year and the amount of Tenant's Pro Rata Share of the Expense Excess. If Tenant's Pro Rata Share of the actual Expense Excess for such year exceed the estimated amounts paid by Tenant for such year, Tenant shall pay to Landlord (whether or not this Lease has terminated) the difference between the amount of estimated Tenant's Pro Rata Share of Expense Excess paid by Tenant and the actual Tenant's Pro Rata Share of Expense Excess within thirty (30) days after the receipt of Landlord's Expense Statement. If the total amount paid by Tenant for any year exceeds the actual amount due from Tenant for that year, the excess shall be credited against the next installments of Additional Rent due from Tenant to Landlord, or, if after the Termination Date, the excess shall first be credited against any unpaid Rent and any remaining excess shall be refunded promptly to Tenant.

7.5. Proration. If either the Rent Commencement Date or the Termination Date occurs on a date other than the first or last day, respectively, of a calendar year, Tenant's Pro Rata Share of Expense Excess for the year in which the Rent Commencement Date or Termination Date occurs shall be prorated based on a 365-day year.

7.6. Utility Costs. Landlord shall arrange for the following utilities furnished to or used at the Premises: water, gas, electricity, sewer service and non-hazardous waste pick-up. The costs of such utilities shall be included in Operating Expenses. Tenant shall be responsible for arranging for telephone and other electronic communications services, at the Premises and shall pay the costs of such utilities directly. Landlord will work in good faith with Tenant to provide access to a cable or satellite TV feed to the Premises, subject to agreement of the parties with respect to allocation of costs of installation and ongoing monthly service costs.

7.7. Taxes on Tenant's Property and Business. Tenant shall pay prior to delinquency all taxes levied or assessed by any local, state or federal authority upon the conduct of Tenant's business in the Premises or upon Tenant's Property (as defined in Section 9.5) and shall deliver satisfactory evidence of such payment to Landlord. If the assessed value of the Property is increased by the inclusion of a value placed upon Tenant's Property, Tenant shall pay to Landlord, upon written demand, the taxes so levied against Landlord, or the portion of Landlord's taxes resulting from said increase in assessment, as determined from time to time by Landlord.

7.8. Electricity Reimbursement for Tenant's Special Systems. Landlord shall have the right to require that Tenant reimburse Landlord for the electricity use of Tenant's Special Systems which utilize a large amount of electricity, which may include but are not limited to Tenant's

Server Room Computers, Server Room Cooling Systems, or other systems not typical for general office use (***"Tenant's Special Systems"***). Landlord may require Tenant to measure such electricity use using E-Mon D-Mon kWh Meters, and the electricity

reimbursement shall be calculated by Landlord based on the actual electric rates paid by the Property.

7.9. Energy and Resource Consumption. Landlord may voluntarily cooperate in a reasonable manner with the efforts of governmental agencies and/or utility suppliers in reducing energy or other resource consumption within the Property. Tenant shall not be entitled to terminate this Lease or to any reduction in or abatement of rent by reason of such compliance or cooperation. Tenant agrees at all times to cooperate fully with Landlord and to abide by all reasonable rules established by Landlord (i) in order to maximize the efficient operation of the electrical, heating, ventilating and air conditioning systems and all other energy or other resource consumption systems with the Property and/or (ii) in order to comply with the requirements and recommendations of utility suppliers and governmental agencies regulating the consumption of energy and/or other resources.

8. REPAIRS, MAINTENANCE AND SERVICES

8.1. Landlord's Obligations. Except as specifically provided in this Lease, Landlord shall not be required to furnish any services, facilities or utilities to the Premises or to Tenant, and Tenant assumes full responsibility for obtaining and paying for all services, facilities and utilities to the Premises. Landlord will repair, replace and maintain the Building Systems, the Common Area, and the structural portions of the Building and Premises, including, without limitation, the foundation, floor/ceiling slabs, roof, curtain wall, exterior glass and mullions, columns, beams, shafts (including elevator shafts), Common Area stairs, Building standard stairwells (but not stairs or stairwells installed by the Tenant or any former tenant) and elevators (collectively, the ***"Building Structure"***). Landlord shall also provide the Premises with interior and exterior window washing services and janitorial service and shall provide the Common Areas with landscaping services. Tenant shall notify Landlord in writing when it becomes aware of the need for any repair, replacement or maintenance that is Landlord's responsibility under this Section of which it becomes aware. The costs of such repair, replacement and maintenance shall be included in Operating Expenses to the extent provided in Article 7; provided that, subject to Section 13.5, Tenant shall reimburse Landlord in full and within fifteen (15) days after written demand for the cost of any repair to the Property, Building Structure or Building Systems which is attributable to misuse by Tenant or Tenant's Agents. The reimbursement shall be Additional Rent. Tenant hereby waives and releases any right it may have under any law, statute or ordinance now or hereafter in effect to make any repairs that are Landlord's obligation under this Section.

8.2. Tenant's Obligations. Except as provided in Section 8.1, Tenant assumes full responsibility for the repair, replacement and maintenance of the Premises, including, without limitation, all mechanical and other systems and equipment (including but not limited to any server cooling system(s) and kitchenette(s)) installed within the Premises (***"Tenant Systems"***). Tenant shall take good care of the Premises and the Tenant Systems and keep the Premises and the Tenant Systems in good working order and in a clean, safe and sanitary condition. All repairs and replacements by Tenant for which Tenant is responsible are collectively referred to as the ***"Tenant Obligations"*** and shall be made and performed: (a) at Tenant's cost and expense, and at such time and in such manner as Landlord may reasonably designate, (b) by contractors or mechanics reasonably approved by Landlord in accordance with Section 9.3, (c) so that same shall be at least equal in quality, value and utility to the original work or installation, (d) in a manner and using equipment and materials that will not

impair the operation of or damage the Building Systems, and (e) in accordance with Article 9 (if applicable), and all Applicable Laws. Tenant shall cooperate fully and in good faith with Landlord and Landlord's property manager in the performance of all such repairs and replacements by Tenant, and shall perform all such work and activities diligently and expeditiously to completion, and in a manner consistent with Class A office buildings located in San Mateo County, California. Tenant shall reimburse Landlord within fifteen (15) days after written demand as Additional Rent for any out-of-pocket expenses incurred by Landlord in connection with any repairs or replacements required to be made by Tenant, including, without limitation, any reasonable fees charged by Landlord's contractors to review plans and specifications prepared by Tenant.

8.3. Security. Tenant shall be solely responsible for the security of the Premises and Tenant's Agents while in or about the Premises. Any security services provided to the Property by Landlord shall be at Landlord's sole discretion and Landlord shall not be liable to Tenant or Tenant's Agents for any failure to provide security services or any loss, injury or damage suffered as a result of a failure to provide security services.

8.4. Landlord's Right To Cure Defaults. In the event Tenant fails to perform or adequately perform any of Tenant's Obligations as reasonably determined by Landlord, Landlord, in its sole and absolute discretion, and upon fifteen (15) days written notice to Tenant, may terminate Tenant's right to perform Tenant's Obligations, and Landlord shall then assume for itself or assign to Landlord's property manager all responsibility for the performance of all such Tenant's Obligations for the remainder of the Term, the cost of which shall be included within the definition of Operating Expenses.

8.5. Special Services. If Tenant requests any services from Landlord other than those for which Landlord is obligated under this Lease, Tenant shall make its request in writing and Landlord may elect in its sole discretion whether to provide the requested services. If Landlord provides any special services to Tenant, Landlord shall charge Tenant for such services at the prevailing rate being charged for such services by other property owners and property managers of comparable buildings in the area of the Property, and Tenant shall pay the cost of such services as Additional Rent within thirty (30) days after receipt of Landlord's invoice.

9. LANDLORD WORK; ALTERATIONS

9.1. Tenant Improvements. Landlord shall Deliver the Premises to Tenant with existing improvements in its "as-is" condition and Landlord shall have no other obligation to improve the Premises, with the sole exception of the ***"Landlord Work"*** which shall be performed by Landlord at Landlord's expense pursuant to the terms of the ***"Work Letter"*** attached hereto as Exhibit E.

9.2. Alterations by Tenant. Tenant shall not make or permit any alterations to the Building Systems, and shall not make or permit any alterations, installations, additions or improvements, structural or otherwise (collectively, ***"Alterations"***) in or to the Premises or the Building without Landlord's prior written consent, which Landlord shall not unreasonably withhold, condition or delay. Landlord shall respond to any request by Tenant to make any Alteration within fifteen (15) days after receipt of such request for consent from Tenant. Notwithstanding the foregoing, Landlord's consent shall

not be required (a) in the case of interior, cosmetic non-structural Alterations that do not require a permit, or affect the Building Systems, or affect the entryways or elevators or any other premises in the Building, or (b) in the

case of other Alterations that do not exceed a total price of Twenty-Five Fifty Thousand Dollars ($25,000) per project and do not affect the Building Systems or the structural integrity of the Building. All Alterations shall be done at Tenant's sole cost and expense, including without limitation the cost and expense of obtaining all permits and approvals required for any Alterations. Tenant shall reimburse Landlord within thirty (30) days after written demand as Additional Rent for any out-of-pocket expenses incurred by Landlord in connection with Alterations elected to be made and/or any repairs or replacements required to be made by Tenant, including, without limitation, any reasonable fees charged by Landlord's contractors and/or consultants to review plans and specifications prepared by Tenant.

9.3. Project Requirements. The provisions of this Section 9.3 shall apply to all Alterations, whether or not requiring Landlord's approval (unless otherwise noted):

(a) Prior to entering into a contract for any Alterations requiring Landlord's approval, Tenant shall obtain Landlord's written approval, which approval shall not be unreasonably withheld, conditioned or delayed, of the identity of each of the design architect and the general contractor.

(b) Before commencing the construction of any Alterations, Tenant shall procure or cause to be procured the insurance coverage described below and provide Landlord with certificates of such insurance in form reasonably satisfactory to Landlord. All such insurance shall comply with the following requirements of this Section and of Section 13.2.

(i) During the course of construction, to the extent not covered by property insurance maintained by Tenant pursuant to Section 13.2, comprehensive "all risk" builder's risk insurance, including vandalism and malicious mischief, excluding earthquake and flood, covering all improvements in place on the Premises, all materials and equipment stored at the site and furnished under contract, and all materials and equipment that are in the process of fabrication at the premises of any third party or that have been placed in transit to the Premises when such fabrication or transit is at the risk of, or when title to or an insurable interest in such materials or equipment has passed to, Tenant or its construction manager, contractors or subcontractors (excluding any contractors', subcontractors' and construction managers' tools and equipment, and property owned by the employees of the construction manager, any contractor or any subcontractor), such insurance to be written on a completed value basis in an amount not less than the full estimated replacement value of Alterations.

(ii) Commercial general liability insurance covering Tenant, Landlord and each construction manager, contractor and subcontractor engaged in any work on the Premises, which insurance may be effected by endorsement, if obtainable, on the policy required to be carried pursuant to Section 13.2, including insurance for completed operations, elevators, owner's, construction manager's and contractor's protective liability, products completed operations for one (1) year after the date of acceptance of the work by Tenant, broad form blanket contractual liability, broad form property damage and full form personal injury (including but not limited to bodily injury), covering the performance of all work at or from the Premises by Tenant, its construction manager, contractors and subcontractors, and in a liability amount not less than the amount at the time carried by prudent owners of comparable

construction projects, but in any event not less than Three Million Dollars ($3,000,000) combined single limit, which policy shall include for the mutual benefit of Landlord and Tenant, bodily injury liability and property damage liability, and automobile insurance on any non-owned, hired or leased automotive equipment used in the construction of any work.

(iii) Workers' Compensation Insurance approved by the State of California, in the amounts and coverages required under workers' compensation, disability and similar employee benefit laws applicable to the Premises, and Employer's Liability Insurance with limits not less than One Million Dollars ($1,000,000) or such higher amounts as may be required by law.

(c) All construction and other work in connection with any Alterations shall be done at Tenant's sole cost and expense and in a prudent and good manner. Tenant shall construct the Alterations in accordance with all Applicable Laws, and with plans and specifications that are in accordance with the provisions of this Article 9 and all other provisions of this Lease.

(d) Prior to the commencement of any Alteration in excess of Ten Thousand Dollars ($10,000), Landlord shall have the right to post in a conspicuous location on the Premises and to record in the public records a notice of Landlord's nonresponsibility. Tenant covenants and agrees to give Landlord at least ten (10) days prior written notice of the commencement of any such Alteration in order that Landlord shall have sufficient time to post such notice.

(e) Tenant shall take all necessary safety precautions during any construction.

(f) With regards to any work to be performed to or needed by the Building Systems and subsystems, Tenant shall use those subcontractors that regularly maintain and manage such systems, and such work will include design, components, distribution, and installation to meet Landlord's specifications for the operations of the Building.

(g) With regard to any Alterations in excess of Ten Thousand Dollars ($10,000), Tenant shall prepare and maintain (i) on a current basis during construction, annotated plans and specifications showing clearly all changes, revisions and substitutions during construction, and (ii) upon completion of construction of the Alterations, as-built drawings showing clearly all changes, revisions and substitutions during construction, including, without limitation, field changes and the final location of all mechanical equipment, utility lines, ducts, outlets, structural members, walls, partitions and other significant features. These as-built drawings and annotated plans and specifications shall be kept at the Premises and Tenant shall update them as often as necessary to keep them current. The as-built drawings and annotated plans and specifications shall be made available for copying and inspection by Landlord at all reasonable times. Within sixty (60) days after the Alterations have been substantially completed, Tenant shall, at its cost, make a copy of the as-built drawings and annotated plans and specifications and deliver the same to Landlord.

(h) Upon completion of the construction of any Alterations in excess of Ten Thousand Dollars ($10,000) during the Term, Tenant shall file for recordation, or cause to be filed for recordation, a notice of completion and shall deliver to Landlord evidence

satisfactory to Landlord of payment of all costs, expenses, liabilities and liens arising out of or in any way connected with such construction (except for liens that are contested in the manner provided herein).

9.4. Ownership of Improvements. Except as provided in Section 9.5, all Landlord Work, Alterations, and any other appurtenances, fixtures, improvements, equipment, additions and property permanently attached to or installed in the Premises at the commencement of or during the Term, shall at the end of the Term become Landlord's property without compensation to Tenant, or be removed in accordance with this Section. Upon written request by Tenant, Landlord shall notify Tenant in writing at the time of Landlord's approval of the Alterations, whether or not the proposed Alterations will be required to be removed by Tenant at the end of the Term and Tenant shall have no obligation to remove any Alterations that Landlord has not designated in writing for removal. Tenant shall repair or pay the cost of repairing any damage to the Property caused by the removal of Alterations. If Tenant fails to perform its repair obligations, without limiting any other right or remedy, Landlord may on five (5) Business Days prior written notice to Tenant perform such obligations at Tenant's expense and Tenant shall reimburse Landlord within thirty (30) days after demand for all out-of-pocket costs and expenses incurred by Landlord in connection with such repair. Tenant's obligations under this Section shall survive the termination of this Lease.

9.5. Tenant's Personal Property. All furniture, trade fixtures, furnishings, equipment and articles of movable personal property installed in the Premises by or for the account of Tenant (except for ceiling and related fixtures, built-in cabinetry and appliances, HVAC equipment and floor coverings, which shall become the property of Landlord at the end of the Term), and which can be removed without structural or other material damage to the Property (collectively, ***"Tenant's Property"***) shall be and remain the property of Tenant and may be removed by it at any time during the Term. Tenant shall remove from the Premises all Tenant's Property on or before the Termination Date, except such items as the parties have agreed pursuant to the provisions of this Lease or by separate agreement are to remain and to become the property of Landlord. Upon the direction of Landlord, Tenant shall remove its data cabling and related fixtures, remove any other finishes, and clean the Premises. Tenant shall repair or pay the cost of repairing any damage to the Property resulting from such removal, and the provisions of Section 9.5 above shall apply in the event Tenant fails to do so. Any items of Tenant's Property which remain in the Premises after the Termination Date may, on five (5) Business Days prior written notice to Tenant, at the option of Landlord, be deemed abandoned and in such case may either be retained by Landlord as its property or be disposed of, without accountability, at Tenant's expense in such manner as Landlord may see fit.

10. LIENS

Tenant shall keep the Premises free from any liens arising out of any work performed, material furnished or obligations incurred by or for Tenant. If Tenant shall not, within ten (10) Business Days following notice of the imposition of any such lien, cause the lien to be released of record by payment or posting of a proper bond, Landlord shall have, in addition to all other remedies provided in this Lease and by law, the right but not the obligation to cause any such lien to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith (including, without limitation, reasonable counsel fees) shall be payable to Landlord by Tenant upon demand with interest from the date incurred at the Interest Rate. Landlord shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law or that Landlord shall deem proper for the protection of Landlord,

the Premises and the Property from mechanics' and materialmen's liens, as more specifically provided in Section 9.4(d).

11. COMPLIANCE WITH LAWS AND INSURANCE REQUIREMENTS

11.1. Applicable Laws. Tenant, at Tenant's cost and expense, shall comply with all applicable laws, statutes, codes, ordinances, orders, rules, regulations, conditions of approval, and requirements, of all federal, state, county, municipal and other governmental authorities and the departments, commissions, boards, bureaus, instrumentalities, and officers thereof, and all administrative or judicial orders or decrees and all permits, licenses, approvals and other entitlements issued by governmental entities, and rules of common law, relating to or affecting the Premises or the use, operation or occupancy of the Premises, whether now existing or hereafter enacted (collectively, ***"Applicable Laws"***). Without limiting the foregoing, but specifically excluding the Landlord Work to be performed by Landlord, Tenant shall be solely responsible for compliance with and shall make or cause to be made all such non-structural improvements and alterations to the Premises (including, without limitation, removing barriers and providing alternative services) as shall be required to comply with all applicable building codes, laws and ordinances relating to public accommodations, including the Americans with Disabilities Act of 1990, 42 U.S.C. §§ 12111 et seq. (the ***"ADA"***), and the ADA Accessibility Guidelines promulgated by the Architectural and Transportation Barriers Compliance Board, the public accommodations title of the Civil Rights Act of 1964, 42 U.S.C. §§ 2000a et. seq., the Architectural Barriers Act of 1968, 42 U.S.C. §§ 4151 et. seq., as amended, Title V of the Rehabilitation Act of 1973, 29 U.S.C. §§ 790 et. seq., the Minimum Guidelines and Requirements for Accessible Design, 36 C.F.R. Part 1190, the Uniform Federal Accessibility Standards, and Title 24 of the California Code of Regulations, as the same may be amended from time to time, or any similar or successor laws, ordinances and regulations, now or hereafter adopted if triggered by Tenant's particular use (as opposed to general office) of the Premises or Tenant's alteration to the Premises. Tenant's liability shall be primary and Tenant shall indemnify Landlord in accordance with Section 13.1 in the event of any failure or alleged failure of Tenant to comply with Applicable Laws. Any work or installations made or performed by or on behalf of Tenant or any person or entity claiming through or under Tenant pursuant to the provisions of this Section shall be made in conformity with and subject to the provisions of Article 9.

11.2. Insurance Requirements. Tenant shall not do anything, or permit anything to be done, in or about the Premises that would: (a) invalidate or be in conflict with the provisions of or cause any increase in the applicable rates for any fire or other insurance policies covering the Property or any property located therein (unless Tenant pays for such increased costs), or (b) result in a refusal by fire insurance companies of good standing to insure the Property or any such property in amounts reasonably satisfactory to Landlord (which amounts shall be comparable to the amounts required by comparable landlords of comparable buildings, or (c) subject Landlord to any liability or responsibility for injury to any person or property by reason of any business operation being conducted in the Premises. Tenant, at Tenant's expense, shall comply with all rules, orders, regulations or requirements of the American

Insurance Association (formerly the National Board of Fire Underwriters) and with any similar body that shall hereafter perform the function of such Association, to the extent specifically pertaining to the Premises.

12. HAZARDOUS MATERIALS

12.1. Definitions. As used in this Lease, the following terms shall have the following meanings:

(a) ***"Environmental Activity"*** means any use, treatment, keeping, storage, holding, release, emission, discharge, manufacturing, generation, processing, abatement, removal, disposition, handling, transportation, deposit, leaking, spilling, injecting, dumping or disposing of any Hazardous Materials from, into, on or under the Property, and shall include the exacerbation of any pre-existing contamination by Tenant or any of Tenant's Agents.

(b) ***"Environmental Laws"*** mean all Applicable Laws, now or hereafter in effect, relating to environmental conditions, industrial hygiene or Hazardous Materials on, under or about the Property, including without limitation the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq., the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Solid Waste Disposal Act, 42 U.S.C. Section 6901, et seq., the Clean Water Act, 33 U.S.C. Section 1251, et seq., the Clean Air Act, 42 U.S.C. Section 7401, et seq., the Toxic Substances Control Act, 15 U.S.C. Section 2601 through 2629, the Safe Drinking Water Act, 42 U.S.C. Sections 300f through 300j, and any similar state and local laws and ordinances and the regulations now or hereafter adopted and published and/or promulgated pursuant thereto.

(c) ***"Hazardous Material"*** means any chemical, substance, medical or other waste, living organism or combination thereof which is or may be hazardous to the environment or human or animal health or safety due to its radioactivity, ignitability, corrosivity, reactivity, explosivity, toxicity, carcinogenicity, mutagenicity, phytotoxicity, infectiousness or other harmful or potentially harmful properties or effects. Hazardous Materials shall include, without limitation, petroleum hydrocarbons, including MTBE, crude oil or any fraction thereof, asbestos, radon, polychlorinated biphenyls (PCBs), methane, lead, urea, formaldehyde foam insulation, microbial matter (including mold) and all substances which now or in the future may be defined as "hazardous substances," "hazardous wastes," "extremely hazardous wastes," "hazardous materials," "toxic substances," "infectious wastes," "biohazardous wastes," "medical wastes," "radioactive wastes" or which are otherwise listed, defined or regulated in any manner pursuant to any Environmental Laws.

(d) ***"Tenant's Hazardous Materials"*** means any Hazardous Materials resulting from the Environmental Activity by Tenant or any of Tenant's Agents.

12.2. Environmental Release. Landlord hereby informs Tenant that detectable amounts of Hazardous Materials may have come to be located on, beneath and/or in the vicinity of the Premises. Tenant has made such investigations and inquiries as it deems appropriate to ascertain the effects, if any, of such substances and contaminants on its operations and persons using the Property. Upon request of Tenant, Landlord agrees to provide Tenant with a copy of its Phase I Environmental Report. Landlord makes no representation or warranty with regard to the environmental condition of the Property. Tenant hereby releases Landlord and Landlord's officers, directors, trustees, agents and employees from any and all claims, demands, debts, liabilities, and causes of action of whatever kind or nature, whether known or unknown or suspected or unsuspected which Tenant or any of Tenant's Agents may have, claim to have, or which may hereafter accrue against the released parties or any of them, arising out of or relating to or in any way connected with Hazardous Materials presently in, on or under, or now or hereafter emanating from or migrating onto the

Property. In connection with such release, Tenant hereby waives any and all rights conferred upon it by the provisions of Section 1542 of the California Civil Code, which reads as follows:

> A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

12.3. Use of Hazardous Materials. Tenant shall not cause or permit any Hazardous Materials to be used, stored, discharged, released or disposed of in the Premises or cause any Hazardous Materials to be used, stored, discharged, released or disposed of in, from, under or about, the Property, or any other land or improvements in the vicinity of the Property, excepting only the types and minor quantities of Hazardous Materials which are normally used in connection with general office uses and then only in strict accordance with all Applicable Laws, including all Environmental Laws. As of the Commencement Date, Tenant shall provide Landlord a complete list of all Hazardous Materials (including MSDS sheets for all such Hazardous Materials) used or stored by Tenant or any of Tenant's Agents or subtenants at the Premises, excluding standard janitorial and office products. Throughout the Term, Tenant shall continue to update this list so that it remains current. Without limiting the foregoing, Tenant shall, at its own expense, procure, maintain in effect and comply with all conditions of any and all permits, licenses, and other governmental and regulatory approvals required for Tenant's use of Hazardous Materials at the Premises, including, without limitation, discharge of appropriately treated materials or wastes into or through any sanitary sewer serving the Premises. Tenant shall in all respects handle, treat, deal with and manage any and all Tenant's Hazardous Materials in total conformity with all Environmental Laws and prudent industry practices regarding management of such Hazardous Materials.

12.4. Remediation of Hazardous Materials. Tenant shall, upon demand of Landlord, and at Tenant's sole cost and expense, promptly take all actions to remediate the Property from the effects of any Tenant's Hazardous Materials. Such actions shall include, but not be limited to, the investigation of the environmental condition of the Property, the preparation of any feasibility studies, reports or remedial plans, and the performance of any cleanup, remediation, containment, operation, maintenance, monitoring or restoration work, whether on or off of the Property. Tenant shall take all actions necessary to remediate the Property from the effects of such Tenant's Hazardous Materials to a condition allowing unrestricted use of the Property (i.e. to a level that will allow any future use of the Property, including residential, hospital, or day care, without any engineering controls or deed restrictions), notwithstanding any lesser standard of remediation allowable under Applicable Laws. All work shall be performed by one or more contractors selected by Tenant and reasonably approved in advance and in writing by Landlord. Tenant shall proceed continuously and diligently with such investigatory and remedial actions, provided that in all cases such actions shall be in accordance with all Applicable Laws. Any such actions shall be performed in a good, safe and workmanlike manner. Tenant shall pay all costs in connection with such investigatory and remedial activities, including but not limited to all power and

utility costs, and any and all taxes or fees that may be applicable to such activities. Tenant shall promptly provide to Landlord copies of testing results and reports that are generated in connection with the above activities and any that are submitted to any governmental entity. Promptly upon

completion of such investigation and remediation, Tenant shall permanently seal or cap all monitoring wells and test holes in accordance with sound engineering practice and in compliance with Applicable Laws, remove all associated equipment, and restore the Property to the maximum extent possible, which shall include, without limitation, the repair of any surface damage, including paving, caused by such investigation or remediation.

12.5. Indemnity. Tenant shall indemnify, defend (by counsel reasonably acceptable to Landlord), protect and hold Landlord and Landlord's trustees, directors, officers, agents and employees and their respective successors and assigns (collectively, ***"Landlord's Agents"***), free and harmless from and against any and all claims, liabilities, penalties, forfeitures, losses or expenses (including reasonable attorneys' and consultants' fees and oversight and response costs) to the extent arising from (a) Environmental Activity by Tenant or Tenant's Agents; or (b) failure of Tenant or Tenant's Agents to comply with any Environmental Law with respect to Tenant's Environmental Activity; or (c) Tenant's failure to remove Tenant's Hazardous Materials as required in Section 12.4. Tenant's obligations hereunder shall include, but not be limited to, the burden and expense of defending all claims, suits and administrative proceedings (with counsel reasonably approved by Landlord), even if such claims, suits or proceedings are groundless, false or fraudulent; conducting all negotiations of any description; and promptly paying and discharging when due any and all judgments, penalties, fines or other sums due against or from Landlord or the Premises. Prior to retaining counsel to defend such claims, suits or proceedings, Tenant shall obtain Landlord's written approval of the identity of such counsel, which approval shall not be unreasonably withheld, conditioned or delayed. In the event Tenant's failure to surrender the Premises at the expiration or earlier termination of this Lease free of Tenant's Hazardous Materials prevents Landlord from reletting the Premises, or reduces the fair market and/or rental value of the Premises or any portion thereof, Tenant's indemnity obligations shall include all losses to Landlord arising therefrom.

12.6. No Lien. Tenant shall not suffer any lien to be recorded against the Property as a consequence of any Tenant's Hazardous Materials, including any so-called state, federal or local "super fund" lien related to the remediation of any Tenant's Hazardous Materials in or about the Property.

12.7. Investigation. Landlord shall have the right to enter and conduct an inspection of the Premises or the Property, including invasive tests, at any reasonable time and upon reasonable advance notice, to determine whether Tenant is complying with the terms of this Lease, including but not limited to the compliance of the Property and the Premises and the activities thereon with Environmental Laws (the ***"Environmental Investigation"***). Landlord shall have the right, but not the obligation, to retain at its expense an independent professional consultant to enter the Property and/or the Premises to conduct such an inspection, and to review any report prepared by or for Tenant concerning such compliance. In the event the Environmental Investigation identifies any deficiencies in the compliance of the Property and/or the Premises with Environmental Laws due to any Environmental Activity by Tenant or Tenant's Agents, Tenant shall promptly correct any such deficiencies identified in the Environmental Investigation, and document to Landlord that corrective action has been taken. In such event, Tenant shall also reimburse Landlord for the reasonable cost of the Environmental Investigation. If the Environmental Investigation identifies any such deficiency in compliance of the Property and/or the Premises with Environmental Laws due to any Environmental Activity by Tenant or Tenant's Agents, then, within nine (9) months of the date of the Environmental Investigation, Landlord may request a detailed review of the status of such violation by a consultant selected by Landlord (the ***"Supplemental Investigation"***). Tenant shall pay for the reasonable cost of

any Supplemental Investigation. A copy of the Supplemental Investigation shall be promptly supplied to Landlord and Tenant when it becomes available.

12.8. Right to Remediate. Should Tenant fail to perform or observe any of its obligations or agreements pertaining to Hazardous Materials or Environmental Laws, then Landlord shall have the right, but not the obligation, without limitation of any other rights of Landlord hereunder, to enter the Premises personally or through Landlord's agents, employees and contractors and perform the same. Tenant agrees to indemnify Landlord for the costs thereof and liabilities therefrom as set forth above in this Article 12.

12.9. Notices. Tenant shall immediately notify Landlord of any inquiry, test, claim, investigation or enforcement proceeding by or against Tenant or the Premises or the Property known to Tenant concerning any Hazardous Materials. Tenant shall immediately notify Landlord of any release or discharge of Hazardous Materials on, in under or about the Property. Tenant acknowledges that Landlord, as the owner of the Property, shall have the sole right at its election and at Tenant's expense, to negotiate, defend, approve and appeal any action taken or order issued with regard to Tenant's Hazardous Materials by any applicable governmental authority.

12.10. Surrender. Tenant shall surrender the Property and the Premises to Landlord, upon the expiration or earlier termination of the Lease, free of Tenant's Hazardous Materials in accordance with the provisions of this Article 12.

12.11. Survival; Insurance. The provisions of this Article 12 shall survive the expiration or earlier termination of this Lease. The provisions of Article 13 (Insurance) shall not limit in any way Tenant's obligations under this Article 12.

13. INDEMNITY; INSURANCE

13.1. Indemnity. Except to the extent caused by the gross negligence or willful misconduct of Landlord, Tenant shall indemnify, protect, defend and save and hold Landlord harmless from and against any and all losses, costs, liabilities, claims, judgments, liens, damages (including consequential damages) and expenses, including, without limitation, reasonable attorneys' fees and costs (including Landlord's in-house counsel), and reasonable investigation costs, incurred in connection with or arising from: (a) any default by Tenant in the observance or performance of any of the terms, covenants or conditions of this Lease on Tenant's part to be observed or performed, or (b) the use or occupancy or manner of use or occupancy of the Property by Tenant and Tenant's Agents, (c) the condition of the Premises, and any occurrence in the Premises (including injury to or death of any person, or damage to property) from any cause whatsoever, except to the extent caused by the gross negligence or willful misconduct of Landlord, and (d) any acts or omissions or negligence of Tenant or of Tenant's Agents, in, on or about the Property. In case any action or proceeding be brought, made or initiated against Landlord relating to any matter covered by Tenant's indemnification obligations under this Section or under Section 12.5, Tenant, upon notice from Landlord, shall at its sole cost and expense, resist or defend such claim, action or proceeding by counsel reasonably approved by Landlord. Notwithstanding the foregoing,

Landlord may retain its own counsel to defend or assist in defending any claim, action or proceeding involving potential liability of Five Million Dollars ($5,000,000) or more, and Tenant shall pay the reasonable fees and disbursements of such counsel. Tenant's obligations under this Section shall survive the expiration or earlier termination of this Lease.

13.2. Insurance. Tenant shall procure at its sole cost and expense and keep in effect during the Term:

(a) commercial general liability insurance covering Tenant's operations in the Premises and the use and occupancy of the Premises and the Property and any part thereof by Tenant. Such insurance shall include broad form contractual liability insurance coverage insuring Tenant's obligations under this Lease. Such coverage shall be written on an "occurrence" form and shall have a minimum combined single limit of liability of not less than three million dollars ($3,000,000.00), provided that an umbrella policy may satisfy these requirements. Tenant's policy shall be written to apply to all bodily injury, property damage, personal injury and other covered loss (however occasioned) occurring during the policy term, with at least the following endorsements to the extent such endorsements are generally available: (i) deleting any employee exclusion on personal injury coverage, (ii) including employees as additional insureds, (iii) providing broad form property damage coverage, and (iv) deleting any liquor liability exclusions. Such insurance shall name Landlord and any other party reasonably designated by Landlord as an additional insured, shall specifically include the liability assumed hereunder by Tenant, shall provide that it is primary insurance, shall provide for severability of interests, shall further provide that an act or omission of one of the named insureds which would void or otherwise reduce coverage shall not reduce or void the coverage as to any insured, shall afford coverage for claims based on acts, omissions, injury or damage which occurred or arose (or the onset of which occurred or arose in whole or in part during the policy period), and shall provide that the insurer shall endeavor to give Landlord thirty (30) days' written notice prior to any cancellation or material change of coverage;

(b) commercial property insurance, including sprinkler leakages, vandalism and malicious mischief and plate glass damage covering all the items specified as Tenant's Property and all other property of every description including stock-in-trade, furniture, fittings, installations, alterations, additions, partitions and fixtures or anything in the nature of a leasehold improvement made or installed by or on behalf of the Tenant in the Premises in an amount of not less than one hundred percent (100%) of the full replacement cost thereof as shall from time to time be determined by Tenant in form reasonably satisfactory to Landlord;

(c) Worker's Compensation Insurance in the amounts and coverages required under worker's compensation, disability and similar employee benefit laws applicable to Tenant and/or the Premises from time to time, and Employer's Liability Insurance, with limits of not less than one million dollars ($1,000,000) or such higher amounts as may be required by law;

(d) [intentionally omitted]; and

(e) any other form or forms of insurance as Landlord may reasonably require from time to time in reasonable amounts and for insurable risks against which a prudent tenant would protect itself to the extent landlords of comparable buildings in the vicinity of the in the Property require their tenants to carry such other form(s) of insurance.

13.3. Policies. All policies of insurance required of Tenant shall be issued by insurance companies with general policyholders' rating of not less than A-, as rated in the most current available "Best's Insurance Reports," and not prohibited from doing business in the State of California, and shall, with the exception of Workers Compensation Insurance, include as additional insureds Landlord, and such other persons or entities as Landlord reasonably

specifies from time to time. Such policies, with the exception of Worker's Compensation Insurance, shall be for the mutual and joint benefit and protection of Landlord, Tenant and others specified by Landlord. Executed copies of Tenant's policies of insurance or certificates thereof shall be delivered to Landlord within ten (10) days prior to the delivery of possession of the Premises to Tenant and thereafter within thirty (30) days prior to the expiration of the term of each such policy. All commercial general liability and property damage policies shall contain a provision that Landlord and any other additional insured, although named as additional insureds, shall nevertheless be entitled to recover under said policies for a covered loss occasioned by it, its servants, agents and employees, by reason of Tenant's negligence. As often as any policy shall expire or terminate, renewal or additional policies shall be procured and maintained by Tenant in like manner and to like extent. All such policies of insurance shall provide that the company writing said policy will endeavor to give to Landlord thirty (30) days notice in writing in advance of any cancellation or lapse or of the effective date of any reduction in the amounts of insurance. All commercial general liability, property damage and other casualty policies shall be written on an occurrence basis. Landlord's coverage shall not be contributory. No policy shall have a deductible in excess of $25,000 for any one occurrence.

13.4. Landlord's Rights. Should Tenant fail to take out and keep in force each insurance policy required under this Article 13, or should such insurance not be approved by Landlord and should the Tenant not rectify the situation within two (2) Business Days after written notice from Landlord to Tenant, Landlord shall have the right, without assuming any obligation in connection therewith, to purchase such insurance at the sole cost of Tenant, and all costs incurred by Landlord shall be payable to Landlord by Tenant within thirty (30) days after demand as Additional Rent and without prejudice to any other rights and remedies of Landlord under this Lease.

13.5. Waiver of Subrogation. Notwithstanding anything to the contrary contained herein, to the extent permitted by their respective policies of insurance and to the extent of insurance proceeds received (or which would have been received had the party carried the insurance required by this Lease) with respect to the loss, Landlord and Tenant each hereby waive any right of recovery against the other party and against any other party maintaining a policy of insurance with respect to the Property or any portion thereof or the contents of the Premises or the Building for any loss or damage sustained by such other party with respect to the Premises, the Building or the Property, or any portion thereof, or the contents of the same or any operation therein, whether or not such loss is caused by the fault or negligence of such other party. Either party shall notify the other party if the policy of insurance carried by it does not permit the foregoing waiver.

13.6. No Liability. No approval by Landlord of any insurer, or the terms or conditions of any policy, or any coverage or amount of insurance, or any deductible amount shall be construed as a representation by Landlord of the solvency of the insurer or the sufficiency of any policy or any coverage or amount of insurance or deductible and Tenant assumes full risk and responsibility for any inadequacy of insurance coverage or any failure of insurers.

14. ASSIGNMENT AND SUBLETTING

14.1. Consent Required. Tenant shall not directly or indirectly, voluntarily or by operation of law, sell, assign, encumber, pledge or otherwise transfer or hypothecate all or any part of its interest in or rights with respect to the Premises or its leasehold estate (collectively, ***"Assignment"***), or permit all or any portion of the Premises to be occupied by

anyone other than itself or sublet all or any portion of the Premises (collectively, ***"Sublease"***) without Landlord's prior written consent, such consent not to be unreasonably withheld (subject to Landlord's rights as described in Sections 14.5). Landlord and Tenant acknowledge that it shall be reasonable for Landlord to withhold its consent in the following instances:

(a) the use of the Premises would not comply with the provisions of this Lease;

(b) Tenant is in default of any obligation of Tenant under this Lease;

(c) the assignment or sublease is for a portion of the Premises or would result in the dividing or sub-demising of the Premises;

(d) the proposed assignee or sublessee is a governmental agency;

(e) in Landlord's reasonable judgment, the use of the Premises by the proposed assignee or sublessee would involve occupancy by other than for a Permitted Use, would entail any alterations which would lessen the value of the leasehold improvements in the Premises, or would require increased services by Landlord;

(f) in Landlord's reasonable judgment, the financial worth of the proposed assignee or sublessee is insufficient to fulfill the terms of the Lease;

(g) the proposed assignee or sublessee (or any of its affiliates) has been in material default under a lease, has been in litigation with a previous landlord, or in the ten years prior to the assignment or sublease has filed for bankruptcy protection, has been the subject of an involuntary bankruptcy, or has been adjudged insolvent;

(h) Landlord has experienced a previous default by or is in litigation with the proposed assignee or sublessee;

(i) in Landlord's reasonable judgment, the Premises or any part of the Building, will be used in a manner that will violate any negative covenant as to use contained in this Lease; the use of the Premises by the proposed assignee or sublessee will violate any applicable law, ordinance, or regulation;

(j) the proposed assignee or sublessee is a tenant in the Building or 8000 Marina Boulevard, Brisbane, at the time of Notice, or has within the prior six months been offered to Lease other office space in the Building or 8000 Marina Boulevard, Brisbane, by Landlord; or

(k) the proposed assignment or sublease fails to include all of the terms and provisions required to be included therein pursuant to this Article 14.

14.2. Notice. If Tenant desires to enter into a Sublease of all or any portion of the Premises or Assignment of this Lease (except as provided in Section 14.7), it shall give written notice (the ***"Transfer Notice"***) to Landlord of its intention to do so, which notice shall

contain (a) the name and address of the proposed assignee, subtenant or occupant (the ***"Transferee"***), (b) the nature of the proposed Transferee's business to be carried on in the Premises, (c) the terms and provisions of the proposed Assignment or Sublease, and (d) such financial information as Landlord may reasonably request concerning the proposed Transferee (hereafter the ***"Complete Transfer Notice"***).

14.3. Terms of Approval. Landlord shall endeavor to respond to Tenant's request for approval within fifteen (15) days after receipt of the Complete Transfer Notice; however, Landlord's failure to respond shall not result in a deemed approval. If Landlord approves the proposed Assignment or Sublease, Tenant may, not later than thirty (30) days thereafter, enter into the Assignment or Sublease with the proposed Transferee upon the terms and conditions set forth in the Transfer Notice.

14.4. Excess Rent. For any Assignment or Sublease (other than a Permitted Transfer under Section 14.7), fifty percent (50%) of the Excess Rent received by Tenant shall be paid to Landlord as and when received by Tenant. ***"Excess Rent"*** means the gross revenue received from the Transferee during the Sublease term or with respect to the Assignment, less (a) the gross revenue received by Landlord from Tenant during the period of the Sublease term or concurrently with or after the Assignment; (b) any reasonably documented tenant improvement allowance or other economic concession (planning allowance, free rent, moving expenses, etc.), paid by Tenant to or on behalf of the Transferee; (c) customary and reasonable external brokers' commissions to the extent paid and documented; and (d) reasonable attorneys' fees (up to $5,000); (collectively, ***"Transfer Costs"***). Tenant shall not be required to pay to Landlord any Excess Rent until Tenant has recovered its Transfer Costs.

14.5. Landlord Right of First Refusal. Except for Permitted Transfers, Tenant's Transfer Notice shall also include a written offer that includes all of the substantial business terms that Tenant has offered to a Transferee and shall offer to Transfer to Landlord, Tenant's interest in the portion of the Premises offered to the Transferee on such terms and conditions (the ***"Offer"***). Landlord shall have fifteen (15) days from Landlord's receipt of the Offer to accept the Offer by written notice to Tenant or to approve or disapprove the Transfer as provided in Section 14.3. If Landlord accepts the Offer, Landlord and Tenant shall consummate the Transfer within fifteen (15) days after Landlord's written notice of acceptance. The Transfer shall be consummated by

Tenant's delivery to Landlord of a good and sufficient assignment of lease or sublease, which shall grant Landlord the right to re-lease the Premises to new tenants on a direct basis. If Landlord does not accept the Offer, but approves the Transfer, then in the event the terms of the Transfer are materially changed during subsequent negotiations to be more favorable to the Transferee, Tenant shall again deliver to Landlord an Offer in accordance with this Section, offering the interest to Landlord on such more favorable terms. Landlord shall then have another period of fifteen (15) days after receipt of such Offer to accept such Offer.

14.6. No Release. No Sublease or Assignment by Tenant nor any consent by Landlord thereto shall relieve Tenant of any obligation to be performed by Tenant under this Lease. Any Sublease or Assignment that is not in compliance with this Article shall be null and void and, at the option of Landlord, shall constitute an Event of Default by Tenant under this Lease, and Landlord shall be entitled to pursue any right or remedy available to Landlord under the terms of this Lease or under the laws of the State of California. The acceptance of any Rent or other payments by Landlord from a proposed Transferee shall not constitute consent to such Sublease or Assignment by Landlord or a recognition of any Transferee, or a waiver by Landlord of any failure of Tenant or other Transferor to comply with this Article.

14.7. Permitted Transfers. Notwithstanding anything in this Article 14 to the contrary, but subject to the provisions of Section 14.8 below, Landlord's prior written consent shall not be required for any assignment of this Lease or sublease to any of the following (each a ***"Permitted Transferee"***): (a) a successor entity related to Tenant by merger, consolidation, or non-bankruptcy reorganization, or (b) a transferee of all or substantially all of Tenant's assets (collectively, ***"Permitted Transfers"***), or (c) an acquirer of a controlling interest of Tenant's stock or equity interests; provided that after such assignment or transfer the operation of the business conducted in the Premises shall be in the manner required by this Lease and the Transferee shall have a net worth equal to or greater than Tenant's net worth immediately prior to the consummation of the Assignment or sublease. Section 14.4 shall not apply to Permitted Transfers. For the purposes of this Lease, a sale of Tenant's capital stock through any public exchange or for financing purposes (such as a Series A financing) shall not be deemed an assignment, subletting, or any other transfer of the Lease or the Premises.

14.8. Assumption of Obligations. Any Transferee shall, from and after the effective date of the Assignment, assume all obligations of Tenant under this Lease with respect to the Transferred Space and shall be and remain liable jointly and severally with Tenant for the payment of Base Rent and Additional Rent, and for the performance of all of the terms, covenants, conditions and agreements herein contained on Tenant's part to be performed for the Term. No Assignment shall be binding on Landlord unless Tenant delivers to Landlord a counterpart of the Assignment and an instrument that contains a covenant of assumption reasonably satisfactory in substance and form to Landlord, and consistent with the requirements of this Section.

14.9. Landlord's Costs. Tenant shall reimburse Landlord for its reasonable third-party costs (including, without limitation, the fees of Landlord's counsel), incurred in connection with Landlord's review and processing of documents regarding any proposed assignment or sublease.

15. DEFAULT

15.1. Event of Default. The occurrence of any of the following shall be an ***"Event of Default"*** on the part of Tenant:

(a) Failure to pay any part of the Base Rent or Additional Rent, or any other sums of money that Tenant is required to pay under this Lease where such failure continues for a period of three (3) Business Days after written notice of default from Landlord to Tenant. Landlord's notice to Tenant pursuant to this subsection shall be deemed to be the notice required under California Code of Civil Procedure Section 1161.

(b) Failure to perform any other covenant, condition or requirement of this Lease when such failure shall continue for a period of thirty (30) days after written notice thereof from Landlord to Tenant; provided that if the nature of the default is such that more than thirty (30) days are reasonably required for its cure, then an Event of Default shall not be deemed to have occurred if Tenant shall commence such cure within said thirty (30) day period and thereafter diligently and continuously prosecute such cure to completion. Landlord's notice to Tenant pursuant to this subsection shall be deemed to be the notice required under California Code of Civil Procedure Section 1161.

(c) Intentionally omitted.

(d) Tenant shall admit in writing its inability to pay its debts generally as they become due, file a petition in bankruptcy, insolvency, reorganization, dissolution or liquidation under any law or statute of any government or any subdivision thereof either now or hereafter in effect, or Tenant shall make an assignment for the benefit of its creditors, consent to or acquiesce in the appointment of a receiver of itself or of the whole or any substantial part of the Premises.

(e) A court of competent jurisdiction shall enter an order, judgment or decree appointing a receiver of Tenant or of the whole or any substantial part of the Premises and such order, judgment or decree shall not be vacated, set aside or stayed within thirty (30) days after the date of entry of such order, judgment, or decree, or a stay thereof shall be thereafter set aside.

(f) A court of competent jurisdiction shall enter an order, judgment or decree approving a petition filed against Tenant under any bankruptcy, insolvency, reorganization, dissolution or liquidation law or statute of the federal or state government or any subdivision of either now or hereafter in effect, and such order, judgment or decree shall not be vacated, set aside or stayed within thirty (30) days from the date of entry of such order, judgment or decree, or a stay thereof shall be thereafter set aside.

15.2. Remedies. Upon the occurrence of an Event of Default, Landlord shall have the following rights and remedies:

(a) The right to terminate this Lease upon written notice to Tenant, in which event Tenant shall immediately surrender possession of the Premises in accordance with Article 20.

(b) The right to bring a summary action for possession of the Premises.

(c) The rights and remedies described in California Civil Code Section 1951.2, pursuant to which Landlord may recover from Tenant upon a termination of the Lease, (i) the worth at the time of award of the unpaid rent which has been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; (iii) the worth at the time of the award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of events would be likely to result therefrom. The "worth at the time of award" of the amounts referred to in (i) and (ii) above is computed by allowing interest at the rate of ten percent (10%) per annum. The "worth at the time of award" of the amount referred to in (iii) above shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%). The detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of events would be likely to result therefrom includes, without limitation, (1) the unamortized portion of any brokerage or real estate agent's commissions paid in connection with the execution of this Lease, (2) any direct costs or expenses incurred by Landlord in

recovering possession of the Premises, maintaining or preserving the Premises after such default, (3) preparing the Premises for reletting to a new tenant, (4) any repairs or alterations to the Premises for such reletting, (5) leasing commissions, architect's fees and any other costs necessary or appropriate either to relet the Premises or, if reasonably necessary in order to relet the Premises, to adapt them to another beneficial use by Landlord and (6) such amounts in addition to or in lieu of the foregoing as may be permitted from time to time by Applicable Laws to the extent that such payment would not result in a duplicative recovery.

(d) The rights and remedies described in California Civil Code Section 1951.4 which allow Landlord to continue this Lease in effect and to enforce all of Landlord's rights and remedies under this Lease, including the right to recover Base Rent, Additional Rent and other charges payable hereunder as they become due. Acts of maintenance or preservation, efforts to relet the Premises or the appointment of a receiver upon Landlord's initiative to protect its interest under this Lease shall not constitute a termination of Tenant's right to possession.

(e) The right and power, as attorney-in-fact for Tenant, to sublet the Premises, to collect rents from all subtenants and to provide or arrange for the provision of all services and fulfill all obligations of Tenant under any permitted subleases. Landlord is hereby authorized on behalf of Tenant, but shall have absolutely no obligation, to provide such services and fulfill such obligations and to incur all such expenses and costs as Landlord deems necessary. Landlord is hereby authorized, but not obligated, to relet the Premises or any part thereof on behalf of Tenant, to incur such expenses as may be necessary to effect a relet and make said relet for such term or terms, upon such conditions and at such rental as Landlord in its reasonable discretion may deem proper. Tenant shall be liable immediately to Landlord for all costs and expenses Landlord incurs in reletting the Premises including, without limitation, brokers' commissions, expenses of remodeling the Premises required by the reletting, and the cost of collecting rents and fulfilling the obligations of Tenant to any subtenant. If Landlord relets the Premises or any portion thereof, such reletting shall not relieve Tenant of any obligation hereunder, except that Landlord shall apply the rent or other proceeds actually collected by it as a result of such reletting against any amounts due from Tenant hereunder to the extent that such rent or other proceeds compensate Landlord for the nonperformance of any obligation of Tenant hereunder. Such payments by Tenant shall be due at such times as are provided elsewhere in this Lease, and Landlord need not wait until the termination of this Lease, by expiration of the Term or otherwise, to recover them by legal action or in any other manner. Landlord may execute any sublease made pursuant to this Section in its own name, and the tenant thereunder shall be under no obligation to see to the application by Landlord of any rent or other proceeds, nor shall Tenant have any right to collect any such rent or other proceeds. Landlord shall not by any reentry or other act be deemed to have accepted any surrender by Tenant of the Premises or Tenant's interest therein, or be deemed to have otherwise terminated this Lease, or to have relieved Tenant of any obligation hereunder, unless Landlord shall have given Tenant express written notice of Landlord's election to do so as set forth herein.

(f) The right to enjoin, and any other remedy or right now or hereafter available to a Landlord against a defaulting tenant under the laws of the State of California or the equitable powers of its courts, and not otherwise specifically reserved herein.

(g) If this Lease provides for a postponement of deferral of any Rent, or for commencement of payment of Rent to a date later than the Commencement Date, or for a period of "free" Rent or any other Rent concession (collectively, ***"Abated Rent"***), the right upon

an Event of Default that results in the early termination of the Lease to demand immediate payment of the unamortized value of the Abated Rent.

15.3. Cumulative Remedies. The various rights and remedies reserved to Landlord, including those not specifically described herein, shall, to the extent that the exercise of such right and/or remedy does not result in a duplicative recovery, be cumulative and shall be in addition to every other right or remedy provided for in this Lease or now or hereafter existing at law or in equity and the exercise of the rights or remedies provided for in this Lease or now or hereafter existing at law or in equity shall not preclude the simultaneous or later exercise by Landlord of any or all other rights and remedies.

15.4. Waiver of Redemption by Tenant. Tenant hereby waives any right to relief against forfeiture of this Lease pursuant to California Code of Civil Procedure Section 1179.

15.5. Landlord's Right to Cure. If Tenant shall fail or neglect to do or perform any covenant or condition required under this Lease and such failure shall not be cured within any applicable grace period, Landlord may, on five (5) days notice to Tenant, but shall not be required to, make any payment payable by Tenant hereunder, discharge any lien, take out, pay for and maintain any insurance required hereunder, or do or perform or cause to be done or performed any such other act or thing (entering upon the Premises for such purposes, if Landlord shall so elect), and Landlord shall not be or be held liable or in any way responsible for any loss, disturbance, inconvenience, annoyance or damage resulting to Tenant on account thereof. Tenant shall repay to Landlord within fifteen (15) days after demand the entire out-of-pocket cost and expense incurred by Landlord in connection with the cure, including, without limitation, compensation to the agents, consultants and contractors of Landlord and reasonable attorneys' fees and expenses. Landlord may act upon shorter notice or no notice at all if necessary in Landlord's reasonable judgment to meet an emergency situation or governmental or municipal time limitation or to protect Landlord's interest in the Premises. Landlord shall not be required to inquire into the correctness of the amount of validity or any tax or lien that may be paid by Landlord and Landlord shall be duly protected in paying the amount of any such tax or lien claimed and in such event Landlord also shall have the full authority, in Landlord's sole judgment and discretion and without prior notice to or approval by Tenant, to settle or compromise any such lien or tax. Any

act or thing done by Landlord pursuant to the provisions of this Section shall not be or be construed as a waiver of any such failure by Tenant, or as a waiver of any term, covenant, agreement or condition herein contained or of the performance thereof.

15.6. Landlord's Default. Landlord shall be in default under this Lease if Landlord fails to perform obligations required of Landlord within thirty (30) days after written notice by Tenant to Landlord and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have heretofore been furnished to Tenant in writing, specifying wherein Landlord has failed to perform such obligations; provided, however, that if the nature of Landlord's obligations is such that more than thirty (30) days are required for performance, then Landlord shall not be in default if Landlord commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion. Tenant shall be entitled to actual (but not consequential) damages in the event of an uncured default by Landlord, but the provisions of Article 17 shall apply to any Landlord default and Tenant shall not have the right to terminate this Lease as a result of a Landlord default.

16. LANDLORD'S RESERVED RIGHTS

16.1. Control of Common Area. Landlord reserves the right, at any time and from time to time, to make alterations, additions, repairs, replacements or improvements to all or any part of the Building (including the Building Structure and Building Systems), the Common Area and the Property, provided, however, that Landlord shall use commercially reasonable efforts not to materially adversely affect Tenant's use of the Premises. Landlord may make changes at any time and from time to time in the size, shape, location, use and extent of the Common Area, and no such change shall entitle Tenant to any abatement of rent or damages, provided, however, that Landlord shall use commercially reasonable efforts not to materially adversely affect Tenant's use of the Premises. Landlord shall at all times during the Term have the sole and exclusive control of the Building Structure and the Common Area, and may at any time and from time to time during the Term restrain any use or occupancy of the Common Area except as authorized by this Lease. Landlord specifically reserves the right to alter, reconfigure, replace, diminish, expand, or remove all or any part of the Conference Center that currently exists on the First Floor of 2000 Sierra Point Parkway. Landlord may temporarily or permanently close any portion of the Common Area for repairs, maintenance, replacements or alterations, to prevent a dedication or the accrual of prescriptive rights, or for any other reasonable purpose; provided, however, that Landlord shall use commercially reasonable efforts not to materially adversely affect Tenant's use of the Premises. Tenant's rights in and to the Common Area shall at all times be subject to the rights of Landlord and Tenant shall keep the Common Area free and clear of any obstructions created or permitted by Tenant or resulting from Tenant's operations.

16.2. Access. Landlord reserves (for itself and its agents, consultants, contractors and employees) the right to enter the Premises at all reasonable times and, except in cases of emergency, after giving Tenant reasonable notice, to inspect the Premises (including, without limitation, environmental testing); to supply any service to be provided by Landlord hereunder; to show the Premises to prospective purchasers or mortgagees; to show the Premises to prospective tenants during the last year of the Term; to post notices of non-responsibility; and to repair or maintain the Premises and the Building as required or permitted by the terms of this Lease, without abatement of Rent, and may for that purpose erect, use and maintain necessary structures in and through the Premises and the Building where reasonably required by the character of the work to be performed. Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises or any other loss occasioned thereby, except to the extent caused by the gross negligence or willful misconduct of Landlord in the exercise of its rights and provided that Landlord shall use reasonable efforts not to materially adversely affect Tenant's use of the Premises. All locks for all of the doors in, upon and about the Premises, excluding Tenant's vaults and safes or special security areas (designated in advance in writing by Tenant) shall at all times be keyed to a master system and Landlord shall at all times have and retain a key with which to unlock all of said doors. Landlord shall have the right to use any and all means that Landlord may deem necessary or proper to open said doors in an emergency in order to obtain entry to any portion of the Premises, and any such entry to the Premises or portions thereof obtained by Landlord by any of said means, or otherwise, shall not under any circumstances be construed or deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction, actual or constructive, of Tenant from the Premises or any portion thereof.

16.3. Easements. Landlord reserves the right to grant or relocate all easements and rights of way which Landlord in its sole discretion may deem necessary or appropriate; provided that Tenant's rights to use the Property is not materially impeded.

16.4. Use of Additional Areas. Landlord reserves the exclusive right to use any air space above the Property, and the land beneath the Premises; provided that such use shall not materially impede Tenant's use of and access to the Premises.

16.5. Subordination. This Lease shall be subject and subordinate at all times to: (a) all reciprocal easement agreements, and any ground leases or underlying leases which may now exist or hereafter be executed affecting the Property, and (b) the lien of any mortgage or deed of trust which may now exist or hereafter be executed in any amount for which the Property, or any ground leases or underlying leases, or Landlord's interest or estate in any of said items, is specified as security, subject to Tenant's receipt of an executed and commercially reasonable subordination and non-disturbance agreement from any such holder in (a) or (b). Notwithstanding the foregoing, Landlord shall have the right to subordinate or cause to be subordinated to this Lease any of the items referred to in clause (a) or (b) above, subject to compliance with the condition precedent set forth below. In the event that any ground lease or underlying lease terminates for any reason or any mortgage or deed of trust is foreclosed or a conveyance in lieu of foreclosure is made for any reason, (i) no person or entity which as a result of the foregoing succeeds to the interest of Landlord under this Lease (a ***"Successor"***) shall be liable for any default by Landlord or any other matter that occurred prior to the date the Successor succeeded to Landlord's interest in this Lease, and (ii) Tenant shall, notwithstanding any subordination, attorn to and become the tenant of the Successor, at the option of the Successor. Tenant covenants and agrees, however, to execute and deliver, upon demand by Landlord and in the form reasonably requested by Landlord, any additional documents evidencing the priority or subordination of this Lease with respect to any such ground leases, underlying leases, reciprocal easement agreements or similar documents or instruments, or with respect to the lien of any such mortgage or deed of trust and Tenant's failure to execute and deliver any such document within fifteen (15) days after such demand by Landlord shall constitute an Event of Default without further notice.

17. LIMITATION OF LANDLORD'S LIABILITY

17.1. Limitation. Landlord shall not be responsible for or liable to Tenant and Tenant hereby releases Landlord, waives all claims against Landlord and assumes the risk for any injury, loss or damage to any person or property in or about the Property by or from any cause whatsoever (other than Landlord's gross negligence or willful misconduct) including, without limitation, (a) acts or omissions of persons occupying adjoining premises,

(b) theft or vandalism, (c) burst, stopped or leaking water, gas, sewer or steam pipes, (d) loss of utility service, (e) accident, fire or casualty, (f) nuisance, and (g) work done by Landlord in the Property. There shall be no abatement of Rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations or improvements to any portion of the Property or to fixtures, appurtenances and equipment in the Property; provided, however, that in the event Landlord fails to perform its obligations to make repairs, alterations or improvements or performs such obligations in a negligent manner in each case which results in Tenant being unable to operate its business at

the Premises for a period of more than five (5) consecutive Business Days, then Tenant shall be entitled to an abatement of Rent commencing on the sixth business day Tenant is unable to operate and continuing until the Premises are again available for operation of Tenant's business. Such Rent abatement shall be Tenant's only remedy in the event of a negligent interference with Tenant's business and Tenant shall not be entitled to damages or to termination of this Lease arising from Landlord's repairs, alterations or improvements. No interference with Tenant's operations in the Premises shall constitute a constructive or other eviction of Tenant. Tenant hereby waives and releases any right it may have to make repairs at Landlord's expense under Sections 1941 and 1942 of the California Civil Code, or under any similar law, statute or ordinance now or hereafter in effect.

17.2. Sale of Property. It is agreed that Landlord may at any time sell, assign or transfer its interest as landlord in and to this Lease, and may at any time sell, assign or transfer its interest in and to the Property. In the event of any transfer of Landlord's interest in this Lease or in the Property, the transferor shall be automatically relieved of any and all of Landlord's obligations and liabilities accruing from and after the date of such transfer; provided that the transferee assumes all of Landlord's obligations under this Lease accruing from and after the date of such transfer. Tenant hereby agrees to attorn to Landlord's assignee, transferee, or purchaser from and after the date of notice to Tenant of such assignment, transfer or sale, in the same manner and with the same force and effect as though this Lease were made in the first instance by and between Tenant and the assignee, transferee or purchaser.

17.3. No Personal Liability. In the event of any default by Landlord hereunder, Tenant shall look only to Landlord's interest in the Property and rents therefrom and any available insurance proceeds for the satisfaction of Tenant's remedies, and no other property or assets of Landlord or any trustee, partner, member, officer or director thereof, disclosed or undisclosed, shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies under or with respect to this Lease.

18. DESTRUCTION

18.1. Landlord's Repair Obligation. If the Property or any portion thereof is damaged by fire or other casualty, Landlord shall repair the same (including the Landlord Work, but not any Tenant's Alterations); provided that (a) such repairs can be made under the laws and regulations of the federal, state and local governmental authorities having jurisdiction within twelve (12) months after the date of such damage (or in the case of damage occurring during the last twelve (12) months of the Term, provided that such repairs can be made within ninety (90) days after the date of such damage), (b) such repairs are fully covered (except for any deductible) by the proceeds of insurance maintained by Landlord, and (c) the damage does not affect more than fifty percent (50%) of the assessed value of the Building.

18.2. Notice. Landlord shall notify Tenant within sixty (60) days after the date of damage whether or not the requirements for reconstruction and repair described in Section 18.1 are met. If such requirements are not met, Landlord shall have the option, exercisable within sixty (60) days after the date of such damage either to: (a) notify Tenant of Landlord's intention to repair such damage, in which event this Lease shall continue in full force and effect (unless terminated by Tenant pursuant to Section 18.3 below), or (b) notify Tenant of Landlord's election to terminate this Lease as of the date of the damage. If such notice to terminate is given by Landlord, this Lease shall terminate as of the date of such damage. If within ten (10) days after receipt of a notice from Landlord electing to terminate this Lease because of the unavailability of insurance proceeds, Tenant sends Landlord a notice electing to reimburse

Landlord for the cost of such repairs that are in excess of five percent (5%) of the replacement cost of the Building (as determined as of the day prior to any such damage), this Lease shall not terminate, and Landlord shall complete such repairs.

18.3. Termination by Tenant. If Landlord elects to repair or is required to repair the damage and any such repair (a) is not commenced by Landlord within one hundred twenty (120) days after the occurrence of such damage or destruction, or (b) is not or cannot practicably be substantially completed by Landlord within twelve (12) months after the occurrence of such damage or destruction (or in the case of damage occurring in the last twelve (12) months of the Term, within ninety (90) days), then in either such event Tenant may, at its option, upon written notice to Landlord to be delivered within fifteen (15) days after receipt of Landlord's notice or the expiration of the 120-day commencement period, elect to terminate this Lease as of the date of the occurrence of such damage or destruction.

18.4. Rent Adjustment. In case of termination pursuant to Sections 18.2 or 18.3 above, the Base Rent and Operating Expenses shall be reduced by a proportionate amount based upon the extent to which such damage interfered with the business carried on by Tenant in the Premises, and Tenant shall pay such reduced Base Rent and Operating Expenses up to the date of vacation of the Premises. If Landlord is required or elects to make repairs, and Tenant does not terminate this Lease pursuant to Section 18.3, this Lease shall remain in full force and effect except that Tenant shall be entitled to a proportionate reduction of Base Rent and Operating Expenses from the date of such casualty and during the period such repairs are being made by a proportionate amount based upon the extent of interference with Tenant's operations in the Premises. The full amount of Base Rent and Operating Expenses shall again become payable immediately upon the completion of such work of repair, reconstruction or restoration. The repairs to be made by Landlord under this Article shall not include, and Landlord shall not be required to repair, any casualty damage to Tenant's Property or any Alterations.

18.5. Tenant Obligations. If Landlord elects or is required to repair, reconstruct or restore the Premises after any damage or destruction, Tenant shall be responsible at its own expense for the repair and replacement of any of Tenant's Property and any Alterations that Tenant elects to replace.

18.6. No Claim. Tenant shall have no interest in or claim to any portion of the proceeds of any property insurance or self-insurance maintained by Landlord in connection with the damage. If Landlord is entitled and elects not to rebuild the Premises, Landlord shall relinquish to Tenant such claim as Landlord may have for any part of the proceeds of any insurance maintained by Tenant under Section 13.2 of this Lease.

18.7. No Damages. If Landlord is required or elects to make any repairs, reconstruction or restoration of any damage or destruction to the Premises under any of the provisions of this Article 18, Tenant shall not be entitled to any damages by reason of any inconvenience or loss sustained by Tenant as a result thereof. Except as expressly provided in Section 18.4, there shall be no reduction, change or abatement of any rental or other charge payable by Tenant to Landlord hereunder, or in the method of computing, accounting for or paying the same. Tenant hereby waives the provisions of Section 1932(2) and Section 1933(4) of the California Civil Code, or any other statute or law that may be in effect at the time of a casualty under which a lease is automatically terminated or a tenant is given the right to terminate a lease due to a casualty.

19. EMINENT DOMAIN

19.1. Taking. If all or any part of the Premises shall be taken as a result of the exercise of the power of eminent domain or any transfer in lieu thereof, this Lease shall terminate as to the part so taken as of the date of taking or as of the date of final judgment, whichever is earlier, and, in the case of a partial taking of at least twenty-five percent (25%) of the Rentable Area of the Premises, either Landlord or Tenant shall have the right to terminate this Lease as to the balance of the Premises by written notice to the other within thirty (30) days after such date, provided, however, that a condition to the exercise by Tenant of such right to terminate shall be that the portion of the Premises taken shall be of such extent and nature as substantially to handicap, impede or impair Tenant's use of the balance of the Premises. If any material part of the Common Area shall be taken as a result of the exercise of the power of eminent domain or any transfer in lieu thereof, whether or not the Premises are affected, Landlord shall have the right to terminate this Lease by written notice to Tenant within thirty (30) days of the date of taking. If any material part of the Common Area shall be taken as a result of the exercise of the power of eminent domain or any transfer in lieu thereof, such that Tenant's access to or use of the Premises is materially adversely affected, Tenant shall have the right to terminate this Lease by written notice to Landlord within thirty (30) days of the date of taking.

19.2. Award. In the event of any taking, Landlord shall be entitled to any and all compensation, damages, income, rent, awards, or any interest therein whatsoever which may be paid or made in connection therewith, and Tenant shall assign to Landlord any right to compensation or damages for the condemnation of its leasehold interest; provided that Tenant may file a claim for (a) Tenant's relocation expenses, and (b) the taking of Tenant's Property.

19.3. Partial Taking. In the event of a partial taking of the Premises which does not result in a termination of this Lease, the Base Rent and Operating Expenses shall be adjusted as follows:

(a) In the event of a partial taking, if this Lease is not terminated pursuant to this Article 19, Landlord shall repair, restore or reconstruct the Premises to a useable state; provided that Landlord shall not be required to expend any sums other than those received pursuant to Section 19.2.

(b) During the period between the date of the partial taking and the completion of any necessary repairs, reconstruction or restoration, Tenant shall be entitled to a reduction of Base Rent and Operating Expenses by a proportionate amount based upon the extent of interference with Tenant's operations in the Premises; and

(c) Upon completion of said repairs, reconstruction or restoration, and thereafter throughout the remainder of the Term, the Base Rent and Operating Expenses shall be recalculated based on the remaining total number of square feet of Rentable Area of the Premises.

19.4. Temporary Taking. Notwithstanding any other provision of this Article, if a taking occurs with respect to all or any portion of the Premises for a period of three (3) months or less, this Lease shall remain unaffected thereby and Tenant shall continue to pay Base Rent and Additional Rent and to perform all of the terms, conditions and covenants of this Lease, provided that Tenant shall have the right to terminate this Lease if the taking continues beyond three (3) months. In the event of any such temporary taking, and if this Lease is not terminated, Tenant shall be entitled to receive that portion of any award which represents compensation for

the use or occupancy of the Premises during the Term up to the total Base Rent and Additional Rent owing by Tenant for the period of the taking, and Landlord shall be entitled to receive the balance of any award.

19.5. Sale in Lieu of Condemnation. A voluntary sale by Landlord of all or any part of the Property to any public or quasi-public body, agency or person, corporate or otherwise, having the power of eminent domain, either under threat of condemnation or while condemnation proceedings are pending, shall be deemed to be a taking under the power of eminent domain for the purposes of this Article.

19.6. Waiver. Except as provided in this Article, Tenant hereby waives and releases any right it may have under any Applicable Law to terminate this Lease as a result of a taking, including without limitation Sections 1265.120 and 1265.130 of the California Code of Civil Procedure, or any similar law, statute or ordinance now or hereafter in effect.

20. SURRENDER

20.1. Surrender. Upon the Termination Date, Tenant shall surrender the Premises to Landlord in as good order and repair as on the Commencement Date, reasonable wear and tear and damage by casualty excepted, free and clear of all letting and occupancies and free of Hazardous Materials caused by Tenant as required pursuant to Article 12. Subject to Article 9, upon any termination of this Lease all improvements, except for Tenant's Property, shall automatically and without further act by Landlord or Tenant, become the property of Landlord, free and clear of any claim or interest therein by Tenant, and without payment therefore by Landlord.

20.2. Holding Over. Any holding over after the expiration of the Term with the consent of Landlord shall be construed to automatically extend the Term on a month-to-month basis at a Base Rent equal to the greater of (a) one and one-half (1.5) times the then-current Base Rent, and (b) the Rent rate at which Landlord is then offering space in the Building, and shall otherwise be on the terms and conditions of this Lease to the extent applicable. Any

holding over without Landlord's consent shall entitle Landlord to exercise any or all of its remedies provided in Article 15, notwithstanding that Landlord may elect to accept one or more payments of Base Rent and Operating Expenses from Tenant.

20.3. Quitclaim. At the expiration or earlier termination of this Lease, Tenant shall execute, acknowledge and deliver to Landlord, within ten (10) days after written demand from Landlord to Tenant, any quitclaim deed or other document required by any reputable title company, licensed to operate in the State of California, to remove the cloud or encumbrance created by this Lease from the Property.

21. FINANCIAL STATEMENTS

Tenant shall tender to Landlord within fifteen (15) days after receipt of a written request (which request shall not be made more than once per calendar year, unless required more often by a prospective lender or purchaser) any information reasonably requested by Landlord regarding the financial stability, credit worthiness or ability of Tenant to pay the Rent due under this Lease. Landlord shall be entitled to rely upon the information provided in determining whether or not to enter into this Lease or for the purpose of any financing or other transaction subsequently undertaken by Landlord. Tenant hereby represents and warrants to Landlord the following: (a) that all documents provided by Tenant to Landlord in connection with

the negotiation of this Lease are true and correct copies of the originals, (b) Tenant has not withheld any information from Landlord that is material to Tenant's credit worthiness, financial condition or ability to perform its obligations hereunder, (c) all information supplied by Tenant to Landlord is true, correct and accurate, and (d) no part of the information supplied by Tenant to Landlord contains any misleading or fraudulent statements. A default under this Article shall be a non-curable default by Tenant and Landlord shall be entitled to pursue any right or remedy available to Landlord under the terms of this Lease or available to Landlord under the laws of the State of California. Landlord shall a be entitled to disclose Tenant's financial information to (1) its agents, employees and consultants, (2) potential purchasers of an interest in the Property, and (3) lenders contemplating making a loan to the Landlord to be secured by the Property, provided that such recipients are advised of the confidential nature of such information and agree to maintain such confidentiality.

22. TENANT CERTIFICATES

Tenant, at any time and from time to time within fifteen (15) days after receipt of written notice from Landlord, shall execute, acknowledge and deliver to Landlord or to any party designated by Landlord (including prospective lenders, purchasers, ground lessees and others similarly situated), a certificate of Tenant stating, to the best of Tenant's knowledge: (a) that Tenant has accepted the Premises, (b) the Commencement Date, the Rent Commencement Date and Expiration Date of this Lease, (c) that this Lease is unmodified and in full force and effect (or, if there have been modifications, that same is in full force and effect as modified and stating the modifications), (d) whether or not there are then existing any defenses against the enforcement of any of the obligations of Tenant under this Lease (and, if so, specifying same), (e) whether or not there are then existing any defaults by Landlord in the performance of its obligations under this Lease (and, if so, specifying same), (f) the dates, if any, to which the Base Rent and Operating Expenses have been paid, and (g) any other factual information relating to the rights and obligations under this Lease that may reasonably be required by any of such persons. Failure to deliver such certificate when due shall constitute an Event of Default. At the request of Tenant, Landlord shall execute, acknowledge and deliver to Tenant a certificate with similar types of information and in the time period set forth above. Failure by either Landlord or Tenant to execute, acknowledge and deliver such certificate shall be conclusive evidence that this Lease is in full force and effect and has not been modified except as may be represented by the requesting party.

23. RULES AND REGULATIONS; SIGNS

23.1. Rules and Regulations. Tenant shall faithfully observe and comply with all rules and regulations and all reasonable modifications thereof and additions thereto from time to time put into effect by Landlord (the ***"Rules and Regulations"***). Landlord shall not enforce such Rules and Regulations in an unreasonable or discriminatory manner. In the event of any conflict between the terms of this Lease and the terms, covenants, agreements and conditions of the Rules and Regulations, this Lease shall control.

23.2. Signs. Landlord shall enter Tenant's name in the Building directory located in the main lobby of the Building and on the monument signs at the entry to the Property. Tenant shall have the right to install signage in the elevator lobby at the entrance to the Premises, subject to Landlord's reasonable consent.

24. INABILITY TO PERFORM

Except as provided in Section 18, if Landlord is unable to fulfill or is delayed in fulfilling any of Landlord's obligations under this Lease, by reason of acts of God, accidents, breakage, repairs, strikes, lockouts, other labor disputes, inability to obtain utilities or materials or by any other reason beyond Landlord's reasonable control, then no such inability or delay by Landlord shall constitute an actual or constructive eviction, in whole or in part, or entitle Tenant to any abatement or diminution of Base Rent or Additional Rent, or relieve Tenant from any of its obligations under this Lease, or impose any liability upon Landlord or Landlord's Agents by reason of inconvenience, annoyance, interruption, injury or loss to or interference with Tenant's business or use and occupancy or quiet enjoyment of the Premises or any loss or damage occasioned thereby. If Tenant is unable to fulfill or is delayed in fulfilling any of Tenant's obligations under this Lease (other than the payment of Rent), by reason of acts of God, accidents, breakage, repairs, strikes, lockouts, other labor disputes, inability to obtain utilities or materials or by any other reason beyond Tenant's reasonable control, then such inability or delay by Tenant shall excuse the performance of Tenant for a period equal to the duration of such prevention, delay or stoppage. Tenant hereby waives and releases any right to terminate this Lease under Section 1932(1) of the California Civil Code, or any similar law, statute or ordinance now or hereafter in effect.

25. NOTICES

Notices or other communications given or required to be given under this Lease shall be effective only if rendered or given in writing, sent by certified mail with a return receipt requested, or delivered in person or by reputable overnight courier (e.g., Federal Express, UPS, etc.): (a) to Tenant at Tenant's address set forth in Article 1; or (b) to Landlord at Landlord's address set forth in Article 1; or (c) to such other address as either Landlord or Tenant may designate as its new address for such purpose by notice given to the other in accordance with the provisions of this Article. Any such notice or other

communication shall be deemed to have been rendered or given five (5) days after the date mailed, if sent by certified mail, or upon the date of delivery in person or by courier, or when delivery is attempted but refused.

26. QUIET ENJOYMENT

Landlord covenants that so long as an Event of Default by Tenant is not in existence, upon paying the Base Rent and Additional Rent and performing all of its obligations under this Lease, Tenant shall peaceably and quietly enjoy the Premises, subject to the terms and provisions of this Lease.

27. AUTHORITY

If Tenant is a corporation, limited liability company or a partnership, Tenant represents and warrants as follows: Tenant is an entity as identified in Article 1, duly formed and validly existing and in good standing under the laws of the state of organization specified in Article 1 and qualified to do business in the State of California. Tenant has the power, legal capacity and authority to enter into and perform its obligations under this Lease and no approval or consent of any person is required in connection with the execution and performance hereof. The execution and performance of Tenant's obligations under this Lease will not result in or constitute any default or event that would be, or with notice or the lapse of time would be, a default, breach or violation of the organizational instruments governing Tenant or any agreement or any order or decree of any court or other governmental authority to which Tenant

is a party or to which it is subject. Tenant has taken all necessary action to authorize the execution, delivery and performance of this Lease and this Lease constitutes the legal, valid and binding obligation of Tenant. Upon Landlord's request, Tenant shall provide Landlord with evidence reasonably satisfactory to Landlord confirming the foregoing representations and warranties.

Landlord represents and warrants as follows: Landlord has the power, legal capacity and authority to enter into and perform its obligations under this Lease and no approval or consent of any person is required in connection with the execution and performance hereof. The execution and performance of Landlord's obligations under this Lease will not result in or constitute any default or event that would be, or with notice or the lapse of time would be, a default, breach or violation of the organizational instruments governing Landlord or any agreement or any order or decree of any court or other governmental authority to which Landlord is a party or to which it is subject. Landlord has taken all necessary action to authorize the execution, delivery and performance of this Lease and this Lease constitutes the legal, valid and binding obligation of Landlord.

28. BROKERS

Tenant and Landlord warrant that they have had dealings with only the real estate brokers or agents listed in Article 1 in connection with the negotiation of this Lease and that they know of no other real estate broker or agent who is entitled to a commission in connection with this Lease. Landlord shall pay the brokerage commission earned in connection with this transaction pursuant to separate agreement. Tenant and Landlord shall indemnify, defend and hold the other harmless from and against all liabilities arising from any other claims of brokerage commissions or finder's fees based on Tenant's or Landlord's, as applicable, dealings or contacts with brokers or agents other than those listed in Article 1.

29. MISCELLANEOUS

29.1. Entire Agreement. This Lease, including the exhibits that are incorporated herein and made a part of this Lease, contains the entire agreement between the parties and all prior negotiations and agreements are merged herein. Tenant hereby acknowledges that neither Landlord nor Landlord's Agents have made any representations or warranties with respect to the Premises, the Property, or this Lease except as expressly set forth herein, and no rights, easements or licenses are or shall be acquired by Tenant by implication or otherwise unless expressly set forth herein.

29.2. No Waiver. No failure by Landlord or Tenant to insist upon the strict performance of any obligation of Tenant or Landlord under this Lease or to exercise any right, power or remedy consequent upon a breach thereof, no acceptance of full or partial Base Rent or Additional Rent during the continuance of any such breach by Landlord, or payment of Base Rent or Additional Rent by Tenant to Landlord, and no acceptance of the keys to or possession of the Premises prior to the expiration of the Term by any employee or agent of Landlord shall constitute a waiver of any such breach or of such term, covenant or condition or operate as a surrender of this Lease. No waiver of any breach shall affect or alter this Lease, but each and every term, covenant and condition of this Lease shall continue in full force and effect with respect to any other then-existing or subsequent breach thereof. The consent of Landlord or Tenant given in any instance under the terms of this Lease shall not relieve Tenant or Landlord, as applicable, of any obligation to secure the consent of the other in any other or future instance under the terms of this Lease.

29.3. Modification. Neither this Lease nor any term or provisions hereof may be changed, waived, discharged or terminated orally, and no breach thereof shall be waived, altered or modified, except by a written instrument signed by the party against which the enforcement of the change, waiver, discharge or termination is sought.

29.4. Successors and Assigns. The terms, covenants and conditions contained in this Lease shall bind and inure to the benefit of Landlord and Tenant and, except as otherwise provided or limited herein, their respective personal representatives and successors and assigns.

29.5. Validity. If any provision of this Lease or the application thereof to any person, entity or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such provision to persons, entities or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each provision of this Lease shall be valid and be enforced to the full extent permitted by law.

29.6. Jurisdiction. This Lease shall be construed and enforced in accordance with the laws of the State of California. Any action that in any way involves the rights, duties and obligations of the parties under this Lease may (and if against Landlord, shall) be brought in the courts of the State of California or the United States District Court for the District of California, and the parties hereto hereby submit to the personal jurisdiction of said courts.

29.7. Attorneys' Fees. In the event that either Landlord or Tenant fails to perform any of its obligations under this Lease or in the event a dispute arises concerning the meaning or interpretation of any provision of this Lease, the defaulting party or the party not prevailing in such dispute, as the case may be, shall pay any and all costs and expenses incurred by the other party in enforcing or establishing its rights hereunder, including, without limitation, court costs, costs of arbitration and reasonable attorneys' fees.

29.8. Waiver of Jury Trial. Landlord and Tenant each hereby voluntarily and knowingly waive and relinquish their right to a trial by jury in any action, proceeding or counterclaim brought by either against the other on any matter whatsoever arising out of or in any way connected with this Lease, the relationship of Landlord with Tenant, or Tenant's use or occupancy of the Premises, including any claim of injury or damage, and any emergency and other statutory remedy with respect thereto.

29.9. No Counterclaim by Tenant. In the event Landlord commence any proceedings for nonpayment of rent or other charges payable by Tenant under this Lease, Tenant will not interpose any counterclaim of whatever nature or description in any such proceedings. This shall not, however, be construed as a waiver of the Tenant's right to assert such claims in any separate action or actions brought by the Tenant.

29.10. Light and Air. Tenant covenants and agrees that no diminution of light, air or view by any structure that may hereafter be erected (whether or not by Landlord) shall entitle Tenant to any reduction of the Base Rent or Additional Rent under this Lease, result in any liability of Landlord to Tenant, or in any other way affect this Lease or Tenant's obligations hereunder.

29.11. Lease Memorandum. Neither Landlord nor Tenant shall record this Lease or a short form memorandum hereof without the consent of the other.

29.12. Confidentiality. The parties agree that neither of them shall make public the terms and conditions of this Lease or the fact that they have entered into this Lease to any person other than a party's accountants, attorneys, lenders, brokers, prospective ground lessees, investors, consultants or financial advisors without first obtaining the written permission from the other party, except to the extent otherwise required by Applicable Law.

29.13. Terms. The term "Premises" includes the space leased hereby and any improvements now or hereafter installed therein or attached thereto. The words "Landlord" and "Tenant" as used herein shall include the plural as well as the singular. If there is more than one Tenant or Landlord, the obligations under this Lease imposed on Tenant or Landlord shall be joint and several. The captions preceding the articles of this Lease have been inserted solely as a matter of convenience and such captions in no way define or limit the scope or intent of any provision of this Lease.

29.14. Review and Approval. The review, approval, inspection or examination by Landlord of any item to be reviewed, approved, inspected or examined by Landlord under the terms of this Lease or the exhibits attached hereto shall not constitute the assumption of any responsibility by Landlord for either the accuracy or sufficiency of any such item or the quality of suitability of such item for its intended use. Any such review, approval, inspection or examination by Landlord is for the sole purpose of protecting Landlord's interests in the Property and under this Lease, and no third parties, including, without limitation, Tenant or any person or entity claiming through or under Tenant, or the contractors, agents, servants, employees, visitors or licensees of Tenant or any such person or entity, shall have any rights hereunder with respect to such review, approval, inspection or examination by Landlord.

29.15. No Beneficiaries. This Lease shall not confer or be deemed to confer upon any person or entity other than the parties hereto, any right or interest, including without limitation, any third party status or any right to enforce any provision of this Lease.

29.16. Time of the Essence. Time is of the essence in respect of all provisions of this Lease in which a definite time for performance is specified.

29.17. Modification of Lease. In the event of any ruling or threat by the Internal Revenue Service, or opinion of counsel, that all or part of the Rent paid or to be paid to Landlord under this Lease will be subject to the income tax or unrelated business taxable income, Tenant agrees to modify this Lease to avoid such tax; provided that such modifications will not result in any increase in Rent, or any increased obligations of Tenant under this Lease. Landlord will pay all Tenants' reasonable costs incurred in reviewing and negotiating any such lease modification, including reasonable attorneys' and accountants' fees.

29.18. Construction. This Lease has been negotiated extensively by Landlord and Tenant with and upon the advice of their respective legal counsel, all of whom have participated in the drafting hereof. Consequently, Landlord and Tenant agree that no party shall be deemed to be the drafter of this Lease and in the event this Lease is ever construed by a court of law, such court shall not construe this Lease or any provision of this Lease against any party as the drafter of the Lease.

29.19. Survival. The obligations of this Lease shall survive the expiration of the Term to the extent necessary to implement any requirement for the performance of obligations or forbearance of an act by either party hereto which has not been completed prior to the termination of this Lease. Such survival shall be to the extent reasonably necessary to fulfill the intent thereof, or if specified, to the extent of such specification, as same is reasonably necessary to perform the obligations and/or forbearance of an act set forth in such term, covenant or condition. Notwithstanding the foregoing, in the event a specific term, covenant or condition is expressly provided for in such a clear fashion as to indicate that such performance of an obligation or forbearance of an act is no longer required, then the specific shall govern over this general provisions of this Lease.

29.20. Counterparts. This Lease may be executed in counterparts, each of which shall be an original, and all of which together shall constitute one original of the Lease.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the Effective Date.

LANDLORD:

2000 SIERRA POINT PARKWAY LLC

a Delaware limited liability company

By: /s/ Stephen P. Diamond

Name: Stephen P. Diamond

Its: Manager

TENANT:

INNOVIVA, INC.

a Delaware corporation

By: /s/ Michael Aguiar

Name: Michael Aguiar

Its: President and CEO

GLOSSARY

As used in this Lease, the following terms shall have the following meanings, applicable, as appropriate, to both the singular and plural form of the terms defined below:

"Abated Rent" is defined in Section 15.2(g).

"ADA" is defined in Section 11.1.

"Additional Rent" is defined in Section 5.2.

"Alterations" is as defined in Section 9.2.

"Applicable Laws" are defined in Section 11.1.

"Assignment" is defined in Section 14.1.

"Base Rent" means the amount stated in Article 1, to be adjusted and payable in accordance with Article 5.

"Building" is defined in Section 2.1.

"Building Structure" is defined in Section 8.1.

"Building Systems" are defined in Section 7.2(b).

"Business Days" means Monday through Friday, excluding Saturdays, Sundays and federal and state legal holidays.

"Common Area" is defined in Section 2.2.

"Commencement Date" means the date specified in Article 1.

"Complete Transfer Notice" is defined in Section 14.2.

"Effective Date" is defined in the introductory paragraph of this Lease.

"Environmental Activity" is defined in Section 12.1(a).

"Environmental Investigation" is defined in Section 12.7.

"Environmental Laws" are defined in Section 12.1(b).

"Event of Default" is defined in Section 15.1.

"Excess Rent" is defined in Section 14.4.

"Expiration Date" means the date specified in Article 1.

"Hazardous Material" is defined in Section 12.1(c).

"Initial Base Rent" is defined in Article 1.

"Interest Rate" is defined in Section 5.3.

"Landlord" is defined in the introductory paragraph to this Lease.

"Landlord's Agents" is defined in Section 12.5.

"Landlord's Expense Statement" is defined in Section 7.4.

"Landlord Work" is defined in Section 9.1.

"Offer" is defined in Section 14.5.

"Operating Expenses" are defined in Section 7.2.

"Permitted Transferee" is defined in Section 14.7.

"Permitted Transfers" is defined in Section 14.7.

"Premises" is defined in Section 2.1.

"Prevailing Market Rent" is defined in Exhibit C.

"Property" is defined in Section 2.2.

"Real Estate Taxes" are defined in Section 7.2(a).

"Renewal Option" is defined in Section 4.4.

"Renewal Term" is defined in Section 4.4.

"Rent" means Base Rent, Additional Rent, and all other sums due from Tenant under this Lease.

"Rent Commencement Date" is defined in Article 1.

"Rules and Regulations" is defined in Section 23.1.

"Security Deposit" is defined in Article 1 and Section 5.4.

"Sublease" is defined in Section 14.1.

"Successor" is defined in Section 16.5.

"Supplemental Investigation" is defined in Section 12.7.

"Tenant" is defined in the introductory paragraph to this Lease.

"Tenant Obligations" is defined in Section 8.2.

"Tenant Systems" is defined in Section 8.2.

"Tenant's Agents" is defined in Section 2.2.

"Tenant's Hazardous Materials" is defined in Section 12.1(d).

"Tenant's Property" is defined in Section 9.5.

"Tenant's Special Systems" is defined in Section 7.8.

"Term" is defined in Article 1 and Section 4.1.

"Termination Date" is defined in Section 4.1.

"Temporary Premises" is defined in Section 4.2.

"Transfer Costs" is defined in Section 14.4.

"Transfer Notice" is defined in Section 14.2.

"Transferee" is defined in Section 14.2.

"Work Letter" is defined in Section 9.1 and attached hereto as Exhibit E.

EXHIBIT A

FLOOR PLAN OF THE PREMISES

EXHIBIT B

NOTICE OF COMMENCEMENT DATE, RENT COMMENCEMENT DATE, EXPIRATION DATE, BASE RENT AND RENTABLE AREA

(Letterhead of Landlord)

(Date)

Attention:

Re: Lease between 2000 Sierra Point Parkway LLC (Landlord), and Innoviva, Inc. (Tenant), for Premises located at 2000 Sierra Point Parkway, Brisbane, California

This letter will confirm the following for all purposes under the Lease:

The Commencement Date is
The Rent Commencement Date is
The Expiration Date is
The Rentable Area of the Premises is
The Initial Base Rent is

Please acknowledge your acceptance of this letter by signing and returning two copies of this letter.

Very truly yours,

2000 SIERRA POINT PARKWAY LLC

By: _____
Name: _____
Its: _____

Accepted and Agreed:

INNOVIVA, INC.

By: _____
Its: _____
Name: _____
Dated: _____

EXHIBIT C

DETERMINATION OF PREVAILING MARKET RENT

The term ***"Prevailing Market Rent"*** means the base monthly rent per rentable square foot, full service, for direct leases from the landlord (as opposed to subleases) of space of comparable size to the Premises and in Class A office buildings located in North San Mateo County similar in quality to the Premises for a comparable term, taking into account any additional rent and all other payments or escalations then being charged and allowances and economic concessions being given for such comparable space over a comparable term. The Prevailing Market Rent shall be determined by Landlord and Landlord shall give Tenant written notice of such determination not later than thirty (30) days after delivery by Tenant of Tenant's notice of exercise of the Renewal Option. If Tenant disputes Landlord's determination of the Prevailing Market Rent, Tenant shall so notify Landlord within fifteen (15) days following Landlord's notice to Tenant of Landlord's determination and, in such case, the Prevailing Market Rent shall be determined as follows:

(a) Within thirty (30) days following Tenant's notice to Landlord that it disputes Landlord's determination of the Prevailing Market Rent, Landlord and Tenant shall meet no less than two (2) times, at a mutually agreeable time and place, to attempt to agree upon the Prevailing Market Rent.

(b) If within this 30-day period Landlord and Tenant cannot reach agreement as to the Prevailing Market Rent, they shall each select one appraiser to determine the Prevailing Market Rent. Each such appraiser shall arrive at a determination of the Prevailing Market Rent and submit his or her conclusions to Landlord and Tenant within thirty (30) days after the expiration of the 30-day consultation period described in (a) above.

(c) If only one appraisal is submitted within the requisite time period, it shall be deemed to be the Prevailing Market Rent. If both appraisals are submitted within such time period, and if the two appraisals so submitted differ by less than five percent (5%) of the higher of the two, the average of the two shall be the Prevailing Market Rent. If the two appraisals differ by more than five percent (5%) of the higher of the two, then the two appraisers shall immediately select a third appraiser who will within thirty (30) days of his or her selection make a determination of the Prevailing Market Rent and submit such determination to Landlord and Tenant. This third appraisal will then be averaged with the closer of the previous two appraisals and the result shall be the Prevailing Market Rent.

(d) All appraisers specified pursuant hereto shall be members of the American Institute of Real Estate Appraisers with not less than five (5) years experience appraising office, research and development and industrial properties in the San Francisco/Peninsula/South Bay area. Each party shall pay the cost of the appraiser selected by such party and one-half of the cost of the third appraiser plus one-half of any other costs incurred in the determination.

EXHIBIT D

ACCEPTANCE FORM

This Acceptance form is executed with reference to that certain Lease dated as of June , 2016 by and between 2000 SIERRA POINT PARKWAY LLC, a Delaware limited liability company (***"Landlord"***), and INNOVIVA, INC., a Delaware corporation (***"Tenant"***). Terms defined in the Lease and the exhibits thereto shall have the same meaning when used herein.

Tenant hereby certifies to Landlord that Tenant has inspected the Premises as of (the ***"Date of Inspection"***). Tenant further acknowledges that Tenant hereby accepts the Premises in its existing condition, subject to the provisions of the Lease.

The person executing this Acceptance Form on behalf of Tenant represents and warrants to Landlord that such person is duly authorized to execute this Acceptance Form and that this Acceptance Form has been duly authorized, executed and delivered on behalf of Tenant.

THIS ACCEPTANCE FORM is executed by Tenant as of the Date of Inspection.

TENANT:

INNOVIVA, INC.

By: _____
Name: _____
Its: _____

EXHIBIT E

LANDLORD WORK — WORK LETTER

SUBLEASE TERMINATION AGREEMENT

THIS SUBLEASE TERMINATION AGREEMENT ("Agreement") is dated as of June 10, 2016 for reference purposes only ("Reference Date") by and between Theravance Biopharma US, Inc., a Delaware corporation, as Sublessor, and Innoviva, Inc., a Delaware corporation, as Sublessee.

THIS AGREEMENT is entered upon the basis of the following facts, intentions and understandings:

A. Pursuant to that certain Sublease, dated as of June 2, 2014 ("Sublease"), by and between Sublessor and Sublessee (under Sublessee's former name, Theravance, Inc.), Sublessor subleases to Sublessee approximately 4,847 rentable square feet ("Premises") located on the first floor of the building commonly known as 951 Gateway Boulevard, South San Francisco, California 94080 ("Building"). ARE-901/951 Gateway Boulevard, LLC, a Delaware limited liability company ("Master Lessor"), consented to the Sublease pursuant to a Consent to Sublease dated as of June 2, 2014.

B. The Term of the Sublease will expire on May 31, 2020 ("Expiration Date"). Sublessor and Sublessee now desire to terminate the Sublease prior to the Expiration Date upon the terms and conditions set forth below.

C. Capitalized terms not defined in this Agreement shall have the meanings set forth in the Sublease.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties hereto agree as follows:

1. Termination Date: The effective date of the termination of the Sublease pursuant to this Agreement shall be the later of (i) June 17, 2016, and (ii) the date upon which Sublessor receives Master Lessor's Consent (as defined in Section 6 below) (the "Termination Date"). Sublessee shall perform all of its obligations under the Sublease through and including the Termination Date.

2. Termination of Sublease: Not later than the Termination Date, Sublessee shall remove all of its trade fixtures, other personal property, alterations and improvements (to the extent required to be removed pursuant to Paragraph 14 of the Sublease), and shall surrender the Premises to Sublessor in good condition, free of Hazardous Materials, reasonable wear and tear excepted, and in the condition required by the Master Lease. Sublessee acknowledges that during the Term Sublessee was permitted to use certain furniture, fixtures and equipment ("FF&E") owned by Sublessor and located in the Premises as of the Commencement Date of the Sublease. Prior to the Termination Date, Sublessee shall provide Sublessor with a written list of the trade fixtures and personal property that Sublessee intends to remove from the Premises, and Sublessor shall have the right to confirm that no FF&E is included in the written list. Sublessee acknowledges that Sublessee shall not be permitted to remove any FF&E from the Premises.

3. Release of Liability:

(a) Conditioned upon the performance by Sublessor and Sublessee of the provisions of this Agreement, and except as set forth in this Section 3, on the Termination Date, Sublessor and Sublessee shall be fully and unconditionally released and discharged from their respective obligations arising from or connected with the Sublease; provided, however, that Sublessor and Sublessee shall not be released from their respective obligations, if any, with respect to indemnification for claims resulting from events occurring prior to the Termination Date, to the extent such indemnification obligations survive the expiration or earlier termination of the Sublease.

(b) Except for the obligations, if any, of Sublessee and Sublessor pursuant to the terms of the Sublease to indemnify the other for claims resulting from events occurring prior to the Termination Date, and as otherwise set forth below, Sublessor and Sublessee for themselves and for their respective heirs, administrators, executors, trustees, agents, officers, directors, shareholders, partners, members, employees, predecessors, successors, attorneys, consultants and assigns, do hereby release, acquit and forever discharge each other and each other's heirs, administrators, executors, trustees, agents, officers, directors, shareholders, partners, members, employees, predecessors, successors, attorneys, consultants and assigns of and from any and all claims, demands, rights, obligations, duties, losses, damages, loss of profits, costs and attorney fees, of every kind and nature, known and unknown, past, present and future, that they now have or which may hereafter accrue on account of or in any way related to the Premises and the Sublease.

(c) It is the intention of both Sublessor and Sublessee in executing this Agreement that, except only with respect to those matters excepted from the releases contained in subparagraph (b), above, the releases set forth above shall be effective as a bar to each and every claim, demand and cause of action hereinabove specified; and Sublessor and Sublessee each hereby knowingly and voluntarily waives any and all rights and benefits otherwise conferred by the provisions of Section 1542 of the California Civil Code, which reads in full as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

_____ _____

Sublessor's Initials Sublessee's Initials

(d) Both Sublessor and Sublessee expressly acknowledge, and take into account in determining whether to enter this Agreement, that they may in the future discover facts in addition to or different from those they now know or believe to be true with respect to the subject matter of the claims released by this Agreement, but both Sublessor and Sublessee agree nevertheless to fully, finally and forever settle such claims, whether or not hidden or excluded, known or unknown, without regard to the subsequent discovery or existence of different or additional facts. Both Sublessor and Sublessee acknowledge that, except only with respect to those claims excepted from the scope of the releases set forth above, this waiver was separately bargained for and is a material element of this Agreement of which the releases contained in this Section 3 are a part.

4. Security Deposit: Pursuant to the provisions of Paragraph 5 of the Sublease, Sublessor holds Sublessee's Security Deposit in the amount of $18,127.78. Sublessor shall return the Security Deposit to Sublessee not later than thirty (30) days after the later of the Termination Date and the date that Sublessee surrenders the Premises to Sublessor in the condition required by Section 2 above.

5. Condition Precedent: This Agreement and Sublessor's and Sublessee's obligations hereunder are conditioned upon having obtained the written consent of the Master Lessor to the termination of the Sublease ("Master Lessor's Consent"). If Sublessor has not obtained Master Lessor's Consent, on terms and conditions reasonably acceptable to Sublessor, within thirty (30) days after the date of Sublessor's execution of this Agreement, Sublessor or Sublessee may terminate this Agreement by giving the other party ten (10) days' prior written notice, in which case this Agreement shall terminate on the day following the last day of the ten (10)- day notice period (unless Master Lessor's Consent is obtained during such ten (10)- day period, in which case this Agreement shall remain in full force and effect), neither party shall have any further rights or obligations hereunder and the Sublease shall remain in full force and effect.

6. Representation of the Parties: Each party hereto represents that it has not made any assignment, sublease, transfer, conveyance or other disposition of the Sublease, or its interest in the Sublease, or any claim, demand, obligation, liability, action or cause of action arising from the Sublease. Each party represents that the person executing this Agreement on its behalf has the authority to bind the entity in question and to execute this Agreement.

7. Voluntary Agreement: The parties hereto have read this Agreement and the mutual releases contained in it and, on advice of counsel, they have freely and voluntarily entered into this Agreement.

8. Attorneys' Fees: If either party commences an action against the other party arising out of or in connection with this Agreement, the prevailing party shall be entitled to recover from the other party reasonable attorneys' fees and costs of suit.

9. Successors: This Agreement shall be binding on and inure to the benefit of the parties hereto and their respective heirs, successors and assigns.

10. Severability: If any term of this Agreement, or the application thereof to any person or circumstance, is held to be invalid or unenforceable, then the remainder of this Agreement or the application of such term to any other person or any other circumstance shall not be thereby affected, and each term shall remain valid

and enforceable to the fullest extent permitted by law unless a party validly demonstrates by a preponderance of the evidence that the invalidated provision was an essential economic term of this Agreement.

11. Governing Law: This Agreement shall be governed by and construed in accordance with the laws of the State of California.

12. Counterparts; Facsimile and PDF Signatures. This Consent may be executed in one or more counterparts and by separate parties on separate counterparts, each of which counterparts shall constitute an original and all of which counterparts together shall constitute one and the same instrument. Facsimile signatures and PDF format signatures sent by electronic mail shall be treated and have the same effect as original signatures.

IN WITNESS WHEREOF, Sublessor and Sublessee have executed this Sublease Termination Agreement as of the Reference Date given above.

SUBLESSOR:		SUBLESSEE:	
Theravance Biopharma US, Inc., a Delaware corporation		Innoviva, Inc., a Delaware corporation	
By:	/s/ Renee Gala	By:	/s/ Michael Aguiar
Title:	CFO	Title:	President and CEO
Date:	6/7/2016	Date:	6/7/2016

MASTER LESSOR'S CONSENT:

The undersigned hereby consents to the termination of the Sublease.

ARE-901/951 Gateway Boulevard, LLC,
a Delaware limited liability company

By: Alexandria Real Estate Equities, L.P.,
a Delaware limited partnership, managing member

By: ARE-QRD Corp.,
a Maryland corporation,
general partner

By: _____

Title: _____

PARTIAL TERMINATION AGREEMENT
dated as of May 16, 2016
Between INNOVIVA, INC. and BANK OF AMERICA, N.A.

THIS PARTIAL TERMINATION AGREEMENT (this "**Agreement**") with respect to the Capped Call Confirmations (as defined below) is made as of May 11, 2016, between Innoviva, Inc. ("**Company**") and Bank of America, N.A. ("**Dealer**").

WHEREAS, Company issued $287,500,000 principal amount of 2.125% Convertible Senior Notes due 2023 (the "**Convertible Notes**") pursuant to an Indenture dated as of January 24, 2013 between Company and The Bank of New York Mellon Trust Company, N.A., as trustee;

WHEREAS, in connection with the issuance of the Convertible Notes, Company and Dealer entered into a Base Capped Call Transaction (Transaction Reference Number: 138120785) (the "**Base Capped Call Transaction**") pursuant to an ISDA confirmation dated as of January 17, 2013, which supplements, forms a part of, and is subject to an agreement in the form of the 2002 ISDA Master Agreement, pursuant to which Company purchased from Dealer 250,000 call options (as amended, modified, terminated or unwound from time to time, the "**Base Capped Call Confirmation**");

WHEREAS, in connection with the exercise of the over-allotment option by the initial purchasers of the Convertible Notes, Company and Dealer entered into an Additional Capped Call Transaction (Transaction Reference Number: 138123249) (the "**Additional Capped Call Transaction**" and, together with the Base Capped Call Transaction, the "**Capped Call Transactions**") pursuant to an ISDA confirmation dated as of January 18, 2013, which supplements, forms a part of, and is subject to an agreement in the form of the 2002 ISDA Master Agreement, pursuant to which Company purchased from Dealer an additional 37,500 call options (as amended, modified, terminated or unwound from time to time, the "**Additional Capped Call Confirmation**" and, together with the Base Capped Call Confirmation, the "**Capped Call Confirmations**");

WHEREAS, on July 31, 2014, the Base Capped Call Confirmation was amended to reflect a partial termination of 32,391 options, leaving 217,609 options outstanding under the Based Capped Call Transaction following such partial termination and except as expressly modified therein, the Capped Call Confirmations, remained in full and effect; and

WHEREAS, in connection with a repurchase by Company of 10,000 Convertible Notes in $1,000 principal amount denominations (such number of Convertible Notes in $1,000 principal amount denominations, the "**Repurchase Number**"), Company has requested partial termination of the Additional Capped Call Transaction;

NOW, THEREFORE, in consideration of their mutual covenants herein contained, the parties hereto, intending to be legally bound, hereby mutually covenant and agree as follows:

1. Defined Terms. Any capitalized term not otherwise defined herein shall have the meaning set forth for such term in the Capped Call Confirmations.

2. Partial Termination. Notwithstanding anything to the contrary in the Capped Call Confirmations, Company and Dealer agree that, effective on the date hereof and following the partial termination contemplated hereby, the Number of Options remaining outstanding under the Additional Capped Call Transaction shall be reduced to 27,500, and in connection therewith Dealer shall be required to pay to Company the Cash Settlement Amount on the Payment Date pursuant to Sections 3 and 4 below.

3. Payments and Deliveries. On the third Scheduled Trading Day following the final Averaging Date (as defined below) or, if such day is not a Clearance System Business Day, on the next Clearance System Business Day immediately following such day (the "**Payment Date**"), Dealer shall pay to Company in immediately available funds cash in an amount equal to the Cash Settlement Amount. The "**Cash Settlement Amount**" shall mean an amount in US Dollars determined by Dealer according to the table set forth in Schedule A attached hereto (using linear interpolation or commercially reasonable extrapolation by Dealer, as applicable, to determine the Cash Settlement Amount for any Average VWAP not specifically appearing in Schedule A).

4. Valuation. "**Averaging Date**" means May 17, 2016 and the one Scheduled Trading Day thereafter (the period of consecutive Scheduled Trading Days from and including May 17, 2016 through the final Averaging Date being collectively referred to as the "**Termination Valuation Period**"); *provided, however*, that if any such date is a Disrupted Day

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in whole, such date shall not constitute an Averaging Date, and an additional Averaging Date shall occur on the Scheduled Trading Day after the date that would otherwise be the final Averaging Date. "**Average VWAP**" means the arithmetic average of the VWAP Prices for each Averaging Date during the Termination Valuation Period. "**VWAP Price**" for any Scheduled Trading Day means the per Share volume-weighted average price as displayed under the heading "Bloomberg VWAP" on Bloomberg page INVA <equity> AQR (or any successor thereto) in respect of the period from 9:30 am to 4:00 pm (New York City time) on such Scheduled Trading Day (or if such volume-weighted average price is unavailable, the market value of one Share on such Scheduled Trading Day for such time period, as determined by Dealer in a good faith, commercially reasonable manner). Notwithstanding the foregoing, if (i) any Scheduled Trading Day in the Termination Valuation Period is a Disrupted Day in part or (ii) Dealer determines in its commercially reasonable judgment that on any Scheduled Trading Day during the Termination Valuation Period that an extension of the Termination Valuation Period is reasonably necessary to preserve Dealer's hedge unwind activity hereunder in light of existing liquidity conditions or to enable Dealer to effect sales of Shares in connection with its hedge unwind activity hereunder in a manner that would be in compliance with applicable legal, regulatory or self-regulatory requirements, or with internal policies and procedures, then the VWAP Price for such Scheduled Trading Day(s) shall be the volume-weighted average price per Share on such Scheduled Trading Day on the Exchange for such time period, as determined by Dealer in a commercially reasonable manner and the Cash Settlement Amount shall be adjusted by Dealer in its good faith, commercially reasonable discretion to account for such disruption and/or extension.

5. Representations and Warranties of Company. Company represents and warrants to Dealer on the date hereof that:

(a) it has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and to perform its obligations under this Agreement and has taken all necessary action to authorize such execution, delivery and performance;

(b) such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any material contractual restriction binding on or affecting it or any of its assets;

(c) all governmental and other consents that are required to have been obtained by it with respect to this Agreement have been obtained and are in full force and effect and all conditions of any such consents have been complied with;

(d) its obligations under this Agreement constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law));

(e) each of it and its Affiliates is not in possession of any material nonpublic information regarding Company or the Shares; and

(f) it is not entering into this Agreement or purchasing to create actual or apparent trading activity in the Shares (or any security convertible into or exchangeable for the Shares) or to raise or depress or otherwise manipulate the price of the Shares (or any security convertible into or exchangeable for the Shares) or otherwise in violation of the Securities Exchange Act of 1934, as amended.

6. Representations and Warranties of Dealer. Dealer represents and warrants to Company on the date hereof that:

(a) it has the power to execute this Agreement and any other documentation relating to this Agreement to which it is a party, to deliver this Agreement and to perform its obligations under this Agreement and has taken all necessary action to authorize such execution, delivery and performance;

(b) such execution, delivery and performance do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any material contractual restriction binding on or affecting it or any of its assets;

(c) all governmental and other consents that are required to have been obtained by it with respect to this Agreement have been obtained and are in full force and effect and all conditions of any such consents have been complied with; and

(d) its obligations under this Agreement constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application (regardless of whether enforcement is sought in a proceeding in equity or at law)).

7. Account for Payment to Company:

8. Governing Law. This Agreement and any dispute arising hereunder shall be governed by and construed in accordance with the laws of the State of New York (without reference to choice of law doctrine).

9. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if all of the signatures thereto and hereto were upon the same instrument.

10. No Reliance, etc. Company confirms that it has relied on the advice of its own counsel and other advisors (to the extent it deems appropriate) with respect to any legal, tax, accounting, or regulatory consequences of this Agreement, that it has not relied on Dealer or its Affiliates in any respect in connection therewith, and that it will not hold Dealer or its Affiliates accountable for any such consequences.

11. Agreements and Acknowledgements Regarding Hedging. Company acknowledges and agrees that:

(a) during the Termination Valuation Period, Dealer and its Affiliates may buy or sell Shares or other securities or buy or sell options or futures contracts or enter into swaps or other derivative securities in order to adjust its hedge position with respect to this Agreement;

(b) Dealer and its Affiliates also may be active in the market for Shares other than in connection with hedging activities in relation to this Agreement;

(c) Dealer shall make its own determination as to whether, when or in what manner any hedging or market activities in Company's securities shall be conducted and shall do so in a manner that it deems appropriate to hedge its price and market risk with respect to the Average VWAP and/or the VWAP Price; and

(d) any market activities of Dealer and its Affiliates with respect to Shares may affect the market price and volatility of Shares, as well as the Average VWAP and/or the VWAP Price, each in a manner that may be adverse to Company.

12. Indemnification. In the event that Dealer or any of its Affiliates becomes involved in any capacity in any action, proceeding or investigation brought by or against any person in connection with any matter referred to in this Agreement, Company shall reimburse Dealer or such Affiliate for its reasonable legal and other out-of-pocket expenses (including the reasonable cost of any investigation and preparation) incurred in connection therewith within 90 days of receipt of written notice of such expenses, and shall indemnify and hold Dealer or such Affiliate harmless against any losses, claims, damages or liabilities to which Dealer or such Affiliate is subject to in connection with any such action, proceeding or investigation; provided, however, Company shall not indemnify Dealer or its Affiliates for any such losses, claims, damages, liabilities or expenses that result from, or relate to, the willful misconduct, fraud, gross negligence or bad faith of, or violation of applicable law or breach of this Agreement by, Dealer or any of its affiliates. If for any reason the foregoing indemnification is unavailable to Dealer or such Affiliate or insufficient to hold it harmless, then Company shall contribute to the amount paid or payable by Dealer or such Affiliate as a result of such losses, claims, damages or liabilities (i) in such proportion as is reasonably appropriate to reflect the relative benefits received by Company on the one hand and Dealer or such Affiliate on the other hand in the matters contemplated by this Agreement or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is reasonably appropriate to reflect not only the relative benefits received by Company on the one hand and Dealer or such Affiliate on the other hand in the matters contemplated by this Agreement but also

the relative fault of Company and Dealer or such Affiliate with respect to such losses, claims, damages or liabilities and any other relevant equitable considerations. The reimbursement, indemnity and contribution obligations of Company under this Section 12 shall be in addition to any liability that Company may otherwise have, shall extend upon the same terms and conditions to the partners, directors, officers, agents, employees and controlling persons (if any), as the case may be, of Dealer and its Affiliates and shall be binding upon and inure to the benefit of any successors,

assigns, heirs and personal representatives of Company, Dealer, any such Affiliate and any such person. Company also agrees that neither Dealer nor any of such Affiliates, partners, directors, officers, agents, employees or controlling persons shall have any liability to Company for or in connection with any matter referred to in this Agreement except to the extent that any losses, claims, damages, liabilities or expenses incurred by Company result from, or relate to, willful misconduct, fraud, the gross negligence or bad faith of, or violation of applicable law by, Dealer or any of its Affiliates or a breach by Dealer of any of its covenants or obligations hereunder. The foregoing provisions shall survive any termination or completion of the transactions contemplated by this Agreement.

13. No Other Changes. Except as expressly set forth herein, all of the terms and conditions of the Additional Capped Call Confirmation shall remain in full force and effect and are hereby confirmed in all respects.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first written above.

Bank of America, N.A.

By: /s/ Christopher A. Hutmaker
Name: Christopher A. Hutmaker
Title: Managing Director

Innoviva, Inc.

By: /s/ Eric d'Esparbes
Name: Eric d'Esparbes
Title: CFO

[*Signature Page to Termination Agreement*]

Schedule A

The Cash Settlement Amount shall be determined by Dealer according to the table below.

Average VWAP	Cash Settlement Amount
$ 11.50	$ 423,636
$ 11.30	$ 415,687
$ 11.10	$ 407,703
$ 10.90	$ 399,686
$ 10.70	$ 391,635
$ 10.50	$ 383,552
$ 10.30	$ 375,437
$ 10.10	$ 367,574
$ 9.90	$ 359,385
$ 9.70	$ 351,165
$ 9.50	$ 342,916

Dealer may (but is not obligated to) adjust the table above upon the occurrence of any event or condition that would have allowed Dealer or the Calculation Agent to adjust the terms of the Capped Call Transactions under the Capped Call Confirmations. Any such adjustment shall be made solely pursuant to, and in accordance with, the terms and conditions of the Capped Call Confirmations.

Exhibit 31.1

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

I, Michael W. Aguiar, 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: August 4, 2016

/s/ Michael W. Aguiar
Michael W. Aguiar
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certification of Chief 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: August 4, 2016

/s/ Eric d'Esparbes

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

Exhibit 32

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

I, Michael W. Aguiar, 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, 2016 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: August 4, 2016

By: /s/ Michael W. Aguiar
Michael W. Aguiar
Chief Executive Officer

CERTIFICATION OF CHIEF 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, 2016 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: August 4, 2016

By: /s/ Eric d’Esparbes
Eric d’Esparbes
Senior Vice President, Finance and Chief Financial Officer