
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from _____ to _____

Commission File Number: 000-30319

INNOVIVA, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

**1350 Old Bayshore Highway Suite 400
Burlingame, CA 94010**

(Address of Principal Executive Offices)

(650) 238-9600

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

The number of shares of registrant's common stock outstanding on October 22, 2019 was 101,279,069.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2019 (unaudited)	December 31, 2018 *
Assets		
Current assets:		
Cash and cash equivalents	\$ 172,946	\$ 62,417
Short-term marketable securities	124,255	52,491
Related party receivables from collaborative arrangements	69,211	83,286
Prepaid expenses and other current assets	383	849
Total current assets	366,795	199,043
Property and equipment, net	24	160
Capitalized fees paid to a related party, net	142,531	152,899
Deferred tax assets	166,555	196,054
Other assets	48	37
Total assets	\$ 675,953	\$ 548,193
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 35	\$ 11
Accrued personnel-related expenses	509	470
Accrued interest payable	1,773	4,264
Other accrued liabilities	1,012	955
Total current liabilities	3,329	5,700
Long-term debt, net of discount and issuance costs	388,644	382,855
Other long-term liabilities	217	586
Commitments and contingencies		
Stockholders' equity:		
Preferred stock: \$0.01 par value, 230 shares authorized, no shares issued and outstanding	—	—
Common stock: \$0.01 par value, 200,000 shares authorized, 101,279 and 101,098 issued and outstanding as of September 30, 2019 and December 31, 2018, respectively	1,013	1,011
Additional paid-in capital	1,258,370	1,256,267
Accumulated other comprehensive income (loss)	25	(3)
Accumulated deficit	(992,353)	(1,103,692)
Total Innoviva stockholders' equity	267,055	153,583
Noncontrolling interest	16,708	5,469
Total stockholders' equity	283,763	159,052
Total liabilities and stockholders' equity	\$ 675,953	\$ 548,193

* Condensed consolidated balance sheet as of December 31, 2018 has been derived from audited consolidated financial statements.

See accompanying notes to condensed consolidated financial statements.

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Royalty revenue from a related party, net of amortization of capitalized fees paid to a related party of \$3,456 in the three months ended September 30, 2019 and 2018, and \$10,368 in the nine months ended September 30, 2019 and 2018	\$ 65,755	\$ 61,680	\$ 185,045	\$ 181,146
Operating expenses:				
General and administrative	4,962	4,019	12,324	17,415
General and administrative - related party	—	—	—	2,700
Total operating expenses	<u>4,962</u>	<u>4,019</u>	<u>12,324</u>	<u>20,115</u>
Income from operations	60,793	57,661	172,721	161,031
Other expense, net	(115)	(2,626)	(122)	(5,686)
Interest income	1,624	370	4,002	1,141
Interest expense	(4,693)	(5,238)	(13,971)	(19,373)
Income before income taxes	<u>57,609</u>	<u>50,167</u>	<u>162,630</u>	<u>137,113</u>
Income tax expense, net	10,558	—	29,499	—
Net income	47,051	50,167	133,131	137,113
Net income attributable to noncontrolling interest	7,242	3,078	21,792	5,817
Net income attributable to Innoviva stockholders	<u>\$ 39,809</u>	<u>\$ 47,089</u>	<u>\$ 111,339</u>	<u>\$ 131,296</u>
Basic net income per share attributable to Innoviva stockholders	<u>\$ 0.39</u>	<u>\$ 0.47</u>	<u>\$ 1.10</u>	<u>\$ 1.30</u>
Diluted net income per share attributable to Innoviva stockholders	<u>\$ 0.36</u>	<u>\$ 0.43</u>	<u>\$ 1.01</u>	<u>\$ 1.19</u>
Shares used to compute Innoviva basic and diluted net income per share:				
Shares used to compute basic net income per share	<u>101,191</u>	<u>100,936</u>	<u>101,134</u>	<u>100,806</u>
Shares used to compute diluted net income per share	<u>113,415</u>	<u>113,363</u>	<u>113,394</u>	<u>113,444</u>

See accompanying notes to condensed consolidated financial statements.

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net income	\$ 47,051	\$ 50,167	\$ 133,131	\$ 137,113
Unrealized gain (loss) on marketable securities, net	(8)	7	28	15
Comprehensive income	47,043	50,174	133,159	137,128
Comprehensive income attributable to noncontrolling interest	7,242	3,078	21,792	5,817
Comprehensive income attributable to Innoviva stockholders	<u>\$ 39,801</u>	<u>\$ 47,096</u>	<u>\$ 111,367</u>	<u>\$ 131,311</u>

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2019						
	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interest	Total Stockholders' Equity
Balance as of December 31, 2018	101,098	\$ 1,011	\$ 1,256,267	\$ (3)	\$ (1,103,692)	\$ 5,469	\$ 159,052
Exercise of stock options, and issuance of common stock units and stock awards, net of repurchase of shares to satisfy tax withholding	85	1	253	—	—	—	254
Stock-based compensation	—	—	605	—	—	—	605
Net income	—	—	—	—	33,790	6,229	40,019
Other comprehensive income	—	—	—	13	—	—	13
Balance as of March 31, 2019	<u>101,183</u>	<u>1,012</u>	<u>1,257,125</u>	<u>10</u>	<u>(1,069,902)</u>	<u>11,698</u>	<u>199,943</u>
Exercise of stock options, and issuance of common stock units and stock awards, net of repurchase of shares to satisfy tax withholding	89	1	200	—	—	—	201
Stock-based compensation	—	—	474	—	—	—	474
Net income	—	—	—	—	37,740	8,321	46,061
Other comprehensive income	—	—	—	23	—	—	23
Balance as of June 30, 2019	<u>101,272</u>	<u>1,013</u>	<u>1,257,799</u>	<u>33</u>	<u>(1,032,162)</u>	<u>20,019</u>	<u>246,702</u>
Distributions to noncontrolling interest	—	—	—	—	—	(10,553)	(10,553)
Exercise of stock options, and issuance of common stock units and stock awards, net of repurchase of shares to satisfy tax withholding	7	—	82	—	—	—	82
Stock-based compensation	—	—	489	—	—	—	489
Net income	—	—	—	—	39,809	7,242	47,051
Other comprehensive loss	—	—	—	(8)	—	—	(8)
Balance as of September 30, 2019	<u>101,279</u>	<u>\$ 1,013</u>	<u>\$ 1,258,370</u>	<u>\$ 25</u>	<u>\$ (992,353)</u>	<u>\$ 16,708</u>	<u>\$ 283,763</u>

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	Nine Months Ended September 30, 2018								
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock		Noncontrolling Interest	Total Stockholders' Deficit
	Shares	Amount				Shares	Amount		
Balance as of December 31, 2017	102,046	\$ 1,019	\$ 1,258,151	\$ (18)	\$ (1,498,748)	(150)	\$ (3,263)	\$ 152	\$ (242,707)
Distributions to noncontrolling interest	—	—	—	—	—	—	—	(90)	(90)
Exercise of stock options, and issuance of common stock units and stock awards, net of cancellation of stock awards and repurchase of shares to satisfy tax withholding	(571)	(5)	(2,492)	—	—	—	—	—	(2,497)
Stock-based compensation	—	—	2,169	—	—	—	—	—	2,169
Cash dividend forfeited	—	—	52	—	—	—	—	—	52
Net income	—	—	—	—	29,581	—	—	749	30,330
Other comprehensive loss	—	—	—	(4)	—	—	—	—	(4)
Balance as of March 31, 2018	101,475	1,014	1,257,880	(22)	(1,469,167)	(150)	(3,263)	811	(212,747)
Distributions to noncontrolling interest	—	—	—	—	—	—	—	(809)	(809)
Exercise of stock options, and issuance of common stock units and stock awards, net of cancellation of stock awards and repurchase of shares to satisfy tax withholding	182	1	110	—	—	—	—	—	111
Stock-based compensation	—	—	1,452	—	—	—	—	—	1,452
Cash dividend forfeited	—	—	1	—	—	—	—	—	1
Net income	—	—	—	—	54,626	—	—	1,990	56,616
Other comprehensive income	—	—	—	12	—	—	—	—	12
Balance as of June 30, 2018	101,657	1,015	1,259,443	(10)	(1,414,541)	(150)	(3,263)	1,992	(155,364)
Distributions to noncontrolling interest	—	—	—	—	—	—	—	(1,989)	(1,989)
Exercise of stock options, and issuance of common stock units and stock awards, net of cancellation of stock awards and repurchase of shares to satisfy tax withholding	(468)	(4)	(238)	—	—	—	—	—	(242)
Stock-based compensation	—	—	(874)	—	—	—	—	—	(874)
Cash dividend forfeited	—	—	19	—	—	—	—	—	19
Net income	—	—	—	—	47,089	—	—	3,078	50,167
Other comprehensive income	—	—	—	7	—	—	—	—	7
Balance as of September 30, 2018	101,189	\$ 1,011	\$ 1,258,350	\$ (3)	\$ (1,367,452)	(150)	\$ (3,263)	\$ 3,081	\$ (108,276)

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities		
Net income	\$ 133,131	\$ 137,113
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	29,499	—
Depreciation and amortization	10,400	10,404
Stock-based compensation	1,568	2,747
Amortization of debt discount and issuance costs	5,789	5,895
Amortization of discount on short-term investments	(1,739)	(224)
Amortization of lease guarantee	(243)	(243)
Loss on write-off of property and equipment	104	—
Loss on extinguishment of debt	—	5,745
Changes in operating assets and liabilities:		
Receivables from collaborative arrangements	14,075	5,404
Prepaid expenses and other current assets	466	241
Other assets	(11)	—
Accounts payable	24	(492)
Accrued personnel-related expenses and other accrued liabilities	107	(695)
Accrued interest payable	(2,491)	(4,145)
Other long-term liabilities	(126)	4
Net cash provided by operating activities	<u>190,553</u>	<u>161,754</u>
Cash flows from investing activities		
Maturities of marketable securities	160,925	71,375
Purchases of marketable securities	(230,922)	(22,262)
Net cash provided by (used in) investing activities	<u>(69,997)</u>	<u>49,113</u>
Cash flows from financing activities		
Repurchase of shares to satisfy tax withholding	(81)	(3,082)
Payments of principal on senior secured term loans	—	(230,000)
Payments of cash dividends to stockholders	(11)	(72)
Proceeds from issuances of common stock, net	618	454
Distributions to noncontrolling interest	(10,553)	(2,888)
Net cash used in financing activities	<u>(10,027)</u>	<u>(235,588)</u>
Net increase (decrease) in cash and cash equivalents	110,529	(24,721)
Cash and cash equivalents at beginning of period	62,417	73,336
Cash and cash equivalents at end of period	<u>\$ 172,946</u>	<u>\$ 48,615</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 10,674	\$ 17,622

See accompanying notes to condensed consolidated financial statements.

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

1. Description of Operations and Summary of Significant Accounting Policies

Description of Operations

Innoviva, Inc. (referred to as “Innoviva”, the “Company”, or “we” and other similar pronouns) is focused on royalty management. Innoviva’s portfolio includes the respiratory assets partnered with Glaxo Group Limited (“GSK”), including RELVAR®/BREO®ELLIPTA® (fluticasone furoate/ vilanterol, “FF/VI”), ANORO® ELLIPTA® (umeclidinium bromide/ vilanterol, “UMEC/VI”) and TRELEGY® ELLIPTA® (the combination FF/UMEC/VI). Under the Long-Acting Beta2 Agonist (“LABA”) Collaboration Agreement, Innoviva is entitled to receive royalties from GSK on sales of RELVAR®/BREO® ELLIPTA® as follows: 15% on the first \$3.0 billion of annual global net sales and 5% for all annual global net sales above \$3.0 billion; and royalties from the sales of and ANORO® ELLIPTA® which tier upward at a range from 6.5% to 10%. Innoviva is also entitled to 15% of royalty payments made by GSK under its agreements originally entered into with us, and since assigned to Theravance Respiratory Company, LLC (“TRC”), including TRELEGY® ELLIPTA® and any other product or combination of products that may be discovered or developed in the future under the LABA Collaboration Agreement and the Strategic Alliance Agreement with GSK (referred to herein as the “GSK Agreements”), which have been assigned to TRC other than RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA®.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) for interim financial information. Accordingly, they do not include all of the information and notes required by US 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, 2019 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, 2018 filed with the Securities and Exchange Commission (“SEC”) on February 19, 2019 (“2018 Form 10-K”).

Variable Interest Entity

We evaluate our ownership, contractual and other interest in entities to determine if they are variable interest entities (“VIE”), whether we have a variable interest in those entities and the nature and extent of those interests. Based on our evaluation, if we determine we are the primary beneficiary of a VIE, we consolidate the entity 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. As of September 30, 2019 and December 31, 2018, \$11.2 million and \$6.4 million, respectively, of the related party receivables from collaborative arrangements were attributable to TRC. The cash balance attributable to TRC as of September 30, 2019 was \$11.2 million. Total revenue for TRC related to TRELEGY® ELLIPTA® was \$11.2 million and \$3.6 million for the three months ended September 30, 2019 and 2018, respectively, and \$28.4 million and \$6.9 million for the nine months ended September 30, 2019 and 2018, respectively. Total operating expenses were \$2.8 million and \$2.9 million for the three and nine months ended September 30, 2019, respectively, compared to minimal amounts for the same periods in 2018. The expenses were primarily related to an arbitration initiated by Theravance Biopharma against the Company and TRC, as further described in Item 1 of Part II of this Form 10-Q entitled “Legal Proceedings”.

Accounting Pronouncement Adopted by the Company

In February 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases* (Topic 842), which requires an entity to recognize right of use assets representing its right to use the underlying asset for the lease term and lease liabilities representing the present value of the future lease payments for both financing and operating leases on its consolidated balance sheets. For a lease with a term of 12 months or less, the standard allows an entity to elect not to recognize a right-of-use asset and a lease liability and recognize the lease expense on a straight-line basis. We adopted the standard on

the effective date of January 1, 2019 using the alternative transition approach. This approach is similar to a prospective transition, which requires the application of ASC 842 at the effective date with a cumulative-effect adjustment recognized through retained earnings. Under this approach, we do not present the adjusted comparative periods. Our pro-rata share of common area expenses are recorded as lease expense when incurred since they are variable and considered non-lease components under the standard. The most significant impact of the adoption to us is that we recognized a right-of-use asset in the amount of \$1.5 million and lease liabilities in the total amount of \$1.6 million at January 1, 2019 for the operating lease on our corporate headquarters. The adoption did not have a material impact on our retained earnings and consolidated statements of income and cash flows. On September 13, 2019, we executed a lease termination agreement on this lease and as a result, we reversed \$1.3 million and \$1.4 million, representing the carrying amounts of the right-of-use asset and lease liabilities, respectively, as of the termination date (see Note 9).

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

2. Net Income Per Share

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

Our convertible senior notes due 2025 (the “2025 Notes”) are convertible, based on the applicable conversion rate, into cash, shares of our common stock or a combination thereof, at our election. Our current intent is to settle the principal amount of the 2025 Notes in cash upon conversion. The impact of the assumed conversion premium to diluted net income per share is computed using the treasury stock method. As the average market price per share of our common stock as reported on The Nasdaq Global Select Market during the relevant periods was lower than the initial conversion price of \$17.26 per share, there was no dilutive effect of the assumed conversion premium for the three and nine months ended September 30, 2019 and 2018, respectively.

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The following table shows the computation of basic and diluted net income per share for the three and nine months ended September 30, 2019 and 2018:

(In thousands except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator:				
Net income attributable to Innoviva stockholders, basic	\$ 39,809	\$ 47,089	\$ 111,339	\$ 131,296
Add: interest expense on 2023 Notes	1,157	1,413	3,482	4,242
Net income attributable to Innoviva stockholders, diluted	<u>\$ 40,966</u>	<u>\$ 48,502</u>	<u>\$ 114,821</u>	<u>\$ 135,538</u>
Denominator:				
Weighted-average shares used to compute basic net income per share attributable to Innoviva stockholders	101,191	100,936	101,134	100,806
Dilutive effect of 2023 Notes	12,189	12,189	12,189	12,189
Dilutive effect of options and awards granted under equity incentive plan and employee stock purchase plan	35	238	71	449
Weighted-average shares used to compute diluted net income per share attributable to Innoviva stockholders	<u>113,415</u>	<u>113,363</u>	<u>113,394</u>	<u>113,444</u>
Net income per share attributable to Innoviva stockholders				
Basic	<u>\$ 0.39</u>	<u>\$ 0.47</u>	<u>\$ 1.10</u>	<u>\$ 1.30</u>
Diluted	<u>\$ 0.36</u>	<u>\$ 0.43</u>	<u>\$ 1.01</u>	<u>\$ 1.19</u>

Anti-Dilutive Securities

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

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Outstanding options and awards granted under equity incentive plan and employee stock purchase plan	1,144	1,557	1,128	1,561

3. Revenue Recognition and Collaborative Arrangements

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

Net Revenue from Collaborative Arrangements

Net revenue recognized under our GSK Agreements was as follows:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Royalties from a related party - RELVAR/BREO	\$ 46,433	\$ 51,745	\$ 136,259	\$ 155,420
Royalties from a related party - ANORO	11,548	9,769	30,753	29,149
Royalties from a related party - TRELEGY	11,230	3,622	28,401	6,945
Total royalties from a related party	69,211	65,136	195,413	191,514
Less: amortization of capitalized fees paid to a related party	<u>(3,456)</u>	<u>(3,456)</u>	<u>(10,368)</u>	<u>(10,368)</u>
Royalty revenue from GSK	<u>\$ 65,755</u>	<u>\$ 61,680</u>	<u>\$ 185,045</u>	<u>\$ 181,146</u>

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

Available-for-Sale Securities

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

September 30, 2019				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government securities	\$ 91,440	\$ 26	\$ (1)	\$ 91,465
U.S. commercial paper	54,356	—	—	54,356
Money market funds	101,636	—	—	101,636
Total	<u>\$ 247,432</u>	<u>\$ 26</u>	<u>\$ (1)</u>	<u>\$ 247,457</u>

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

As of September 30, 2019, 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.

Fair Value Measurements

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

Estimated Fair Value Measurements as of September 30, 2019 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
<i>Assets</i>				
U.S. government securities	\$ —	\$ 91,465	\$ —	\$ 91,465
U.S. commercial paper	—	54,356	—	54,356
Money market funds	101,636	—	—	101,636
Total assets measured at estimated fair value	<u>\$ 101,636</u>	<u>\$ 145,821</u>	<u>\$ —</u>	<u>\$ 247,457</u>
<i>Debt</i>				
Term B Loan	\$ —	\$ 13,750	\$ —	\$ 13,750
2023 Notes	—	226,139	—	226,139
2025 Notes	—	182,729	—	182,729
Total fair value of debt	<u>\$ —</u>	<u>\$ 422,618</u>	<u>\$ —</u>	<u>\$ 422,618</u>

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

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

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

5. Stock-Based Compensation

Market-Based RSAs and RSUs

2016 Market-Based RSAs and RSUs

On January 14, 2016, the Compensation Committee approved and granted 282,394 RSAs and 46,294 RSUs to senior management. These awards include a market condition based on Total Shareholder Return (“TSR”) and a service condition that requires continued employment.

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

In August and September 2018, the remaining 34,722 RSAs and 15,432 RSUs were forfeited due to the additional separation of senior management members, and \$0.2 million of previously recognized compensation expense was reversed.

2017 Market-Based RSAs and RSUs

On January 17, 2017, the Compensation Committee approved and granted 353,508 RSAs and 53,360 RSUs to senior management. These awards include a market condition based on the TSR of Innoviva’s common stock as compared to the TSR of NASDAQ Biotechnology Index (“Index”) and a service condition that requires continued employment.

In connection with the separation of certain members of senior management from the Company in February 2018, an aggregate of 233,448 RSAs were forfeited, and \$0.8 million of previously recognized compensation expense was reversed during the three months ended June 30, 2018.

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In August and September 2018, the remaining 120,060 RSAs and 53,360 RSUs were forfeited due to the additional separation of senior management members, and \$0.9 million of previously recognized compensation expense was reversed.

2018 Market-Based RSAs and RSUs

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

In August and September 2018, all of 111,668 RSAs and 49,630 RSUs were forfeited, and \$0.2 million of previously recognized compensation expense was reversed due to the separation of these senior management members.

Stock-Based Compensation Expense

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

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
General and administrative	\$ 489	\$ (874)	\$ 1,568	\$ 2,747

For the three months ended September 30, 2018, \$1.9 million of stock-based compensation was reversed for the forfeited market-based awards and service-based awards noted above due to the separation of senior management members.

As of September 30, 2019, unrecognized stock-based compensation cost was as follows:

(In thousands)	Unrecognized Compensation Cost
RSUs	\$ 733
RSAs	1,067
Total unrecognized compensation cost	\$ 1,800

6. Debt

Our debt consists of:

(In thousands)	September 30, 2019	December 31, 2018
Term B Loan	\$ 13,750	\$ 13,750
2023 Notes	240,984	240,984
2025 Notes	192,500	192,500
Total debt	447,234	447,234
Unamortized debt discount and issuance costs	(58,590)	(64,379)
Net long-term debt	\$ 388,644	\$ 382,855

Prepayments of Senior Secured Term Loans

On February 28 and August 1, 2018, we prepaid the principal balance of the Term B Loan by \$120.0 million and \$110.0 million, respectively. With the prepayments, we incurred a loss on the extinguishment of debt of \$3.1 million and \$2.6 million, respectively, representing unamortized debt issuance costs. The loss on the extinguishment of debt is presented as part of other expense, net in our consolidated statements of income. As of September 30, 2019, the outstanding principal balance of the Term B Loan was \$13.8 million and will mature in August 2022.

Convertible Senior Notes Due 2025

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

Our outstanding 2025 Notes balances consisted of the following:

<u>(In thousands)</u>	<u>September 30,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Liability component		
Principal	\$ 192,500	\$ 192,500
Debt discount and issuance costs, net	(56,448)	(61,766)
Net carrying amount	<u>\$ 136,052</u>	<u>\$ 130,734</u>
Equity component, net	<u>\$ 65,361</u>	<u>\$ 65,361</u>

The following table sets forth total interest expense recognized related to the 2025 Notes for the three and nine months ended September 30, 2019 and 2018:

<u>(In thousands)</u>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Contractual interest expense	\$ 1,203	\$ 1,203	\$ 3,609	\$ 3,596
Amortization of debt issuance costs	139	127	408	375
Amortization of debt discount	1,673	1,532	4,909	4,507
Total interest and amortization expense	<u>\$ 3,015</u>	<u>\$ 2,862</u>	<u>\$ 8,926</u>	<u>\$ 8,478</u>

Debt Maturities

The aggregate scheduled maturities of our long-term debt as of September 30, 2019, are as follows:

<u>(In thousands)</u>	
Years ending December 31:	
2019 to 2021	\$ —
2022	13,750
2023	240,984
Thereafter	<u>192,500</u>
Total	<u>\$ 447,234</u>

7. Related Party Transaction

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

8. Income Taxes

Provisional income tax expense for the three and nine months ended September 30, 2019 was \$10.6 million and \$29.5 million, respectively, compared to minimal amounts for the same periods in 2018 as a full valuation allowance was maintained on the Company's gross deferred taxes. The difference between the Company's effective income tax rate of 18% for the nine months ended September 30, 2019 and the U.S. federal statutory rate of 21% is primarily attributable to state income tax, non-deductible expenses and noncontrolling interest.

9. Lease

In September 2019, we terminated the operating lease for our corporate headquarters in Brisbane, California and entered into a new operating lease in Burlingame, California. The commencement date of the new lease is anticipated to be in early November due to the office updates.

In connection with the termination of the lease, we incurred \$0.6 million termination related fees. We reversed the carrying amounts of the right-of-use asset and the lease liabilities that were accounted for at the time of the adoption of ASC 842 as discussed in Note 1.

The total operating lease expense was \$0.1 million for the three months ended September 30, 2019 and 2018, respectively; and \$0.3 million for the nine months ended September 30, 2019 and 2018, respectively.

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

Forward-Looking Statements

The information in this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (“Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements involve substantial risks, uncertainties and assumptions. All statements contained herein that are not of historical fact, including, without limitation, statements regarding our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans, intentions, expectations, goals and objectives, may be forward-looking statements. The words “anticipates,” “believes,” “could,” “designed,” “estimates,” “expects,” “goal,” “intends,” “may,” “objective,” “plans,” “projects,” “pursue,” “will,” “would” and similar expressions (including the negatives thereof) are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions, expectations or objectives disclosed in our forward-looking statements and the assumptions underlying our forward-looking statements may prove incorrect. Therefore, you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions, expectations and objectives disclosed in the forward-looking statements that we make. All written and verbal forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Important factors that we believe could cause actual results or events to differ materially from our forward-looking statements include, but are not limited to, risks related to: lower than expected future royalty revenue from respiratory products partnered with GSK; the commercialization of RELVAR®/BREO® ELLIPTA®, ANORO® ELLIPTA® and TRELEGY® ELLIPTA® in the jurisdictions in which these products have been approved; the strategies, plans and objectives of the Company (including the Company’s growth strategy and corporate development initiatives beyond the existing respiratory portfolio); the timing, manner and amount of potential capital returns to stockholders; the status and timing of clinical studies, data analysis and communication of results; the potential benefits and mechanisms of action of product candidates; expectations for product candidates through development and commercialization; the timing of regulatory approval of product candidates; projections of revenue, expenses and other financial items; and risks discussed in “Risk Factors” in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission (“SEC”) on February 19, 2019 (“2018 Form 10-K”) and Item 1A of Part II of our Quarterly Reports on Form 10-Q and below in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Item 2 of Part I. All forward-looking statements in this Quarterly Report on Form 10-Q are based on current expectations as of the date hereof and we do not assume any obligation to update any forward-looking statements on account of new information, future events or otherwise, except as required by law.

We encourage you to read our consolidated financial statements contained in this Quarterly Report on Form 10-Q. We also encourage you to read Item 1A of Part I of our 2018 Form 10-K and Item 1A of Part II of our Quarterly Reports on Form 10-Q entitled “Risk Factors,” which contain a more complete discussion of the risks and uncertainties associated with our business. In addition to the risks described above and in Item 1A of Part I of our 2018 Form 10-K and Item 1A of Part II of this report, other unknown or unpredictable factors also could affect our results. Therefore, the information in this report should be read together with other reports and documents that we file with the SEC from time to time, including on Form 10-K, Form 10-Q and Form 8-K, which may supplement, modify, supersede or update those risk factors. As a result of these factors, we cannot assure you that the forward-looking statements in this report will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all.

OVERVIEW

Executive Summary

Innoviva, Inc. (“Innoviva”, the “Company” or “we”) is focused on royalty management. Innoviva’s portfolio includes the respiratory assets partnered with Glaxo Group Limited (“GSK”), including RELVAR®/BREO® ELLIPTA® (fluticasone furoate/ vilanterol, “FF/VI”), ANORO® ELLIPTA® (umeclidinium bromide/ vilanterol, “UMEC/VI”) and TRELEGY® ELLIPTA® (the combination FF/UMEC/VI). Under the Long-Acting Beta2 Agonist (“LABA”) Collaboration Agreement, Innoviva is entitled to receive royalties from GSK on sales of RELVAR®/BREO® ELLIPTA® as follows: 15% on the first \$3.0 billion of annual global net sales and 5% for all annual global net sales above \$3.0 billion; and royalties from the sales of ANORO® ELLIPTA®, which tier upward at a range from 6.5% to 10%. Innoviva is also entitled to 15% of royalty payments made by GSK under its agreements originally entered into with us, and since assigned to Theravance Respiratory Company, LLC (“TRC”), including TRELEGY® ELLIPTA® and any other product or combination of products that may be discovered or developed in the future under the LABA Collaboration Agreement and the Strategic Alliance Agreement with GSK (referred to herein as the “GSK Agreements”), which have been assigned to TRC other than RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA®.

Our company structure and organization are tailored to our focused activities of managing our respiratory assets with GSK, the commercial and developmental obligations associated with the GSK Agreements, intellectual property, licensing operations, business development activities and providing for certain essential reporting and management functions of a public company. As of September 30, 2019, we had six employees. Our revenues consist of royalties from our respiratory partnership agreements with GSK.

Recent Highlights

- GSK Net Sales:
 - Third quarter 2019 net sales of RELVAR®/BREO® ELLIPTA® by GSK were \$309.5 million, down 10% from \$344.9 million in the third quarter of 2018, with \$122.3 million in net sales from the U.S. market and \$187.2 million from non-U.S. markets.
 - Third quarter 2019 net sales of ANORO® ELLIPTA® by GSK were \$177.7 million, up 18% from \$150.8 million in the third quarter of 2018, with \$116.4 million net sales from the U.S. market and \$61.3 million from non-U.S. markets.
 - Third quarter 2019 net sales of TRELEGY® ELLIPTA® by GSK were \$172.8 million, up significantly from \$55.7 million in the third quarter of 2018, with \$129.6 million in net sales from the U.S. market and \$43.2 million in net sales from non-U.S. markets.

Collaborative Arrangements with GSK

LABA Collaboration

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

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

2004 Strategic Alliance

In March 2004, we entered into the Strategic Alliance Agreement with GSK where GSK received an option to license exclusive development and commercialization rights to product candidates from certain of our discovery programs on pre-determined terms and on an exclusive, worldwide basis. In 2005, GSK licensed our Bifunctional Muscarinic Antagonist-Beta2 Agonist ("MABA") program for the treatment of COPD, and in October 2011, we and GSK expanded the MABA program by adding six additional Innoviva-discovered preclinical MABA compounds (the "Additional MABAs"). The development program has been funded in full by GSK. GSK is in the process of determining next steps for the program. For a detailed discussion of our alliance with GSK, see Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our 2018 Form 10-K.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported revenue generated and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016 02, *Leases* (Topic 842), which requires an entity to recognize right of use assets representing its right to use the underlying asset for the lease term and lease liabilities representing the present value of the future lease payments for both financing and operating leases on its consolidated balance sheets. For a lease with a term of 12 months or less, the standard allows an entity to elect not to recognize a right-of-use asset and a lease liability and recognize the lease expense on a straight-line basis. We adopted the standard on the effective date of January 1, 2019 using the alternative transition approach. This approach is similar to a prospective transition, which requires the application of ASC 842 at the effective date with a cumulative-effect adjustment recognized through retained earnings. Under this approach, we do not present the adjusted comparative periods. Our pro-rata share of common area expenses are recorded as lease expense when incurred since they are variable and considered non-lease components under the standard. The most significant impact of the adoption to us is that we recognized a right-of-use asset in the amount of \$1.5 million and lease liabilities in the total amount of \$1.6 million at January 1, 2019 for the operating lease on our corporate headquarters. The adoption did not have a material impact on our retained earnings and consolidated statements of income and cash flows. On September 13, 2019, we executed a lease termination agreement on this lease and as a result, we reversed \$1.4 million and \$1.3 million, representing the carrying amounts of the right-of-use asset and lease liabilities, respectively, as of the termination date.

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, 2018 filed with the SEC on February 19, 2019 provides a more complete discussion of our critical accounting policies and estimates.

Results of Operations

Net Revenue

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

(In thousands)	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2018	\$	%	2019	2018	\$	%
Royalties from a related party - RELVAR/BREO	\$ 46,433	\$ 51,745	\$ (5,312)	(10)%	\$ 136,259	\$ 155,420	\$ (19,161)	(12)%
Royalties from a related party - ANORO	11,548	9,769	1,779	18 %	30,753	29,149	1,604	6 %
Royalties from a related party - TRELEGY	11,230	3,622	7,608	*	28,401	6,945	21,456	*
Total royalties from a related party	69,211	65,136	4,075	6 %	195,413	191,514	3,899	2 %
Less: amortization of capitalized fees paid to a related party	(3,456)	(3,456)	—	—	(10,368)	(10,368)	—	—
Royalty revenue from GSK	\$ 65,755	\$ 61,680	\$ 4,075	7 %	\$ 185,045	\$ 181,146	\$ 3,899	2 %

* Not meaningful

Total net revenue increased to \$65.8 million and \$185.0 million for the three and nine months ended September 30, 2019, compared to \$61.7 million and \$181.1 million, respectively, for the same periods a year ago. Royalties for RELVAR®/BREO® ELLIPTA® were lower primarily due to the increasing pricing pressure in the U.S., offset by the volume growth in both U.S. and non-U.S. markets. ANORO® ELLIPTA® maintained its steady volume growth, offset by the increasing pricing pressure in the U.S. Growth in prescriptions and market share for TRELEGY® ELLIPTA® continued quarter over quarter.

General & Administrative

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

(In thousands)	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2018	\$	%	2019	2018	\$	%
General and administrative expenses	\$ 4,962	\$ 4,019	\$ 943	23 %	\$ 12,324	\$ 17,415	\$ (5,091)	(29)%
General and administrative expenses - related party	—	—	—	—	—	2,700	(2,700)	—

General and administrative expenses for the three months ended September 30, 2019 were slightly higher, compared to the same period in 2018. The amount for the three months ended September 30, 2019 includes \$2.8 million legal and related fees incurred for the arbitration initiated by Theravance Biopharma against the Company and TRC, as further described in Item 1 of Part II of this Form 10-Q entitled "Legal Proceedings". On September 26, 2019, the arbitrator issued a final decision. These costs were accounted for as TRC's expenses and consolidated in the Company's consolidated statements of income. The amount for the three months ended September 30, 2018 included \$2.5 million cash severance costs and a reversal of \$1.9 million stock-based compensation expense in connection with the separation of senior management members.

General and administrative expenses for the nine months ended September 30, 2019 were \$12.3 million compared with \$17.4 million in the nine months ended September 30, 2018, a decrease of \$5.1 million mainly attributable to lower personnel-related expenses as a result of lower headcount. The amount for the nine months ended September 30, 2019 includes \$3.1 million legal and related fees incurred for the arbitration, of which \$2.8 million was accounted for as TRC's expenses and consolidated in the Company's consolidated statements of income. The amount for the nine months ended September 30, 2018 included \$5.7 million cash severance payments in connection with certain members of senior management's separation from the Company and payment of \$2.7 million to Sarissa to partially reimburse expenses pursuant to a settlement agreement in February 2018.

Other Income (Expense), net and Interest Income

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

(In thousands)	Three Months Ended September 30,		Change	Nine Months Ended September 30,		Change
	2019	2018		2019	2018	
Other expense, net	\$ (115)	\$ (2,626)	\$ 2,511	\$ (122)	\$ (5,686)	\$ 5,564

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Interest income	1,624	370	1,254	4,002	1,141	2,861
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Other income (expense), net for the three and nine months ended September 30, 2018 mainly consists of the loss on the extinguishment of debt of \$2.6 million and \$5.7 million, respectively, in relation to the prepayments of our Term B Loan.

Interest income increased for the three and nine months ended September 30, 2019, as compared to the same periods a year ago primarily due to higher cash and investment balances.

Interest Expense

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

(In thousands)	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2018	\$	%	2019	2018	\$	%
Interest expense	\$ 4,693	\$ 5,238	\$ (545)	(10)%	\$ 13,971	\$ 19,373	\$ (5,402)	(28)%

Interest expense decreased for the three and nine months ended September 30, 2019, compared to the same periods a year ago primarily due to the lower average outstanding debt balance. See “Liquidity” section below for further information.

Provision for Income Taxes

The provisional income tax expense for the three and nine months ended September 30, 2019 was \$10.6 million and \$29.5 million, respectively, with an effective income tax rate of 18%, compared to immaterial amounts in the same periods a year ago as a full valuation allowance was maintained on our gross deferred taxes.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest, as compared to the prior period, was as follows:

(In thousands)	Three Months Ended September 30,		Change	Nine Months Ended September 30,		Change
	2019	2018		2019	2018	
Net income attributable to noncontrolling interest	\$ 7,242	\$ 3,078	\$ 4,164	\$ 21,792	\$ 5,817	\$ 15,975

This represents the 85% share of net income in Theravance Respiratory Company, LLC for Theravance Biopharma for the three and nine months ended September 30, 2019 and 2018. The increase was primarily due to the increase in the growth in prescriptions and market share for TRELEGY® ELLIPTA®.

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. For the nine months ended September 30, 2019, we generated gross royalty revenues from GSK of \$195.4 million. Net cash and cash equivalents, short term investments and marketable securities totaled \$297.2 million, and royalties receivable from GSK totaled \$69.2 million as of September 30, 2019.

On August 18, 2017, we entered into a Credit Agreement and completed a financing of the \$250.0 million Term B Loan. The Term B Loan will mature on August 18, 2022. Two and a half percent (2.5%) of the initial principal amount was originally due quarterly beginning December 31, 2017. The remaining outstanding balance is due at maturity. Prepayments, in whole or in part, can be made at any time without a penalty. The Credit Agreement also provides us the ability to request one or more additional tranches of term loans (or increase an existing term loan) at any time prior to maturity. In December 2017, February 2018 and August 2018, we repaid the principal balance of the Term B Loan by \$6.3 million, \$120.0 million and \$110.0 million, respectively. The outstanding principal balance of the Term B Loan as of September 30, 2019 was \$13.8 million.

Adequacy of Cash Resources to Meet Future Needs

We believe that cash from projected future royalty revenues and our cash, cash equivalents and marketable securities will be sufficient to meet our anticipated debt service and operating needs for at least the next 12 months based upon current operating plans and financial forecasts. If our current operating plans and financial forecasts change, we may require additional funding sooner in the form of public or private equity offerings or debt financings. Furthermore, if in our view favorable financing opportunities arise, we may seek additional funding at any time. However, future financing may not be available in amounts or on terms acceptable to us, if at all. This could leave us without adequate financial resources to fund our operations as currently planned. In addition, from time to time we may restructure or reduce our debt, including through tender offers, redemptions, amendments, repurchases or otherwise, all consistent with the terms of our debt agreements.

Cash Flows

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

(In thousands)	Nine Months Ended September 30,		Change
	2019	2018	
Net cash provided by operating activities	\$ 190,553	\$ 161,754	\$ 28,799
Net cash provided by (used in) investing activities	(69,997)	49,113	(119,110)
Net cash used in financing activities	(10,027)	(235,588)	225,561

Cash Flows from Operating Activities

Cash provided by operating activities for the nine months ended September 30, 2019 was \$190.6 million, consisting primarily of our net income of \$133.1 million, adjusted for non-cash items such as \$29.5 million of deferred income taxes, \$10.4 million of depreciation and amortization and \$5.8 million amortization of debt discount and issuance costs, as well as a decrease in receivables from collaborative arrangements of \$14.1 million.

Cash provided by operating activities for the nine months ended September 30, 2018 was \$161.8 million, consisting primarily of our net income of \$137.1 million, adjusted for non-cash items such as \$10.4 million of depreciation and amortization, \$5.9 million amortization of debt discount and issuance costs, \$5.7 million of loss on extinguishment of debt and \$2.7 million of stock-based compensation expense, as well as decrease in receivables from collaborative arrangements of \$5.4 million, partially offset by a reduction in accrued interest payable of \$4.1 million.

Cash Flows from Investing Activities

Net cash flows used in investing activities for the nine months ended September 30, 2019 of \$70.0 million was primarily due to \$230.9 million in purchases of marketable securities partially offset by \$160.9 million proceeds received from maturities of marketable securities.

Net cash flows from investing activities for the nine months ended September 30, 2018 of \$49.1 million was primarily due to \$71.4 million proceeds received from maturities of marketable securities, partially offset by \$22.3 million in purchases of marketable securities.

Cash Flows from Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2019 of \$10.0 million was primarily due to \$10.6 million distributions to noncontrolling interest.

Net cash used in financing activities for the nine months ended September 30, 2018 of \$235.6 million was primarily due to \$230.0 million prepayments on our Term B Loan, \$3.1 million paid for the repurchase of shares to satisfy tax withholding and distributions to noncontrolling interest of \$2.9 million.

Off-Balance Sheet Arrangements

In June 2014, our facility leases in South San Francisco, California were assigned to Theravance Biopharma, Inc. (“Theravance Biopharma”) in connection with the spin-off of Theravance Biopharma. However, if Theravance Biopharma were to

default on its lease obligations, we would be held liable by the landlord and thus, we have in substance guaranteed the lease payments for these facilities. We would also be responsible for lease-related payments including utilities, property taxes, and common area maintenance, which may be as much as the actual lease payments. As of September 30, 2019, the total remaining lease payments for the duration of the lease, which runs through May 2020, were \$4.4 million. The carrying value of this lease guarantee was \$0.2 million as of September 30, 2019 and is reflected in other long-term liabilities in our condensed consolidated balance sheet.

Contractual Obligations and Commercial Commitments

In the table below, we set forth our significant enforceable and legally binding obligations and future commitments as of September 30, 2019.

(In thousands)	Total	Payment Due by Period			
		Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
2023 Notes	\$ 258,907	\$ 5,121	\$ 10,242	\$ 243,544	\$ —
2025 Notes	221,375	4,813	9,625	9,625	197,312
Term B Loan*	13,750	—	—	13,750	—
Total	\$ 494,032	\$ 9,934	\$ 19,867	\$ 266,919	\$ 197,312

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

Item 3. Quantitative and Qualitative Disclosure about Market Risk

There have been no significant changes in our market risk or how our market risk is managed compared to those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

We conducted an evaluation as of September 30, 2019, under the supervision and with the participation of our management, of the effectiveness of the design and operation of our disclosure controls and procedures, which are defined under SEC rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Securities Exchange Act of 1934 (“Exchange Act”) is recorded, processed, summarized and reported within required time periods. Based upon that evaluation, our Interim Principal Executive Officer and Chief Accounting Officer, concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance levels.

Limitations on the Effectiveness of Controls

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

Changes in Internal Control over Financial Reporting

There were no material changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In May 2019, Theravance Biopharma, who is the owner of 85% of the economic interests in TRC, initiated arbitration against the Company and TRC, relating to a dispute as to the determination by Innoviva (as manager of TRC) to cause TRC to explore potential reinvestment opportunities for the royalty proceeds received by GSK into initiatives that Innoviva believes will increase the value of TRC and TRELEGY® ELLIPTA®. Theravance Biopharma alleged that in causing TRC to not distribute substantially all royalty proceeds received from GSK, Innoviva breached the limited liability company operating agreement governing TRC (the “Operating Agreement”), as well as the fiduciary duties applicable to Innoviva as manager of TRC. The hearing in respect of the arbitration was conducted from July 23, 2019 through July 25, 2019. Post-arbitration oral argument was heard on August 14, 2019. On September 26, 2019, the arbitrator issued a final decision. The arbitrator ruled that Innoviva did not breach the Operating Agreement or its fiduciary duties by withholding royalties or pursuing reinvestment opportunities. Accordingly, the Company is permitted to continue to pursue development and commercialization initiatives. The arbitrator did conclude that Innoviva breached a provision of the Operating Agreement requiring Innoviva to deliver quarterly financial plans to Theravance Biopharma. However, the arbitrator concluded that this technical breach did not cause any damages to Theravance Biopharma and the arbitrator awarded limited injunctive relief to expand and clarify the disclosure obligations under the Operating Agreement related to the delivery of financial plans and the pursuit of investment opportunities. Finally, the arbitrator ruled that the Company is entitled to indemnification from TRC for 95% of its total fees and expenses incurred in connection with the arbitration.

On September 30, 2019, the Company and TRC filed a Verified Complaint in the Court of Chancery of the State of Delaware to confirm the arbitration award. That matter is still pending.

Item 1A. Risk Factors

Our business is subject to a number of risks, including those identified in Item 1A of Part I of our 2018 Form 10-K. Except as set forth under “Item 1. Legal Proceedings” above, there have been no material changes to the risk factors described in our [2018 Form 10-K](#), which is incorporated by reference herein.

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

None.

Item 3: Defaults Upon Senior Securities

None.

Item 4: Mine Safety Disclosures

None.

Item 5: Other Information

None.

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Item 6. Exhibits

(a) Index to Exhibits

<u>Exhibit Number</u>	<u>Description</u>	<u>Form</u>	<u>Exhibit</u>	<u>Incorporated by Reference Filing Date/Period End Date</u>
10.84	Lease Termination Agreement between Innoviva, Inc. and HCP Life Science Reit, Inc.			
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14 pursuant to the Securities Exchange Act of 1934			
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14 pursuant to the Securities Exchange Act of 1934			
32	Certifications Pursuant to 18 U.S.C. Section 1350			
101	Interactive Data File (Quarterly Report on Form 10-Q, for the quarterly period ended September 30, 2019) formatted in iXBRL (Inline eXtensible Business Reporting Language).			
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and included in Exhibit 101).			

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: October 30, 2019

/s/ Geoffrey Hulme

Geoffrey Hulme
Interim Principal Executive Officer
(Principal Executive Officer)

Date: October 30, 2019

/s/ Marianne Zhen

Marianne Zhen
Chief Accounting Officer
(Principal Financial Officer)

LEASE TERMINATION AGREEMENT

This Lease Termination Agreement (this "**Agreement**") is entered into as of the 13 day of July, 2019, by and between HCP LIFE SCIENCE REIT, INC., a Maryland corporation ("**Landlord**"), and INNOVIVA, INC., a Delaware corporation ("**Tenant**").

R E C I T A L S :

A. Landlord (as successor-in-interest to 2000 SIERRA POINT PARKWAY LLC, a Delaware limited liability company) and Tenant entered into that certain Office Lease ("**Lease**") dated June 10, 2016, whereby Landlord leased to Tenant, and Tenant leased from Landlord, that certain space more particularly described in the Lease (the "**Premises**").

B. Tenant and Landlord desire to enter into this Agreement in order to terminate the Lease and to release one another from their respective obligations thereunder, except as otherwise provided herein.

A G R E E M E N T :

NOW, THEREFORE, in consideration of the foregoing recitals and the conditions and the covenants hereinafter contained, and for other consideration hereinafter set forth, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as follows.

1. **Terms.** All capitalized terms when used herein shall have the same respective meanings as are given such terms in the Lease unless expressly provided otherwise in this Agreement.

2. **Termination of the Lease.** Landlord and Tenant hereby agree that conditioned upon the performance by the parties of the provisions of this Agreement, the Lease shall terminate and be of no further force or effect as of 11:59 P.M. PST on September 30, 2019 ("**Termination Date**").

3. **Surrender of Premises.** Tenant hereby agrees to vacate the Premises and surrender and deliver possession thereof to Landlord on or before the Termination Date in its "as-is" condition, broom clean, and reasonable wear and tear excepted. Notwithstanding anything to the contrary contained in the Lease, Tenant shall have no obligations to perform any restoration work or to otherwise prepare the Premises for surrender to Landlord, other than as provided in the foregoing sentence. Furthermore, Landlord hereby agrees that notwithstanding anything to the contrary contained in the Lease, Tenant shall be permitted to leave in the Premises the furniture, fixtures, and equipment listed on Exhibit A attached hereto (the "Remaining FF&E"), it being understood that such Remaining FF& E shall be for the use and benefit of the incoming tenant.

4. **Consideration to Landlord; Return of Security Deposit.** In consideration for Landlord's execution of this Agreement, Tenant shall deliver to Landlord upon execution of this Agreement the sum of \$63,202.50 (collectively, the "**Termination Fee**"). In addition, Landlord and Tenant hereby acknowledge that, in accordance with the Lease, Tenant has previously delivered to Landlord the total sum of \$37,230.00 as the Security Deposit for the faithful performance by Tenant of the terms, covenants and conditions of the Lease. Landlord and Tenant hereby agree that any unapplied portion of the Security Deposit shall be returned to Tenant within thirty (30) days following the later to occur of (i) the Termination Date and (ii) payment by Tenant of the Termination Fee.

5. **Release of Liability.** Except as with respect to all obligations set forth in the Lease that survive the termination of the Lease, including, without limitation, Tenant's indemnity obligations, and except as provided in Sections 4, 6 and 7 hereof, and conditioned on the performance by the parties of the provisions of this Agreement:

(a) Landlord and Tenant shall, as of the Termination Date, be fully and unconditionally released and discharged from their respective obligations arising after the Termination Date from or connected with the provisions of the Lease, specifically including,

without limitation, any right Tenant may have to audit or review Landlord's books or records or to contest any Operating Expenses, billed to Tenant under the Lease; and

(b) this Agreement shall fully and finally settle all demands, charges, claims, accounts or causes of action of any nature, including, without limitation, both known and unknown claims and causes of action that may arise out of or in connection with the obligations of the parties under the Lease after the Termination Date.

Each of the parties expressly waives the provisions of California Civil Code Section 1542, which provides:

“A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.”

Each party acknowledges that it has received the advice of legal counsel with respect to the aforementioned waiver and understands the terms thereof.

6. **Representations of Tenant.** Tenant represents and warrants to Landlord that (a) Tenant has not heretofore assigned or sublet all or any portion of its interest in the Lease; (b) no other person, firm or entity has any right, title or interest in the Lease; (c) Tenant has the full right, legal power and actual authority to enter into this Agreement and to terminate the Lease without the consent of any other person, firm or entity; and (d) Tenant has the full right, legal power and actual authority to bind Tenant to the terms and conditions hereof. Tenant further represents and warrants to Landlord that as of the date hereof there are no, and as of the Termination Date there shall not be any, mechanic's liens or other liens encumbering all or any portion of the Premises, by virtue of any act or omission on the part of Tenant, its predecessors, contractors, agents, employees, successors or assigns. Notwithstanding the termination of the Lease and the release of liability provided for herein, the representations and warranties set forth in this Section 6 shall survive the Termination Date and Tenant shall be liable to Landlord for any inaccuracy or any breach thereof.

7. **Continuing Liability.** Notwithstanding the termination of the Lease and the release of liability provided for herein, Tenant shall remain liable, with respect to the period of its tenancy prior to the Termination Date, for the performance of all of its obligations under the Lease (including, without limitation, Tenant's payment of reconciliation of Operating Expenses) and Landlord shall have all the rights and remedies with respect to such obligations as set forth in the Lease. In the event that Tenant retains possession of the Premises or any part thereof after the Termination Date, then the provision of Section 20.2 of the Lease shall apply.

8. **Attorneys' Fees.** Should any dispute arise between the parties hereto or their legal representatives, successors and assigns concerning any provision of this Agreement or the rights and duties of any person in relation thereto, the party prevailing in such dispute shall be entitled, in addition to such other relief that may be granted, to recover reasonable attorneys' fees and legal costs in connection with such dispute.

9. **Governing Law.** This Agreement shall be governed and construed under the laws of the State of California.

10. **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, but such counterparts, when taken together, shall constitute one agreement. For the purposes hereof, a facsimile, electronic, or other non-original copy of any counterpart shall be treated as an original counterpart

11. **Binding Effect.** This Agreement shall inure to the benefit of, and shall be binding upon, the parties hereto and their respective legal representatives, successors and assigns.

12. **Time of the Essence.** Time is of the essence of this Agreement and the provisions contained herein.

13. **Further Assurances.** Landlord and Tenant hereby agree to execute such further documents or instruments as may be necessary or appropriate to carry out the intention of this Agreement, provided that same do not increase Tenant's obligations or liabilities or decrease Tenant's rights, other than to a de minimis extent.

14. **Voluntary Agreement.** The parties have read this Agreement and mutual release as contained herein, and on the advice of counsel they have freely and voluntarily entered into this Agreement.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Agreement as of the day and year first above written.

"LANDLORD"
HCP LIFE SCIENCE REIT, INC.
a Maryland corporation

By: // Scott Bohn _____

Its: Senior Vice President _____

"TENANT"
INNOVIVA, INC.,
a Delaware corporation

By: // Geoffrey Hulme _____

Its: Interim Principal Executive Officer _____

EXHIBIT A

REMAINING FF&E

- The entire Premises is to be delivered “AS IS” by Tenant. Tenant will remove movable items such as office furniture, equipment, white wall boards and decorations except those items listed below.
-

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

I, Geoffrey Hulme, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Innoviva, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2019

/s/ Geoffrey Hulme

Geoffrey Hulme
Interim Principal Executive Officer
(Principal Executive Officer)

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

I, Marianne Zhen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Innoviva, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2019

/s/ Marianne Zhen

Marianne Zhen
Chief Accounting Officer
(Principal Financial Officer)

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

I, Geoffrey Hulme, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Innoviva, Inc. on Form 10-Q for the period ended September 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and that information contained in such 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: October 30, 2019

By: _____
/s/ Geoffrey Hulme
Geoffrey Hulme
Interim Principal Executive Officer
(Principal Executive Officer)

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

I, Marianne Zhen, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Innoviva, Inc. on Form 10-Q for the period ended September 30, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and that information contained in such 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: October 30, 2019

By: _____
/s/ Marianne Zhen
Marianne Zhen
Chief Accounting Officer
(Principal Financial Officer)
