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

FORM 10-K/A

(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 2023

or

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

For the transition period from to

Commission File No. 000-30319

INNOVIVA, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant based upon the closing price of the registrant's Common Stock on The Nasdaq Global Select Market on June 30, 2023 was $731,926,690. This calculation does not reflect a determination that persons are affiliates for any other purpose.

On February 14, 2024, there were 63,227,333 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Specified portions of the registrant's definitive Proxy Statement to be issued in conjunction with the registrant's 2023 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the registrant's fiscal year ended December 31, 2023, are incorporated by reference into Part III of this Annual Report. Except as expressly incorporated by reference, the registrant's Proxy Statement shall not be deemed to be a part of this Annual Report on Form 10-K.

EXPLANATORY NOTE

Innoviva, Inc. (the "Company") is filing this Amendment No. 1 (this "Amendment") to its Annual Report on Form 10-K for the fiscal year ended December 31, 2023 (the "2023 Form 10-K") solely to correct clerical errors in the report titled "Report of Independent Registered Public Accounting Firm" provided by Grant Thornton LLP (the "Audit Report"). Specifically, the Audit Report inadvertently contained an incorrect date.

This Amendment does not reflect events occurring after the filing of the 2023 Form 10-K, does not update disclosures contained in the 2023 Form 10-K and does not modify or amend the 2023 Form 10-K except as specifically described above. Pursuant to Rule 12b-15 of the Securities Exchange Act of 1934, as amended, this Amendment contains the complete text of Item 8. Financial Statements and Supplementary Data, Item 9A. Controls and Procedures, Item 15. Exhibits and Financial Statement Schedules, and certifications of the Company's Principal Executive Officer and Principal Financial Officer required under Items 302 and 906 of the Sarbanes-Oxley Act of 2002, as amended, dated as of the date of this Amendment, as well as updated inline XBRL exhibits.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INNOVIVA, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	December 31, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 193,513	$ 291,049
Accounts receivable	14,454	9,401
Receivables from collaboration arrangements	69,621	54,672
Inventory	40,737	55,897
Prepaid expenses	21,630	29,559
Other current assets	4,264	2,933
Total current assets	344,219	443,511
Property and equipment, net	483	170
Equity method investments	116,546	39,154
Equity and long-term investments	444,432	363,859
Capitalized fees paid, net	83,784	97,607
Right-of-use assets	2,536	3,265
Goodwill	17,905	26,713
Intangible assets	230,335	252,919
Other assets	3,267	4,299
Total assets	$ 1,243,507	$ 1,231,497
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 6,717	$ 2,939
Accrued personnel-related expenses	7,020	8,022
Accrued interest payable	3,422	4,359
Deferred revenue	1,277	2,094
Convertible subordinated notes due 2023, net of issuance costs	—	96,193
Income tax payable	—	154
Other accrued liabilities	19,698	21,207
Total current liabilities	38,134	134,968
Long-term debt, net of discount and issuance costs	446,234	444,180
Other long-term liabilities	71,870	70,918
Deferred tax liabilities, net	563	5,771
Income tax payable, long-term	11,751	9,872
Commitments and contingencies (Note 13)		
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, 63,307 and 69,188 issued and outstanding as of December 31, 2023 and December 31, 2022 respectively	633	692
Treasury stock: at cost, 32,005 shares as of December 31, 2023 and 2022	(393,829)	(393,829)
Additional paid-in capital	1,093,340	1,163,836
Accumulated deficit	(25,189)	(204,911)
Total stockholders' equity	674,955	565,788
Total liabilities and stockholders' equity	$ 1,243,507	$ 1,231,497

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2023	**2022**	**2021**
Revenue:			
Royalty revenue, net of amortization of capitalized fees paid of $13,823 in each of the years ended December 31, 2023, 2022 and 2021	$ 238,846	$ 311,645	$ 391,866
Net product sales	60,617	19,694	—
License revenue	11,000	—	—
Total revenue	310,463	331,339	391,866
Expenses:			
Cost of products sold (inclusive of amortization of inventory fair value adjustments, excluding amortization of intangible assets)	41,040	13,793	—
Cost of license revenue	1,600	—	—
Selling, general and administrative	98,232	63,538	16,187
Research and development	33,922	41,432	576
Amortization of acquired intangible assets	21,784	5,581	—
Gain on sale of Theravance Respiratory Company, LLC (“TRC”)	—	(266,696)	—
Loss on extinguishment of debt	—	20,662	—
Changes in fair values of equity method investments, net	(77,392)	161,749	(84,392)
Changes in fair value of equity and long-term investments, net	(11,129)	(8,462)	(6,638)
Interest and dividend income	(15,818)	(6,369)	(1,839)
Interest expense	19,157	15,789	19,070
Other expense, net	4,969	3,373	3,626
Total expenses, net	116,365	44,390	(53,410)
Income before income taxes	194,098	286,949	445,276
Income tax expense, net	14,376	66,687	76,439
Net income	179,722	220,262	368,837
Net income attributable to noncontrolling interests	—	6,341	102,983
Net income attributable to Innoviva stockholders	$ 179,722	$ 213,921	$ 265,854
Basic net income per share attributable to Innoviva stockholders	$ 2.75	$ 3.07	$ 3.24
Diluted net income per share attributable to Innoviva stockholders	$ 2.20	$ 2.37	$ 2.87
Shares used to compute Innoviva basic and diluted net income per share:			
Shares used to compute basic net income per share	65,435	69,644	82,062
Shares used to compute diluted net income per share	86,876	95,248	94,310

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2023	2022	2021
Net income	$ 179,722	$ 220,262	$ 368,837
Comprehensive income	179,722	220,262	368,837
Comprehensive income attributable to noncontrolling interests	—	6,341	102,983
Comprehensive income attributable to Innoviva stockholders	$ 179,722	$ 213,921	$ 265,854

See accompanying notes to consolidated financial statements.

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

	Common Stock		Additional Paid-In	Accumulated	Treasury Stock		Noncontrolling	Total Stockholders'
	Shares	Amount	Capital	Deficit	Shares	Amount	Interest	Equity
Balance as of January 1, 2021	101,392	$ 1,014	$ 1,260,900	$ (722,002)	—	$ —	$ 67,925	607,837
Distributions to noncontrolling interests	—	—	—	—	—	—	(59,457)	(59,457)
Equity activity of noncontrolling interests in a consolidated variable interest entity	—	—	—	—	—	—	(259)	(259)
Exercise of stock options and issuance of common stock units and stock awards, net of repurchase of shares to satisfy tax withholding	179	2	1,107	—	—	—	—	1,109
Repurchase of common stock	(32,005)	(320)	—	—	32,005	(393,829)	—	(394,149)
Stock-based compensation	—	—	2,017	—	—	—	—	2,017
Net income	—	—	—	265,854	—	—	102,983	368,837
Balance as of December 31, 2021	69,566	$ 696	$ 1,264,024	$ (456,148)	32,005	$ (393,829)	$ 111,192	$ 525,935
Cumulative adjustment due to adoption of ASU 2020-06	—	—	(65,467)	37,238	—	—	—	(28,229)
Distributions to noncontrolling interests	—				—	—	(69,811)	(69,811)
Recognition of noncontrolling interest upon initial consolidation of Entasis	—	—	—	—	—	—	38,471	38,471
Equity activity of noncontrolling interests in a consolidated variable interest entity					—	—	(2)	(2)
Derecognition of noncontrolling interests upon sale of TRC	—	—	—	78	—	—	(61,304)	(61,226)
Derecognition of noncontrolling interests upon acquisition of Entasis noncontrolling interest	—	—	(14,153)	—	—	—	(28,009)	(42,162)
Exercise of stock options and issuance of common stock units and stock awards, net of repurchase of shares to satisfy tax withholding	269	2	286	—	—	—	—	288
Capped call options associated with convertible senior notes due 2028	—	—	(16,585)	—	—	—	—	(16,585)
Conversion of convertible subordinated notes due 2023	—	—	3	—	—	—	—	3
Repurchase of common stock	(647)	(6)	(8,497)	—			—	(8,503)
Stock-based compensation	—	—	4,225	—	—	—	3,122	7,347
Net income	—	—	—	213,921	—	—	6,341	220,262
Balance as of December 31, 2022	69,188	$ 692	$ 1,163,836	$ (204,911)	32,005	$ (393,829)	$ —	$ 565,788
Exercise of stock options and issuance of common stock units and stock awards, net of repurchase of shares to satisfy tax withholding	293	3	89	—	—	—	—	92
Repurchase of common stock	(6,174)	(62)	(76,422)	—				(76,484)
Stock-based compensation	—	—	5,837	—	—	—	—	5,837
Net income	—	—	—	179,722	—	—	—	179,722
Balance as of December 31, 2023	63,307	$ 633	$ 1,093,340	$ (25,189)	32,005	$ (393,829)	$ —	$ 674,955

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2023	**2022**	**2021**
Cash flows from operating activities			
Net income	$ 179,722	$ 220,262	$ 368,837
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	4,400	25,006	76,432
Amortization of capitalized fees and depreciation of property and equipment	13,921	13,931	13,832
Amortization of acquired intangible assets	21,784	5,581	—
Inventory fair value step-up adjustment included in cost of products sold	27,164	10,023	—
Stock-based compensation	5,837	7,347	2,017
Amortization of debt discount and issuance costs	2,065	2,055	9,136
Changes in fair values of equity method investments, net	(77,392)	161,749	(84,392)
Changes in fair values of equity and long-term investments, net	(11,129)	(8,462)	(4,917)
Loss on extinguishment of debt	—	20,662	—
Net gain on sale of TRC	—	(266,696)	—
Other non-cash items	(517)	3,402	(259)
Changes in operating assets and liabilities:			
Accounts receivable	(5,053)	(3,525)	—
Receivables from collaboration arrangements	(14,949)	13,319	(16,780)
Inventory	(12,004)	280	—
Prepaid expenses	7,929	(21,350)	203
Other assets	(2,965)	(3,341)	—
Accounts payable	3,778	92	(39)
Accrued personnel-related expenses and other accrued liabilities	(1,498)	11,913	(257)
Accrued interest payable	(937)	207	—
Deferred revenue	(817)	(755)	—
Income tax payable	1,725	10,026	—
Net cash provided by operating activities	141,064	201,726	363,813
Cash flows from investing activities			
Purchases of equity method investments	—	(45,000)	(44,000)
Purchases of trading securities	(65,132)	—	(15,905)
Purchases of equity and long-term investments	(1,218)	(13,725)	(6,373)
Purchases of equity investments managed by ISP Fund LP	(31,164)	(60,910)	(190,970)
Purchases of trading security managed by ISP Fund LP	—	(50,000)	—
Sales of equity investments managed by ISP Fund LP	72,500	24,281	21,440
Purchase and sales of other investments managed by ISP Fund LP, net	(41,336)	(23,371)	279,530
Purchases of property and equipment	(411)	(67)	—
Proceeds from sale of ownership interest in TRC, net	—	248,191	—
Cash acquired through the consolidation of Entasis	—	23,070	—
Cash paid for the acquisition of La Jolla, net of cash acquired	—	(159,103)	—
Net cash provided by (used in) investing activities	(66,761)	(56,634)	43,722
Cash flows from financing activities			
Distributions to noncontrolling interests	—	(69,811)	(59,457)
Purchase of Entasis noncontrolling interest	—	(43,910)	—
Repurchase of common stock	(75,728)	(8,503)	(394,149)
Repurchase of shares to satisfy tax withholding	(77)	(82)	(60)
Proceeds from issuances of common stock, net	170	370	1,169
Payment for repurchase of convertible subordinated notes due 2023	(96,204)	(165,131)	—
Purchases of capped call options associated with convertible senior notes due 2028	—	(21,037)	—
Proceeds from issuance of convertible senior notes due 2028, net of issuance costs	—	252,536	—
Net cash used in financing activities	(171,839)	(55,568)	(452,497)
Net increase (decrease) in cash and cash equivalents	(97,536)	89,524	(44,962)
Cash and cash equivalents at beginning of period	291,049	201,525	246,487
Cash and cash equivalents at end of period	$ 193,513	$ 291,049	$ 201,525

	Year Ended December 31,		
	2023	**2022**	**2021**
Supplemental Disclosure of Cash Flow Information:			
Cash paid for interest	$ 11,381	$ 11,736	$ 9,933
Cash paid for income taxes	$ —	$ 53,855	$ —
Supplemental Disclosure of Non-cash Investing and Financing Activities:			
Accrued interest income converted to long-term investments	$ 2,666	$ —	$ —
Adoption of ASU 2020-06	$ —	$ (28,228)	$ —

See accompanying notes to consolidated financial statements.

INNOVIVA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Operations

Innoviva, Inc. (and where context requires, together with its subsidiaries referred to as "Innoviva", the "Company", or "we" and other similar pronouns) is a company with a portfolio of royalties and innovative healthcare assets. Our royalty portfolio contains respiratory assets partnered with Glaxo Group Limited ("GSK"), including RELVAR®/BREO® ELLIPTA® (fluticasone furoate/vilanterol, "FF/VI") and ANORO® ELLIPTA® (umeclidinium bromide/vilanterol, "UMEC/VI"), and up until July 2022, TRELEGY® ELLIPTA® (the combination FF/UMEC/VI). We sold our 15% ownership interest in Theravance Respiratory Company, LLC ("TRC") on July 20, 2022, and are no longer entitled to receive royalties on sales of TRELEGY® ELLIPTA® products. Under the Long-Acting Beta2 Agonist ("LABA") Collaboration Agreement, Innoviva is entitled to receive royalties from GSK on sales of RELVAR®/BREO® ELLIPTA® as follows: 15% on the first $3.0 billion of annual global net sales and 5% for all annual global net sales above $3.0 billion; and royalties from the sales of ANORO® ELLIPTA®, which tier upward at a range from 6.5% to 10%.

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

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Innoviva, our wholly owned subsidiaries and certain variable interest entities ("VIE") for which we are the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation. For consolidated entities where we own or are exposed to less than 100% of the economics, we record net income (loss) attributable to noncontrolling interest in our consolidated statements of income equal to the percentage of the economic or ownership interest retained in such entity by the respective noncontrolling party.

Presentation Reclassification

Amounts in equity and long-term investments reported in the Company's comparative financial statements have been reclassified to conform to the current year presentation. Certain reclassifications have been made to the consolidated statement of cash flows for the years ended December 31, 2022 and 2021 to conform to the current year's presentation. These reclassifications had no net effect on the net income or net cash flows from operating, investing and financing activities as previously reported.

Factors Affecting Comparability

Our historical financial condition and results of operations for the periods presented may not be comparable, either between periods or going forward due to the factors below and as discussed in Note 5, "Consolidated Entities and Acquisitions".

- Adoption of Accounting Standards Update 2020-06, *Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* ("ASU 2020-06") effective January 1, 2022;
- Accounting consolidation of Entasis on February 17, 2022 and purchase of remaining noncontrolling interest in Entasis on July 11, 2022;
- Sale of our 15% ownership interest in TRC on July 20, 2022; and
- Acquisition of La Jolla on August 22, 2022.

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Use of Management's Estimates

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

Concentrations of Credit Risk and of Significant Suppliers and Partners

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

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

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

We started recognizing revenue from product sales of GIAPREZA® and XERAVA® in 2022 as a result of our acquisition of La Jolla. In the current year, we also started recognizing revenue from product sales from XACDURO®, which was commercially launched in the third quarter of 2023. Hospitals and other healthcare organizations generally purchase our products through a network of specialty distributors. These specialty distributors, which are located in the U.S., are considered our customers for accounting purposes. We do not believe that loss of one of these distributors would significantly impact our ability to distribute our products, as we expect that sales volume would be absorbed by new or remaining distributors. Three of our customers each account for approximately 31%, 27% and 27%, respectively, of our net product sales for the year ended December 31, 2023. These same customers account for 29%, 19% and 15%, respectively, of our receivables from net product sales, which are included in "Accounts receivables, net" in our consolidated balance sheet as of December 31, 2023. Three of our customers each account for approximately 33%, 29% and 28%, respectively, of our net product sales from the time of our acquisition of La Jolla through December 31, 2022. These same customers account for 23%, 37% and 37%, respectively, of our receivables from net product sales, which are included in "Accounts receivables, net" in our consolidated balance sheet as of December 31, 2022.

Segment Reporting

We operate in a single segment, which is to provide capital return to stockholders by maximizing the potential value of our portfolio of royalties and innovative healthcare assets. Our Chief Operating Decision Maker ("CODM") is our Chief Executive Officer. The CODM allocates resources and evaluates the performance of Innoviva at the consolidated level using information about our revenues, operating results and other key financial data as needed. Our revenues are generated primarily from our collaborative arrangements and royalty payments from GSK, located in Great Britain. We also generate revenue from net product sales of GIAPREZA®, XERAVA®, and XACDURO®. Refer to Note 3, "Revenue Recognition", for more information on our revenues for the periods presented. Our long-term assets are located within the United States.

Variable Interest Entities

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

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

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

Business Combination

When we acquire an entity in a business combination, we recognize the fair value of all assets acquired, liabilities assumed, and any non-controlling interest in the acquiree and establish the acquisition date as the fair value measurement point. We recognize and measure goodwill as of the acquisition date, as the excess of the fair value of the consideration paid over the fair value of the identified net assets acquired. Acquisition-related expenses and related restructuring costs are expensed as incurred.

Several valuation methods may be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, we typically use the income method. This method starts with a forecast of all of the expected future net cash flows for each asset. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows and the assessment of the asset's life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory, or economic barriers to entry. Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives.

Cash and Cash Equivalents

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

Accounts Receivable

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

Inventory

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

Property and Equipment

Property and equipment, which consisted of laboratory equipment, computer equipment, software, office furniture and fixtures, and leasehold improvements, were not material as of December 31, 2023 and 2022, respectively.

Property and equipment are stated at cost less accumulated depreciation. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets as follows:

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

Equity and Long-Term Investments

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

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

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

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

Fair Value of Financial Instruments

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

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

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

Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical 3or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

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

Financial instruments include cash equivalents, accounts receivable, receivables from collaborative arrangements, accounts payable, and accrued liabilities, equity investments and convertible promissory notes. The carrying values of cash equivalents, receivables from collaborative arrangements, accounts payable, and accrued liabilities approximate their estimated fair values due to the relatively short-term nature of these instruments.

Capitalized Fees Paid

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

Goodwill and Intangible Assets

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

Operating Leases

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

Revenue Recognition

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

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

Royalty Revenue

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

Revenue from Product Sales

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

- Chargebacks: Chargebacks are discounts we provide to distributors in the event that the sales prices to end users are below the distributors' acquisition price. This may occur due to a direct contract with a health system, a group purchasing organization ("GPO") agreement or a sale to a government facility. Chargebacks are estimated based on known chargeback rates and recorded as a reduction of revenue on delivery to our customers.
- Discounts: We offer customers various forms of incentives and consideration, including prompt-pay and other discounts. We estimate discounts primarily based on contractual terms. These discounts are recorded as a reduction of revenue on delivery to our customers.
- Returns: We offer customers a limited right of return, generally for damaged or expired product. We estimate returns based on an internal analysis, which includes actual experience. The estimates for returns are recorded as a reduction of revenue on delivery to our customers.
- Rebates: We participate in Medicaid rebate programs, which provide assistance to certain low-income patients based on each individual state's guidelines regarding eligibility and services. Under the Medicaid rebate programs, we pay a rebate to each participating state, generally within three months after the quarter in which product was sold. Additionally, we may offer customer incentives and consideration in the form of volume-based or other rebates. The estimates for rebates are recorded as a reduction of revenue on delivery to our customers.

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

License Revenue

At the inception of a licensing arrangement that includes development and regulatory milestone payments, we evaluate whether the milestones are considered probable of being achieved and estimate the amount to be included in the transaction price. We generally recognize these milestone payments as revenues when they are achieved because there is considerable uncertainty in the research and development processes that trigger receipt of these payments under our agreements. Similarly, we recognize regulatory approval milestone payments as revenues once the product is approved by the applicable regulatory agency.

Research and Development Expenses

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

Interest Expense on Deferred Royalty Obligation

Interest expense related to the deferred royalty obligation is recognized over the expected repayment term of the deferred royalty obligation using the effective interest method. The assumptions used in determining the expected repayment term of the deferred royalty obligation require us to make estimates that could impact the effective interest rate. Each reporting period, we estimate the expected repayment term of the deferred royalty obligation based on forecasted net sales of GIAPREZA®. Changes in interest expense resulting from changes in the effective interest rate, if any, are recorded on a prospective basis. Refer to Note 12, “Debt”, for more information.

Fair Value of Stock-Based Compensation Awards

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

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

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

The estimated fair value of stock options, RSUs and RSAs is expensed on a ratable or straight-line basis over the expected term of the grant or expected term of the vesting. Compensation expense is recorded over the requisite service period based on management’s best estimate as to whether it is probable that the shares awarded are expected to vest.

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

Income Taxes

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

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

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

Related Parties

Transactions with GSK were considered related party transactions up until May 2021, when we completed the share repurchase agreement with GSK to buy back all of its shares of common stock in Innoviva. GSK is no longer considered a related party after the completion of the share repurchase. Transactions with GSK are described in Note 3, "Revenue Recognition and Collaborative Arrangements."

Sarissa Capital owned 11.5% of our outstanding common stock as of December 31, 2023. Transactions with Sarissa Capital are described in Note 5, "Consolidated Entities and Acquisitions". Sarissa Capital is considered to be a related party because two of its principals are members of our board of directors.

Recently Issued Accounting Pronouncements Not Yet Adopted

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

In November 2023, the FASB issued ASU 2023-07, *Improvements to Reportable Segment Disclosures (Topic 280).* This ASU update requires enhanced segment disclosures, primarily related to significant segment expenses. The amendments are effective for fiscal years beginning after December 15, 2023, and interim periods beginning after December 15, 2024. The Company does not expect the adoption of the amendments to have a significant impact on its financial statements.

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

2. NET INCOME PER SHARE

Basic net income per share 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") up until its maturity date on January 15, 2023, our convertible senior notes due 2025 (the "2025 Notes"), and our convertible senior notes due 2028 (the "2028 Notes") using the if-converted method.

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 was historically computed using the treasury stock method until the adoption of ASU 2020-06. As the average market price per share of our common stock as reported on The Nasdaq Global Select Market was lower than the initial conversion price of $17.26 per share, there was no dilutive effect of the assumed conversion premium for the year ended December 31, 2021.

The following table shows the computation of basic and diluted net income per share for the years ended December 31, 2023, 2022 and 2021:

(In thousands except per share data)	Year Ended December 31, 2023	2022	2021
Numerator:			
Net income attributable to Innoviva stockholders, basic	$ 179,722	$ 213,921	$ 265,854
Add: interest expense on 2023 Notes, net of tax effect	89	2,439	4,736
Add: interest expense on 2025 Notes, net of tax effect	5,116	4,583	—
Add: interest expense on 2028 Notes, net of tax effect	6,377	4,626	—
Net income attributable to Innoviva stockholders, diluted	$ 191,304	$ 225,569	$ 270,590
Denominator:			
Weighted-average shares used to compute basic net income per share attributable to Innoviva stockholders	65,435	69,644	82,062
Dilutive effect of 2023 Notes	187	6,188	12,189
Dilutive effect of 2025 Notes	11,150	11,150	—
Dilutive effect of 2028 Notes	9,955	8,158	—
Dilutive effect of options and awards granted under equity incentive plan and employee stock purchase plan	149	108	59
Weighted-average shares used to compute diluted net income per share attributable to Innoviva stockholders	86,876	95,248	94,310
Net income per share attributable to Innoviva stockholders			
Basic	$ 2.75	$ 3.07	$ 3.24
Diluted	$ 2.20	$ 2.37	$ 2.87

Anti-dilutive Securities

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

(In thousands)	Year Ended December 31, 2023	2022	2021
Outstanding options and awards granted under equity incentive plan and employee stock purchase plan	1,333	648	979
Outstanding stock warrant	591	282	—
Total	1,924	930	979

3. REVENUE RECOGNITION

Net Revenue from Collaboration Arrangement

On July 13, 2022, Innoviva's wholly owned subsidiary, Innoviva TRC Holdings, LLC ("ITH") entered into an equity purchase agreement ("TRC Equity Purchase Agreement") with Royalty Pharma Investments 2019 ICAV ("Royalty Pharma") to sell our ownership interest in TRC. As a result of the sale of our ownership interest in TRC, which was consummated on July 20, 2022, we are no longer entitled to receive 15% of royalty payments made by GSK stemming from sales of TRELEGY® ELLIPTA®. We retained our royalty rights with respect to RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA®.

Net revenue recognized under our GSK Agreements was as follows:

(In thousands)	Year Ended December 31, 2023	2022	2021
Royalties – RELVAR/BREO	$ 208,042	$ 215,034	$ 234,066
Royalties – ANORO	44,627	38,405	44,935
Royalties – TRELEGY[(1)]	—	72,029	126,688
Total royalties	252,669	325,468	405,689
Less: amortization of capitalized fees paid	(13,823)	(13,823)	(13,823)
Total royalty revenue	$ 238,846	$ 311,645	$ 391,866

(1) The year ended December 31, 2022 represents the period from January 1, 2022 to July 20, 2022, the date of the sale of our ownership interest in TRC.

LABA Collaboration

As a result of the launch and approval of RELVAR®/BREO® ELLIPTA® and ANORO® ELLIPTA® in the U.S., Japan and Europe, we paid milestone fees to GSK totaling $220.0 million during the year ended December 31, 2014. The milestone fees paid to GSK were recognized as capitalized fees paid, which are being amortized over their estimated useful lives commencing upon the commercial launch of the product. The amortization is recorded as a reduction to the royalties from GSK.

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

We are also entitled to 15% of royalty payments made by GSK under its agreements originally entered into with us, and since assigned to TRC in connection with the Spin-Off, including TRELEGY® ELLIPTA® through July 20, 2022, which royalties were upward tiering and ranged from 6.5% to 10%.

Net Product Sales

Net product sales were $60.6 million, consisting of net sales of GIAPREZA®, XERAVA®, and XACDURO® for $41.3 million, $17.3 million, and $2.0 million, respectively. We derived approximately 91% and 9% of our net product sales for the same period from customers located in the U.S. and the rest of the world, respectively.

From the date of acquisition of La Jolla to December 31, 2022, net product sales were $19.7 million, consisting of net sales of GIAPREZA® and XERAVA® for $14.2 million and $5.5 million, respectively. We derived approximately 96% and 4% of our net product sales for the same period from customers located in the U.S. and the rest of the world, respectively.

License Revenue

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

4. LICENSE AND COLLABORATION ARRANGEMENTS

Out-License Agreements

Zai Lab

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

We are eligible to receive up to an aggregate of $91.0 million in research and development support payments and development, regulatory and sales milestone payments related to SUL-DUR, imipenem and other combinations with the licensed products. Zai Lab will pay us a tiered royalty equal to from a high-single digit to low-double digit percentage based on annual net sales of licensed products in the territory, subject to specified reductions for the market entry of competing products, loss of patent coverage of licensed products and for payments owed to third parties for additional rights necessary to commercialize licensed products in the territory. Payments received for research support and reimbursable clinical trial costs are recorded as a reduction to research and development expense during the period in which the qualifying expenses are incurred. Such amounts recorded for the year ended December 31, 2023 and from the date of acquisition of Entasis to December 31, 2022 are not material. Following the approval of XACDURO® by the FDA in May 2023, we recognized $3.0 million in license revenue for the year ended December 31, 2023.

GARDP

Entasis entered into a collaboration agreement with the Global Antibiotic Research and Development Partnership ("GARDP") for the development, manufacture and commercialization of the product candidate zoliflodacin in certain countries ("the GARDP Collaboration Agreement"). Under the terms of the GARDP Collaboration Agreement, GARDP will use commercially reasonable endeavors to perform and fully fund the Phase 3 registrational trial, including the manufacture and supply of the product candidate containing zoliflodacin, in uncomplicated gonorrhea. We recorded reimbursements from GARDP under this agreement as reduction to research and development expense. Relevant amounts for the year ended December 31, 2023 and from the date of acquisition of Entasis to December 31, 2022 are not material.

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

PAION AG

Pursuant to the PAION AG and PAION Deutschland GmbH (together and individually "PAION") License, La Jolla granted PAION an exclusive license to commercialize GIAPREZA® and XERAVA® in the European Economic Area, the United Kingdom and Switzerland (collectively, the "PAION Territory"). We are entitled to receive potential commercial milestone payments of up to $109.5 million and double-digit tiered royalty payments. Royalties payable in a given jurisdiction under the PAION License will be subject to reduction on account of generic competition and after patent expiration in that jurisdiction. Pursuant to the PAION License, PAION will be solely responsible for the future development and commercialization of GIAPREZA® and XERAVA® in the PAION Territory. PAION is required to use commercially reasonable efforts to commercialize GIAPREZA® and XERAVA® in the PAION Territory. We have not recognized any revenue from PAION related to commercial milestones from the date of acquisition of La Jolla to December 31, 2023. Royalty revenue recognized under this agreement for the year ended December 31, 2023 and from the date of acquisition of La Jolla to December 31, 2022 are not material.

La Jolla also entered into the PAION commercial supply agreement (the "PAION Supply Agreement") whereby La Jolla will supply PAION a minimum quantity of GIAPREZA® and XERAVA® through July 13, 2024. The PAION supply agreement will automatically renew until the earlier of July 13, 2027, or until a new supply agreement is executed. During the initial term of the supply agreement, we will be reimbursed for direct and certain indirect manufacturing costs at cost. We recognized $1.3 million in cost reimbursements under this agreement for the year ended December 31, 2023. Amounts recognized under this agreement from the date of acquisition of La Jolla to December 31, 2022 were not material.

PAION AG and PAION Deutschland GmbH filed for insolvency in Germany on October 27, 2023 and the insolvency proceedings were opened on January 1, 2024. PAION announced on December 22, 2023 that it concluded negotiations with Humanwell Healthcare Group and entered into an agreement on the sale of the essential business operations of PAION AG and PAION Deutschland GmbH with the approval of the insolvency administrator in both procedures. La Jolla did not oppose the sale and is in discussions with the acquirer regarding the continued business relationship.

Everest Medicines Limited

Pursuant to the Everest Medicines Limited ("Everest") License, La Jolla granted Everest an exclusive license to develop and commercialize XERAVA® for the treatment of complicated intra-abdominal infections ("cIAI") and other indications in mainland China, Taiwan, Hong Kong, Macau, South Korea, Singapore, the Malaysian Federation, the Kingdom of Thailand, the Republic of Indonesia, the Socialist Republic of Vietnam and the Republic of the Philippines (collectively, the "Everest Territory"). Under the Everest License, we recognized $8.0 million in license revenue for the year ended December 31, 2023 as a result of an achievement of a regulatory milestone during the period. We are eligible to receive additional sales milestone payments of up to an aggregate of $20.0 million.

We are also entitled to receive tiered royalties from Everest at percentages in the low double digits on sales, if any, in the Everest Territory of products containing eravacycline. Royalties are payable with respect to each jurisdiction in the Everest Territory until the latest to occur of: (i) the last-to-expire of specified patent rights in such jurisdiction in the Everest Territory; (ii) expiration of marketing or regulatory exclusivity in such jurisdiction in the Everest Territory; or (iii) 10 years after the first commercial sale of a product in such jurisdiction in the Everest Territory. Royalty revenue recognized under this agreement for the year ended December 31, 2023 was $1.4 million. Royalty revenue recognized from the date of acquisition of La Jolla to December 31, 2022 is not material.

La Jolla also entered into the Everest commercial supply agreement (the "Everest Supply Agreement") whereby La Jolla will supply Everest a minimum quantity of XERAVA® through December 31, 2023 and will transfer to Everest certain XERAVA®-related manufacturing know-how. We were eligible to be reimbursed for direct and certain indirect manufacturing costs at 110% of cost through December 31, 2023. We recognized $2.4 million and $0.8 million in revenue under this agreement for the year ended December 31, 2023 and from the acquisition of La Jolla to December 31, 2022, respectively.

In-License Agreements

George Washington University

Pursuant to the George Washington University ("GW") License, GW exclusively licensed to La Jolla certain intellectual property rights relating to GIAPREZA®, including the exclusive rights to certain issued patents and patent applications covering GIAPREZA®. Under the GW License, we are obligated to use commercially reasonable efforts to develop, commercialize, market and sell GIAPREZA®. We are obligated to pay a 6% royalty on net sales of GIAPREZA® and 15% on payments received from sublicensees. The obligation to pay royalties under this agreement extends through the last-to-expire patent covering GIAPREZA®. We recognized $2.5 million for the year ended December 31, 2023 under this agreement. Amounts recognized from the date of acquisition of La Jolla to December 31, 2022 were not material.

Harvard University

Pursuant to the Harvard University ("Harvard") License, Harvard exclusively licensed to La Jolla certain intellectual property rights relating to tetracycline-based products, including XERAVA®, including the exclusive rights to certain issued patents and patent applications covering such products. Under the Harvard License, we are obligated to use commercially reasonable efforts to develop, commercialize, market and sell tetracycline-based products, including XERAVA®. For each product covered by the Harvard License, we are obligated to make certain payments for the following: (i) up to approximately $15.1 million upon the achievement of certain clinical development and regulatory milestones; (ii) a 5% royalty on direct U.S. net sales of XERAVA®; (iii) a single-digit tiered royalty on direct ex-U.S. net sales of XERAVA®, starting at a minimum royalty rate of 4.5%, with step-ups to a maximum royalty of 7.5% based on the achievement of annual net product sales thresholds; and (iv) 20% on payments received from sublicensees. The obligation to pay royalties under this agreement extends through the last-to-expire patent covering tetracycline-based products, including XERAVA®. For the year ended December 31, 2023, we recognized $1.2 million as cost of license revenue under this agreement as a result of the license revenue we earned under the out-licensing agreement with Everest for the same period. From the date of acquisition of La Jolla to December 31, 2022, amounts recognized under this agreement were not material.

Paratek Pharmaceuticals, Inc.

Pursuant to the Paratek Pharmaceuticals, Inc. ("Paratek") License, Paratek non-exclusively licensed to La Jolla certain intellectual property rights relating to XERAVA®, including non-exclusive rights to certain issued patents and patent applications covering XERAVA®. We are obligated to pay Paratek a 2.25% royalty based on direct U.S. net sales of XERAVA®. Our obligation to pay royalties with respect to the licensed product is retroactive to the date of the first commercial sale of XERAVA® and shall continue until there are no longer any valid claims of the Paratek patents, which expired in October 2023. For the year ended December 31, 2023 and from the date of acquisition of La Jolla to December 31, 2022, amounts recognized under this agreement were not material.

Business Transfer and Subscription Agreement with AstraZeneca

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

Royalty expense on durlobactam arising from our net sales of XACDURO® for the year ended December 31, 2023 was immaterial.

5. CONSOLIDATED ENTITIES AND ACQUISITIONS

Consolidated Entities

Theravance Respiratory Company, LLC

Up until July 20, 2022, we consolidated TRC under the VIE model as we determined that TRC was a VIE and we were the primary beneficiary of the entity because we had 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. We held 15% ownership interest of TRC. The primary source of revenue for TRC is the royalties generated from the net sales of TRELEGY® ELLIPTA® by GSK.

As discussed in Note 3, "Revenue Recognition", on July 13, 2022, ITH entered into the TRC Equity Purchase Agreement to sell our ownership interest in TRC. Upon the closing of the transaction on July 20, 2022, we received $277.5 million in cash from Royalty Pharma. We are also entitled to receive up to $50.0 million in contingent sales-based milestone payments in the future. In connection with the closing of the transaction, we also received our portion of TRC's remaining cash balance of $4.4 million from Royalty Pharma rather than through a cash distribution from TRC.

Prior to the closing of the transaction and as part of the agreement, TRC distributed its ownership interests and investments in InCarda Therapeutics ("InCarda"), Inc., ImaginAb, Inc. ("ImaginAb"), Gate Neurosciences ("Gate"), Inc. and Nanolive SA ("Nanolive"), which had a total carrying value of $39.4 million, to ITH. We accounted for the transaction similar to an upstream sale between a parent and a VIE under ASC 810-10. As such, ITH recorded the transferred investments at their respective carrying values and no gain or loss was recognized in the consolidated statement of income.

The summarized financial information of TRC for the relevant periods through the sale date in 2022 are presented as follows:

Income statements

	Year Ended December 31,	
(In thousands)	**2022 [1]**	**2021**
Royalty revenue	$ 72,029	$ 126,688
Operating expenses	(332)	(3,956)
Income from operations	71,697	122,732
Other income, net	10	—
Realized loss	(39,386)	—
Income tax expense, net	1	—
Changes in fair values of equity and long-term investments	(8,884)	(1,541)
Net income	$ 23,438	$ 121,191

[1] The year ended December 31, 2022 represents the period from January 1, 2022 to July 20, 2022, the date of the sale of our ownership interest in TRC.

ISP Fund LP

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

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

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

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

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

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

As of December 31, 2023, we continued to hold 100% of the economic interest of Partnership. As of December 31, 2023 and 2022, total assets of the Partnership were $311.8 million and $320.6 million, respectively, of which the majority was attributable to equity and long-term investments. As of December 31, 2023 and 2022, total liabilities of the Partnership were $0.1 million and $1.6 million, respectively. The Partnership's assets can only be used to settle its own obligations. During the year ended December 31, 2023, the Partnership incurred $4.3 million in net investment-related expenses, generated $6.3 million interest income, recorded $2.4 million in net realized losses and $6.7 million in net unrealized losses as changes in fair values of equity and long-term investments, net, in the consolidated statement of income. During the year ended December 31, 2022, the Partnership incurred $5.2 million in net investment-related expenses, generated $2.0 million interest income, recorded $6.8 million in net realized gains and $9.9 million in net unrealized losses as changes in fair values of equity and long-term investments, net, in the consolidated statement of income. During the year ended December 31, 2021, the Partnership incurred $3.6 million in net investment-related expense, generated $1.8 million interest and dividend income, and recorded net $10.5 million realized gains and net $2.4 million unrealized losses as changes in fair values of equity and long-term investments, net, in the consolidated statement of income. We account for the long-term investments held by ISP Fund LP as of December 31, 2023 and 2022 as equity investments measured at fair value and the investment in convertible notes as of December 31, 2022 as trading security.

Acquisitions

Entasis Therapeutics Holdings Inc.

We started investing in Entasis in 2020 as part of our capital allocation strategy of deploying cash generated from royalty income and investing in different life sciences companies. Entasis at the time was an advanced, late clinical-stage biopharmaceutical company focused on the discovery and development of novel antibacterial products. Effective in June 2020, after certain conditions were met with respect to the sales of Entasis equity shares, Innoviva had the right to designate two members to Entasis' board. Our investment in Entasis consisted of shares of common stock and warrants to purchase shares of Entasis common stock.

The fair value of Entasis' common stock was measured based on its closing market price at each balance sheet date. We used the Black-Scholes-Merton pricing model to estimate the fair value of the warrants.

On February 17, 2022, Innoviva Strategic Opportunities, LLC ("ISO") entered into a securities purchase agreement with Entasis pursuant to which ISO purchased a convertible promissory note for a total purchase price of $15.0 million. The note bore an annual interest rate of 0.59% and was due to mature and become payable on August 18, 2022 unless it was converted at a conversion price of $1.48 before the maturity date. With this financing, we determined that we had both (i) the power to direct the economically significant activities of Entasis and (ii) the obligation to absorb the losses, or the right to receive the benefits, that could potentially be significant to Entasis and therefore, we were the primary beneficiary of Entasis. Accordingly, we consolidated Entasis' financial position and results of operations effective on February 17, 2022. Our equity ownership interest remained at 59.9% as of February 17, 2022, and the fair values of our holdings of Entasis common stock and warrants were remeasured and estimated at $64.5 million and $31.4 million, respectively.

The remeasurement resulted in a $7.8 million loss in the first quarter of 2022 which was included in changes in fair values of equity method investments, net, in the consolidated statement of income for the year ended December 31, 2022.

We completed our acquisition of Entasis' minority interest on July 11, 2022. No payments were made toward the convertible promissory note through the date of acquisition of Entasis. In connection with the acquisition, all of the Entasis warrants were replaced with Innoviva warrants (the "Replacement Warrants") of equivalent value and bearing the same terms. The Replacement Warrants are classified as equity.

We recognized the difference between the acquisition price and the carrying value of the acquired minority interest on July 11, 2022 in our additional paid-in capital.

The fair values assigned to assets acquired and liabilities assumed as of February 17, 2022 were based on management's best estimates and assumptions. After the acquisition in July 2022, we adjusted the purchase price allocation based on new and additional information related to product sales forecast provided by Entasis and deferred tax liabilities.

During the year ended December 31, 2022, we recorded measurement period adjustments of $4.7 million decrease in goodwill, primarily related to a decrease in estimated purchase price of $1.4 million, an increase in noncontrolling interests of $1.7 million, and an increase in intangible assets of $2.5 million. The cumulative impact of the measurement period adjustments included in the consolidated net income for the year ended December 31, 2022 was not material.

In February 2023, we recorded a measurement period adjustment of $1.2 million increase in goodwill, primarily related to a decrease in intangible assets of $0.8 million and an increase in deferred tax liabilities of $0.4 million. The measurement period adjustment did not impact the consolidated net income for the year ended December 31, 2023.

The following table represents the adjusted fair values of the assets acquired and liabilities assumed by us in the transaction:

(In thousands)	February 17, 2022
Cash and cash equivalents	$ 23,070
Prepaid expenses	5,554
Other current assets	1,959
Property and equipment, net	185
Right-of-use assets	959
Goodwill	11,493
Intangible assets	106,700
Other assets	302
Total assets acquired	$ 150,222
Accounts payable	$ 1,583
Accrued personnel-related expenses	1,058
Other accrued liabilities	5,096
Deferred tax liabilities	7,769
Total liabilities assumed	$ 15,506
Total assets acquired, net	$ 134,716

The goodwill arising from the acquisition of Entasis is primarily attributable to Entasis' assembled workforce and the value associated with growing our business more efficiently. The goodwill from this acquisition is not expected to be deductible for tax purposes.

Refer to Note 8, "Goodwill and Intangible Assets", for more discussion on the intangible assets recognized as part of this acquisition.

As a result of the consolidation, we recognized a non-controlling interest of $38.5 million as of February 17, 2022. Our consolidated net income for the year ended December 31, 2022 included the net loss attributable to noncontrolling interest since the consolidation date until the date of acquisition of $13.6 million.

La Jolla Pharmaceutical Company

On August 22, 2022, ISO acquired La Jolla for a total consideration of $206.6 million. ISO acquired La Jolla at a price of $6.23 per share. La Jolla is dedicated to the commercialization of innovative therapies that improve outcomes in patients suffering from life-threatening diseases. La Jolla brought to Innoviva an established product portfolio, including GIAPREZA® (angiotensin II), approved to increase blood pressure in adults with septic or other distributive shock and XERAVA® (eravacycline) for the treatment of complicated intra-abdominal infections (cIAIs). We incurred approximately $5.3 million in acquisition-related costs in connection with this acquisition during the year ended December 31, 2022.

The fair values assigned to assets acquired and liabilities assumed as of August 22, 2022 were based on management's best estimates and assumptions.

During the year ended December 31, 2022, we recorded measurement period adjustments of $3.7 million increase in goodwill, primarily related to a decrease in inventory and intangible assets of $7.7 million and $1.5 million, respectively, and an increase in deferred tax liabilities of $2.6 million, partially offset by a decrease in other long-term liabilities of $8.3 million. The cumulative impact of the measurement period adjustments included in the consolidated net income for the year ended December 31, 2022 was not material.

In June 2023, we recorded a measurement period adjustment of $13.1 million decrease in goodwill, primarily related to an increase in deferred tax assets of $10.5 million and a decrease in deferred tax liabilities of $2.6 million. In August 2023, we recorded a measurement period adjustment of $3.0 million increase in goodwill, primarily related to a decrease in deferred tax assets of $2.4 million and an increase in deferred tax liabilities of $0.6 million. The cumulative impact of the measurement period adjustments included did not impact the consolidated net income for the year ended December 31, 2023.

The following table represents the adjusted fair values of assets acquired and liabilities assumed by us in the transaction:

(In thousands)	August 22, 2022
Cash and cash equivalents	$ 47,415
Short-term marketable securities	471
Accounts receivable	5,876
Inventory	66,200
Prepaid expenses	1,261
Other current assets	907
Property and equipment, net	13
Right-of-use assets	226
Goodwill	6,411
Intangible assets	151,000
Deferred tax assets	7,461
Other assets	710
Total assets acquired	$ 287,951
Accounts payable	$ 1,237
Deferred revenue	2,849
Other accrued liabilities	11,362
Other long-term liabilities	65,944
Total liabilities assumed	$ 81,392
Total assets acquired, net	$ 206,559

The goodwill arising from the acquisition of La Jolla is primarily attributable to La Jolla's assembled workforce and the value associated with leveraging the workforce to develop and commercialize new drug products in the future and growing our business more efficiently. The goodwill from this acquisition is not expected to be deductible for tax purposes.

Refer to Note 8, "Goodwill and Intangible Assets", for more discussion on the intangible assets recognized as part of this acquisition.

Pro Forma Financial Information

The following table presents certain unaudited pro-forma financial information for the years ended December 31, 2022 and 2021 as if the consolidation of Entasis and La Jolla occurred on January 1, 2021. The unaudited pro forma financial information is presented for informational purposes only, and is not indicative of the results of operations that would have been achieved if the acquisitions had taken place on January 1, 2021, or of results that may occur in the future. The unaudited pro forma financial information combines the historical results of the Entasis and La Jolla with the Company's consolidated historical results and includes certain adjustments including, but not limited to, fair value adjustments to equity investments in Entasis' common stock and warrants, fair value adjustments to inventory, amortization of intangible assets, and interest expense on deferred royalty obligations and acquisition-related costs.

	Year Ended December 31,	
(In thousands)	2022	2021
Revenue	$ 357,880	$ 435,398
Net income	$ 204,987	$ 281,719
Net income attributable to Innoviva stockholders	$ 214,390	$ 197,535

6. EQUITY AND LONG-TERM INVESTMENTS AND FAIR VALUE MEASUREMENTS

Equity and Other Investments in Armata

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

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

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

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

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

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

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

As of December 31, 2023, the fair values of our holdings of Armata common stock, warrants, the Armata Convertible Note and the Armata Term Loan were estimated at $81.2 million, $35.3 million, $51.9 million and $27.0 million, respectively. As of December 31, 2022 the fair values of our holdings of Armata common stock and warrants were estimated at $31.1 million and $8.1 million, respectively.

For the Armata common stock and warrants, we recorded $77.4 million unrealized gains, $152.5 million unrealized losses and $78.7 million unrealized gains as changes in fair values of equity method investments, net, in the consolidated statements of income for the years ended December 31, 2023, 2022 and 2021, respectively. For the Armata Convertible Note and Term Loan, we recorded $21.8 million and $2.0 million unrealized gain, respectively, as changes in fair values of equity and long-term investments, net, in the consolidated statement of income for year ended December 31, 2023.

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

Balance Sheet Information

	September 30,	
(In thousands)	**2023**	**2022**
Current assets	$ 36,585	$ 33,245
Noncurrent assets	$ 76,176	$ 59,636
Current liabilities	$ 21,884	$ 7,004
Noncurrent liabilities	$ 103,263	$ 40,300

Income Statement Information

	Twelve Months Ended September 30,		
(In thousands)	**2023**	**2022**	**2021**
Revenue	$ 4,052	$ 5,446	$ 3,989
Loss from operations	$ (41,639)	$ (32,666)	$ (24,227)
Net loss	$ (59,512)	$ (32,650)	$ (23,732)

Equity Method Investment in Entasis

Prior to the consolidation of Entasis' financial position and results of operations in February 2022, we accounted for Entasis as an equity method investment. Refer to Note 5, "Consolidated Entities and Acquisitions", for more information.

The summarized financial information, including the portion we did not own, is presented for Entasis on a one quarter lag regardless of the date of our investments as follows:

Income Statement Information

(In thousands)	Twelve Months Ended September 30, 2021
Loss from operations	$ (52,323)
Net loss	$ (125,413)

Equity Investment in InCarda

During the third quarter of 2020, TRC purchased 20,469,432 shares of Series C preferred stock and a warrant to purchase 5,117,358 additional shares of Series C preferred stock of InCarda Therapeutics, Inc. ("InCarda") (the "InCarda 2020 Warrant") for $15.8 million, which included $0.8 million of transaction costs. InCarda is a privately held biopharmaceutical company focused on developing inhaled therapies for cardiovascular diseases. The investment is intended to fund the ongoing clinical development of InRhythm™ (flecainide for inhalation), InCarda's lead program, for the treatment of a recent-onset episode of paroxysmal atrial fibrillation. On July 20, 2022, under the terms of the TRC Equity Purchase Agreement, TRC transferred to Innoviva's wholly-owned subsidiary, Innoviva TRC Holdings, LLC ("ITH") all of TRC's ownership interests and investments in InCarda. ITH has the right to designate one member to InCarda's board of directors. As of December 31, 2023, no ITH designee is serving on InCarda's six-member board. We did not exercise the InCarda 2020 Warrant which expired in March 2023 and wrote off its carrying value of $0.1 million during 2023.

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

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

As of December 31, 2023 and 2022, we held 8.1% and 9.0% of InCarda equity ownership, respectively. Our investment in InCarda does not provide us with the ability to control or have significant influence over InCarda's operations. Based on our evaluation, we determined that InCarda is a VIE, but we are not the primary beneficiary of the VIE. We have not provided financial or other support that we were not previously contractually required to provide during the periods presented. Our maximum exposure to loss is equal to the amount we invested in the entity.

We account for our investments in InCarda under the measurement alternative. Under the measurement alternative, the equity investment is initially recorded at its allocated cost, but the carrying value may be adjusted through earnings upon an impairment or when there is an observable price change involving the same or a similar investment with the same issuer. Due to InCarda's equity recapitalization in the second quarter of 2022, TRC reassessed the value of its investments in InCarda using the Option Pricing Model Backsolve valuation methodology. Key assumptions used in the valuation model included an expected holding period of two years, a risk free interest rate of 3.2%, a dividend yield of 0.0% and an estimated volatility of 122.0%. The estimated volatility was calculated based on the historical volatility of a selected peer group of public companies comparable to InCarda. We recognized an impairment charge of $9.0 million during the second quarter of 2022.

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

As of December 31, 2023, we recorded $4.8 million in fair value of InCarda's Series C preferred stock and $0.1 million in fair value of Series D warrants. As of December 31, 2022, we recorded $6.8 million in fair value of InCarda's Series C preferred stock and $0.6 million in fair value of Series C warrants and Series D warrants. As of December 31, 2023 and 2022, we recognized $2.7 million and $3.2 million, respectively, for InCarda's Series D-1 preferred stock, Series D-2 preferred stock, and common stock using the measurement alternative. We recorded $3.1 million, $8.7 million, and $0.7 million unrealized loss as changes in fair values of equity and long-term investments, net, in the consolidated statements of income for the years ended December 31, 2023, 2022, 2021, respectively.

Equity Investment in ImaginAb

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

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

On March 14, 2023, ITH entered into a securities purchase agreement with ImaginAb to purchase 270,568 shares of ImaginAb Series C-2 preferred stock for $0.6 million. On September 14, 2023, ITH entered into a securities purchase agreement with ImaginAb to purchase another 405,852 shares of ImaginAb Series C-2 preferred stock for $0.6 million. As of December 31, 2023, one of ImaginAb's six board members was designated by ITH. As of December 31, 2023 and 2022, we held 12.4% and 12.7%, respectively, of ImaginAb equity ownership.

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

Because ImaginAb's equity securities are not publicly traded and do not have a readily determinable fair value, we account for our investment in ImaginAb's Series C preferred stock and common stock using the measurement alternative. As of December 31, 2023 and 2022, $7.6 million and $6.4 million, respectively, was recorded as equity and long-term investments in the consolidated balance sheets, respectively, and there was no change to the fair value of our investment in ImaginAb.

Convertible Promissory Note in Gate Neurosciences

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

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

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

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

On October 6, 2023, ITH entered into a Second Note Amendment Agreement with Gate to amend the Note Amendment Agreement. Pursuant to the Second Note Amendment Agreement, the principal amount of the Gate Convertible Note was increased from $21.5 million to $27.7 million, which represents the amended principal as of February 2, 2023, accrued interest as of the second amendment date and an additional cash investment of $5.0 million. All other material terms of the Gate Convertible Note were unchanged.

We have accounted for the Gate Convertible Note as a trading security, measured at fair value using a Monte Carlo simulation model with the probability of certain qualified events and the assumptions of equity value of Gate, risk-free rate, expected stock price, volatility of its peer companies, and the time until a financing is raised. As of December 31, 2023 and 2022, the fair value of the Gate Convertible Note was estimated at $28.0 million and $15.7 million, respectively, and recorded as equity and long-term investments in the consolidated balance sheets. We recorded $0.4 million of unrealized loss, $0.6 million of unrealized gain, and $0.8 million of unrealized loss as changes in fair values of other equity and long-term investments, net, in the consolidated statements of income for the years ended December 31, 2023, 2022 and 2021, respectively.

Equity Investment in Nanolive

On February 18, 2022, TRC entered into an investment and shareholders agreement with Nanolive to purchase 18,750,000 shares of Nanolive Series C preferred stock for $9.8 million (equivalent to 9.0 million CHF). Nanolive SA is a Swiss privately held life sciences company focused on developing breakthrough imaging solutions that accelerate research in growth industries such as drug discovery and cell therapy. $0.7 million was incurred for investment due diligence costs and execution and recorded as part of the equity and long-term investment in the consolidated balance sheets. On July 20, 2022, under the terms of the TRC Equity Purchase Agreement, TRC transferred to ITH all of TRC’s ownership interests and investments in Nanolive. ITH has the right to designate one member to Nanolive’s board. ITH also has the right to designate another member, who will be mutually acceptable to ITH and another stockholder, to Nanolive’s board. As of December 31, 2023, no Innoviva designee is serving on Nanolive’s six-member board. As of December 31, 2023 and 2022, we held 15.3% and 15.5% of Nanolive equity ownership, respectively.

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

Because Nanolive’s equity securities are not publicly traded and do not have a readily determinable fair value, we account for our investment in Nanolive’s Series C preferred stock using the measurement alternative. As of December 31, 2023 and 2022, $10.6 million of investment in Nanolive was recorded as equity and long-term investments in the consolidated balance sheets, and there was no change to the carrying amount of our investment.

Available-for-Sale Securities

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

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

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

	December 31, 2022			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds[1]	$ 263,469	$ —	$ —	$ 263,469
Total	$ 263,469	$ —	$ —	$ 263,469

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

As of December 31, 2023 and 2022, all available-for-sale securities were money market funds, and there was no credit loss recognized.

Fair Value Measurements

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

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

(1) The investments held by ISP Fund LP, consisted of $248.5 million in equity investments, which included private placement positions of $60.6 million, and $62.9 million in money market funds. A certain portion of the total capital contribution of $300.0 million is no longer subject to a 36-month lock-up period from the date of such capital contribution. However, we did not elect to make a withdrawal in 2023, thereby extending the lock-up period and withdrawal elections into subsequent years.

	Estimated Fair Value Measurements as of December 31, 2022 Using:			
Types of Instruments (In thousands)	Quoted Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets				
Money market funds	$ 263,469	$ —	$ —	$ 263,469
Investments held by ISP Fund LP [1]	265,982	—	54,578	320,560
Equity investment - Armata Common Stock	31,095	—	—	31,095
Equity investment - Armata Warrants	—	8,059	—	8,059
Equity investment - InCarda Warrants	—	—	605	605
Convertible debt investment - Gate Note	—	—	15,700	15,700
Total assets measured at estimated fair value	$ 560,546	$ 8,059	$ 70,883	$ 639,488
Debt				
2023 Notes	$ —	$ 96,089	$ —	$ 96,089
2025 Notes	—	197,807	—	197,807
2028 Notes	—	211,768	—	211,768
Total fair value of debt	$ —	$ 505,664	$ —	$ 505,664
Contingent value rights	—	—	595	595
Total liabilities at estimated fair value	$ —	$ 505,664	$ 595	$ 506,259

(1) The investments held by ISP Fund LP, consisted of $295.4 million in equity investments, which included private placement positions and convertible notes of $54.6 million, and $25.1 million in money market funds. Our total capital contribution of $300.0 million was subject to a 36-month lock-up period from the date of such capital contributions.

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

The InCarda Warrants, the Gate Convertible Note, the Armata Convertible Note, the Armata Term Loan, private placement positions and convertible notes held by ISP Fund LP, and contingent value rights are classified as Level 3 financial instruments as these securities are not publicly traded and the assumptions used in the valuation model for valuing these securities are based on significant unobservable and observable inputs including those of publicly traded peer companies.

The fair values of our 2025 Notes and 2028 Notes are based on recent trading prices of the respective instruments. The fair values of our 2023 Notes, which were fully paid off in January 2023, were also based on their trading prices.

7. CAPITALIZED FEES PAID

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

(In thousands)	Amortization period	December 31, 2023	December 31, 2022
United States	2013-2030	$ 120,000	$ 120,000
Europe	2013-2029	60,000	60,000
Japan	2013-2029	40,000	40,000
Gross carrying value		220,000	220,000
Accumulated amortization		(136,216)	(122,393)
Net carrying value		$ 83,784	$ 97,607

These milestone fees are amortized over their estimated useful lives commencing upon the commercial launch of the product in their respective regions with the amortization recorded as a reduction in revenue from collaborative arrangements. As of December 31, 2023, the weighted average remaining amortization period was 6.2 years.

Additional information regarding these milestone fees is included in Note 3, “Revenue Recognition”. Amortization for each of the years ended December 31, 2023, 2022 and 2021 was $13.8 million. The remaining estimated amortization is $13.8 million for each of the years from 2024 to 2027, $13.7 million for the year 2028, and $14.8 million thereafter.

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets acquired are recognized at fair value as of the acquisition date. The carrying amount of goodwill as of December 31, 2023 and 2022 was $17.9 million and $26.7 million, respectively. We have not recognized any impairment losses related to goodwill and intangible assets during the periods presented.

Intangible assets with definite lives are amortized over their estimated useful lives. The carrying basis and accumulated amortization of recognized intangible assets as of December 31, 2023 and 2022 were as follows:

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

	December 31, 2022			
(In thousands)	Useful Life (Years)	Gross Amount	Accumulated Amortization	Net Carrying Amount
Marketed products	8-10	$ 151,000	$ (5,581)	$ 145,419
In-process research and development		72,100	—	72,100
Collaboration agreement		35,400	—	35,400
Total		$ 258,500	$ (5,581)	$ 252,919

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

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

We recognized amortization expense of $21.8 million and $5.6 million for the years ended December 31, 2023 and 2022, respectively. Future amortization expense is expected to be $25.8 million for each of the years from 2024 to 2028 and $98.7 million thereafter.

9. BALANCE SHEET COMPONENTS

Inventory

Inventory consisted of the following:

	December 31,	
(In thousands)	2023	2022
Raw materials	$ 11,257	$ 5,757
Work-in-process	15,670	25,052
Finished goods	13,810	25,088
Total inventory	$ 40,737	$ 55,897

As of December 31, 2023 and 2022, total inventory included net fair value adjustments resulting from the acquisition of La Jolla of approximately $23.0 million and $49.5 million, respectively, which will be recognized as cost of products sold when sales occur in future periods. The fair value adjustments recorded as part of cost of products sold amounted to $27.2 million and $10.0 million for the years ended December 31, 2023 and 2022.

Other Accrued Liabilities

Other accrued liabilities consisted of the following:

	December 31,	
(In thousands)	2023	2022
Accrued contract manufacturing expenses	$ 1,966	$ 8,382
Accrued clinical expenses	591	692
Accrued research expenses	185	349
Accrued professional services	8,876	3,977
Current portion of lease liabilities	1,207	1,316
Royalty obligation payable	1,928	—
Current portion of deferred royalty obligation	—	2,639
Accrued license fees and royalties	1,575	943
Other	3,370	2,909
Total other accrued liabilities	$ 19,698	$ 21,207

Other Long-Term Liabilities

Other long-term liabilities consisted of the following:

	December 31,	
(In thousands)	2023	2022
Long-term portion of deferred royalty obligation	$ 69,876	$ 67,947
Long-term portion of lease liabilities	1,635	$ 2,376
Contingent value rights liability	359	595
Total other long-term liabilities	$ 71,870	$ 70,918

10. STOCK-BASED COMPENSATION

Equity Incentive Plans

In May 2012, we adopted the 2012 Equity Incentive Plan (the "2012 Plan"). The 2012 Plan provides for the grant of incentive stock options, nonstatutory stock options, RSAs, RSUs and Stock Appreciation Rights to employees, non-employee directors and consultants. As of December 31, 2023, total shares remaining available for issuance under the 2012 Plan were 2,924,185.

Employee Stock Purchase Plan

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

On April 13, 2023, the Board of Directors adopted the 2023 ESPP (the "2023 ESPP"). The 2023 ESPP, which supersedes the 2004 ESPP, was approved by the Company's stockholders on May 22, 2023. Under the 2023 ESPP, eligible employees may purchase common stock through payroll deductions at a price equal to 85% of the lower of the fair market value of the stock at the beginning or end of each applicable purchase period. The 2023 ESPP provides for offering periods of six months, which ends on either May 15 or November 15. The 2023 ESPP contributions are limited to a maximum of 15% of an employee's eligible compensation. The maximum number of shares that an employee may purchase in any purchase period is 2,500. An employee may not purchase shares with a value greater than $25,000 in any calendar year. A total of 2.5 million shares of our common stock was reserved and available for issuance under the 2023 ESPP.

As of December 31, 2023, total shares remaining available for issuance under the 2023 ESPP were 2,500,000.

Director Compensation Program

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

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

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

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

Stock-Based Compensation Expense

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

	Year Ended December 31,		
(In thousands)	2023	2022	2021
Selling, general and administrative	$ 4,645	$ 5,305	$ 2,017
Research and development	1,192	2,042	—
Total	$ 5,837	$ 7,347	$ 2,017

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

	Year Ended December 31,		
(In thousands)	2023	2022	2021
Stock options	$ 1,980	$ 3,057	$ 490
RSUs	3,663	4,053	1,280
RSAs	168	194	200
ESPP	26	43	47
Total stock-based compensation expense	$ 5,837	$ 7,347	$ 2,017

As of December 31, 2023, the unrecognized stock-based compensation cost and the estimated weighted-average amortization period were as follows:

(In thousands)	Unrecognized Compensation Cost	Weighted-Average Amortization Period (Years)
Stock options	$ 4,861	2.9
RSUs	4,430	2.4
RSAs	220	1.9
Total unrecognized compensation expense	$ 9,511	

Compensation Awards

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

(In thousands, except per share data)	Number of outstanding options	Weighted-Average Exercise Price of Outstanding Options	Number of outstanding RSUs	Weighted-Average Fair Value per Share at Grant	Number of outstanding RSAs	Weighted-Average Fair Value per Share at Grant
Balance as of December 31, 2022	948	$ 15.56	518	$ 12.16	30	$ 14.97
Granted	828	$ 12.77	389	$ 12.85	—	$ —
Exercised	(2)	$ 12.98	—	$ —	—	$ —
Released RSUs and RSAs	—	$ —	(284)	$ 12.42	(14)	$ 15.02
Forfeited	(275)	$ 15.22	(141)	$ 11.98	—	$ —
Balance as of December 31, 2023	1,499	$ 14.09	482	$ 12.62	16	$ 14.93
Vested and expected to vest as of December 31, 2023	1,499	$ 14.09	482	$ 12.62	—	$ —

As of December 31, 2023, the aggregate intrinsic value of options outstanding and options exercisable was $3.6 million and $0.8 million, respectively. As of December 31, 2022, the aggregate intrinsic value of options outstanding and options exercisable was not material. As of December 31, 2023, 519,165 options were exercisable. The weighted average remaining contractual term of options outstanding was 7.96 years and 8.01 years as of December 31, 2023 and 2022, respectively.

The total intrinsic value of the options exercised was not material for the year ended December 31, 2023, 2022 and 2021. The total estimated fair value of options vested was $1.9 million and $0.6 million for the years ended December 31, 2023 and 2021, respectively. The total estimated fair value of options vested was not material for the year ended December 31, 2022.

The total estimated fair value of RSUs vested was $3.9 million, $2.3 million and $1.1 million for the years December 31, 2023, 2022 and 2021.

The total estimated fair value of RSAs vested was not material for the year ended December 31, 2023, 2022, and 2021.

Valuation Assumptions

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

	Year Ended December 31,		
	2023	2022	2021
Risk-free interest rate	4.0%	3.6%	1.1%
Expected term (in years)	6.09	6.04	6.11
Volatility	37.8%	38.6%	44.9%
Dividend yield	0.0%	0.0%	0.0%
Weighted-average estimated fair value of stock options granted	$ 5.57	$ 6.43	$ 5.84

11. STOCKHOLDERS' EQUITY

On October 31, 2022, our board of directors authorized a share repurchase program under which we may repurchase up to $100.0 million of our outstanding shares of common stock. The repurchase program authorizes the repurchase by the Company of its common stock in open market transactions, including pursuant to a trading plan in accordance with Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") privately negotiated transactions, in block trades, accelerated share repurchase transactions, exchange transactions, or any combination thereof or by other means in accordance with federal securities laws. The authorization permits the Company to repurchase shares of its common stock from time to time at management's discretion. Repurchases may also be made pursuant to a trading plan under Rule 10b5-1 under the Exchange Act, which would permit shares to be repurchased when the Company might otherwise be precluded from doing so because of self-imposed trading blackout periods or other regulatory restrictions. The actual means and timing of any shares purchased under the program will depend on a variety of factors, including ongoing assessments of the capital needs of the business, the market price of our common stock, prevailing stock prices, general market conditions and other considerations. This program has no termination date, may be suspended or discontinued at any time at our discretion, and does not obligate us to acquire any amount of common stock. From program inception through December 31, 2022, we repurchased 647,394 shares in the open market at an average price of $13.13 per share for a total amount of approximately $8.5 million. For the year ended December 31, 2023, we repurchased 6,173,565 shares in the open market at an average price of $12.39 per share for a total amount of approximately $76.5 million. Subsequent to December 31, 2023 and through February 15, 2024, we have repurchased 131,826 shares in the open market at an average price of $15.93 per share for a total amount of approximately $2.1 million. All of the repurchased shares were retired.

12. DEBT

Our debt consists of the following:

(In thousands)	December 31, 2023	December 31, 2022
2023 Notes	$ —	$ 96,204
2025 Notes	192,500	192,500
2028 Notes	261,000	261,000
Total debt	453,500	549,704
Less: Unamortized debt discount and issuance costs	(7,266)	(9,331)
Total debt, net	446,234	540,373
Less: Current portion of long-term debt, net	—	96,193
Total long-term debt, net	$ 446,234	$ 444,180

Convertible Subordinated Notes Due 2023

In January 2013, we completed an underwritten public offering of $287.5 million aggregate principal amount of our 2023 Notes, which matured on January 15, 2023. The 2023 Notes bore 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 represented an initial conversion price of approximately $27.79 per share.

In connection with the offering of the 2023 Notes, we entered into two privately negotiated capped call option transactions with a single counterparty. The capped call option transaction was 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 were subject to adjustments consistent with the 2023 Notes. The cap component was 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 coincided 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 was above $38.00 per share. However, if the market price of our common stock, as measured under the terms of the capped call transactions, exceeded $38.00 per share, there was no incremental anti-dilutive benefit from the capped call.

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

For the year ended December 31, 2016, we retired a portion of our 2023 Notes with a face value of $14.1 million and carrying value of $13.9 million by way of purchase in the open market.

On March 7, 2022, we used $165.6 million from the sale of the 2028 Notes to repurchase 60% of the 2023 Notes with a face value of $144.8 million. The carrying value of the repurchased 2023 Notes was $144.5 million. Accrued interest was $0.4 million and unamortized debt issuance costs were $0.3 million on the date of repurchase. We recognized a loss on the extinguishment of the 2023 Notes of $20.7 million in other expense, net, in the consolidated statement of operations. The repurchase reduced the outstanding principal balance to $96.2 million and unamortized debt issuance costs to $0.2 million. The annual effective interest rate of the 2023 Notes changed from 2.36% to 2.37%.

On April 18, 2022, certain 2023 Notes holders converted their notes of $3.0 thousand into Innoviva’s common stock. The outstanding principal balance was reduced slightly to $96.2 million.

Our outstanding 2023 Notes balance consisted of the following as of December 31, 2022:

(In thousands)	December 31, 2022
Principal	$ 96,204
Debt issuance costs, net	(11)
Net carrying amount	$ 96,193

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

The following table sets forth total interest expense recognized related to the 2023 Notes for the years ended December 31, 2023, 2022 and 2021:

	Year Ended December 31,		
(In thousands)	2023	2022	2021
Contractual interest expense	$ 85	$ 2,617	$ 5,121
Amortization of debt issuance costs	11	302	580
Total interest and amortization expense	$ 96	$ 2,919	$ 5,701

Convertible Senior Notes Due 2025

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

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

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

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

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

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

Effective January 1, 2022, we adopted ASU 2020-06 using a modified retrospective method, under which financial results reported in prior periods were not adjusted.

Prior to the adoption of ASU 2020-06, we separately accounted for the liability and equity components of the 2025 Notes by allocating the proceeds between the liability component and the embedded conversion option ("equity component") due to our ability to settle the conversion obligation of the 2025 Notes in cash, common stock or a combination of cash and common stock, at our option. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature using the income approach. The allocation was performed in a manner that reflected our non-convertible debt borrowing rate for similar debt. The equity component of the 2025 Notes of $67.3 million was recognized as a debt discount and represents the difference between the proceeds from the issuance of the 2025 Notes and the fair value of the liability of the 2025 Notes on the date of issuance. The excess of the principal amount of the liability component over its carrying amount ("debt discount") was amortized to interest expense using the effective interest method over the term of the 2025 Notes. The equity component was not remeasured as long as it continued to meet the conditions for equity classification. Additionally, we separated the total issuance costs of $5.4 million incurred into liability and equity components in proportion to the allocation of the initial proceeds, resulting in liability issuance costs of $3.5 million and equity issuance costs of $1.9 million. Issuance costs attributable to the liability component were amortized on a straight-line basis, which approximated the effective interest rate method, to interest expense over the term of the 2025 Notes. The issuance costs attributable to the equity component were netted against the equity component in additional paid-in capital. The annual effective interest rate of the liability component of the 2025 Notes was 8.87%.

Upon adoption of ASU 2020-06 on January 1, 2022, we combined the liability and equity components of the 2025 Notes assuming that the instrument was accounted for as a single liability from inception to the date of adoption. We similarly combined the liability and equity components of the issuance costs. The issuance costs are presented as a deduction from the outstanding principal balance of the 2025 Notes and are amortized on a straight-line basis over the term of the 2025 Notes under the effective interest rate method. As of January 1, 2022, the annual effective interest rate on the 2025 Notes was 2.88%. Beginning January 1, 2022, the annual effective interest rate on the 2025 Notes is 2.88%.

Our outstanding 2025 Notes balances consisted of the following:

	December 31,	
(In thousands)	2023	2022
Principal	$ 192,500	$ 192,500
Debt discount and issuance costs, net	(1,205)	(1,917)
Net carrying amount	$ 191,295	$ 190,583

The following table sets forth total interest expense recognized related to the 2025 Notes for the years ended December 31, 2023, 2022 and 2021:

	Year Ended December 31,		
(In thousands)	2023	2022	2021
Contractual interest expense	$ 4,813	$ 4,813	$ 4,813
Amortization of debt issuance costs	712	692	657
Amortization of debt discount	—	—	7,898
Total interest and amortization expense	$ 5,525	$ 5,505	$ 13,368

Convertible Senior Notes Due 2028

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

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

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

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

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

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

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

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

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

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

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

In connection with the offering of the 2028 Notes, we entered into privately negotiated capped call transactions. The cap price of the capped call transaction is initially $33.9850 per share and is subject to certain adjustments under the terms of the capped call transactions. The capped call transactions cover, subject to customary adjustments, the number of shares of common stock initially

underlying the 2028 Notes. The capped call transactions are expected generally to reduce potential dilution to our common stock upon conversion of the 2028 Notes or at our election (subject to certain conditions) offset any cash payments we are required to make in excess of the aggregate principal amount of converted 2028 Notes, as the case may be, with such reduction or offset subject to a cap.

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

Our outstanding 2028 Notes balance consisted of the following:

	December 31,	
(In thousands)	2023	2022
Principal	$ 261,000	$ 261,000
Debt discount and issuance costs, net	(6,061)	(7,403)
Net carrying amount	$ 254,939	$ 253,597

The following table sets forth total interest expense recognized related to the 2028 Notes for the year ended December 31, 2023 and from the issuance through December 31, 2022:

(In thousands)	Year Ended December 31, 2023	Date of Issuance through December 31, 2022
Contractual interest expense	$ 5,546	$ 4,514
Amortization of debt discount and issuance costs	1,342	1,061
Total interest and amortization expense	$ 6,888	$ 5,575

Debt Maturities

The aggregate scheduled maturities of our convertible debt as of December 31, 2023 are as follows:

(In thousands)	Amount
Year ending December 31,	
2024	$ —
2025	192,500
2026	—
2027	—
2028	261,000
Total	$ 453,500

Deferred Royalty Obligation

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

For the years ended December 31, 2023, we recognized interest expense of $6.5 million on the deferred royalty obligation. From the date of our acquisition of La Jolla through December 31, 2022, we recognized interest expense of $1.8 million on the deferred royalty obligation. The carrying value of the deferred royalty obligation as of December 31, 2023 and 2022 was $69.9 million and $70.6 million, respectively, (refer to Note 9 "Balance Sheet Components"). During the year ended December 31, 2023, we made royalty payments to HCR of $5.4 million. From the date of acquisition of La Jolla through December 31, 2022, we made royalty payments to HCR of $1.0 million. The deferred royalty obligation was valued using Level 3 inputs, and its carrying value as of December 31, 2023 and 2022 approximates fair value. The fair value of the deferred royalty obligation was calculated as the

discounted deferred royalty obligations based on revenue projections for GIAPREZA®. As of December 31, 2023, the annual effective interest rate of the deferred royalty obligation is 16.46%.

Under the terms of the La Jolla Royalty Agreement, if we are unable to meet certain obligations, including the obligation to use commercially reasonable and diligent efforts to commercialize GIAPREZA®, HCR would have the right to terminate the La Jolla Royalty Agreement and demand payment of either $125.0 million or $225.0 million (depending on which obligation we have failed to meet) less aggregate royalties already paid to HCR. As of December 31, 2023, inclusive of the aggregate royalties paid to HCR by La Jolla under the La Jolla Royalty Agreement prior to our acquisition, La Jolla paid $18.1 million of aggregate royalties to HCR. In the event that we fail to pay such amount if and when due in a timely manner, HCR would have the right to foreclose on the GIAPREZA®-related assets. HCR has no recourse against any asset other than GIAPREZA®.

Certain contract provisions within the La Jolla Royalty Agreement that could result in an acceleration of amounts due under the La Jolla Royalty Agreement are recognized as embedded derivatives that require bifurcation from the deferred royalty obligation and fair value recognition. We determined the fair value of each derivative by assessing the probability of each event occurring, as well as the potential repayment amounts and timing of such repayments that would result under various scenarios. As a result of this assessment, we determined that the fair value of the embedded derivatives is immaterial and, therefore, not recognized as of December 31, 2023 and 2022. We estimate the fair value of the embedded derivatives for each reporting period until either the features lapse or the La Jolla Royalty Agreement is terminated, whichever occurs first. Any material change in the fair value of the embedded derivatives will be recorded as either a gain or loss in the consolidated statements of income.

13. COMMITMENTS AND CONTINGENCIES

Operating Lease

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

Our operating leases include a facility lease consisting of 20,062 square feet of office and laboratory space in Waltham, Massachusetts. Effective April 2022, we exercised our renewal option for to extend the lease term for three additional years through December 2025.

In 2019, we entered into an operating lease for our headquarters in Burlingame, California for approximately 2,111 rentable square feet. The lease commenced in November 2019 with an initial term of thirty-six calendar months, which was subsequently amended to expire in December 2027.

The components of lease costs are as follows:

	Year Ended December 31,	
(In thousands)	2023	2022
Straight line operating lease costs	$ 1,428	$ 1,585
Variable lease costs	189	155
Total lease costs	$ 1,617	$ 1,740

Supplemental cash flow information related to leases are as follows:

	Year Ended December 31,	
(In thousands)	2023	2022
Cash paid for amounts included in the measurement of operating lease liabilities:	$ 1,542	$ 790
Operating lease right-of-use assets obtained in exchange for operating lease obligations	—	3,323
Right-of-use assets obtained through acquisitions	—	1,185

As of December 31, 2023, our operating leases have weighted-average remaining term of approximately 2.3 years and the weighted-average discount rate on our operating lease liabilities was 7.6%.

We have not presented the comparative information above for the year ended December 31, 2021 as our operating lease during this year was not material.

Future minimum lease payments on our operating leases as of December 31, 2023 are as follows:

(In thousands)	Amount
Year ending December 31,	
2024	$ 1,373
2025	1,428
2026	143
Thereafter	149
Total undiscounted lease payments	3,093
Less: imputed interest	(251)
Total operating lease liabilities	$ 2,842

Legal Proceedings

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

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

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

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

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

Fact discovery is set to conclude on February 29, 2024 and expert discovery will be complete by July 12, 2024. A trial date has not yet been set in this matter.

Given the early stage of this matter, we cannot reasonably estimate a potential future loss or a range of potential future losses, if any, and have not recorded a contingent liability accrual as of December 31, 2023.

Indemnifications and Other Contingencies

In the ordinary course of business, we may provide indemnifications of varying scope and terms to vendors, directors, officers, and other parties with respect to certain matters, including, but not limited to, losses arising out of breach of such agreements, services to be provided by us, our negligence or willful misconduct, violations of law, or intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with directors and certain officers and employees that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers, or employees. No material demands have been made upon us to provide indemnification under such agreements, and thus, there are no claims that we are aware of that could have a material effect in our consolidated financial statements. We also maintain director and officer insurance, which may cover certain liabilities arising from our obligation to indemnify our directors. To date, we have not incurred any material costs and, as of December 31, 2023, we have not accrued any liabilities in the consolidated financial statements as a result of these provisions.

14. INCOME TAXES

Income tax expense consists of the following:

	Year Ended December 31,		
(In thousands)	**2023**	**2022**	**2021**
Current			
Federal	$ 7,799	$ 40,822	$ —
State	2,177	464	7
Total current	9,976	41,286	7
Deferred			
Federal	6,594	26,026	70,893
State	(2,194)	(625)	5,539
Total deferred	4,400	25,401	76,432
Total income tax expense, net	$ 14,376	$ 66,687	$ 76,439

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

	Year Ended December 31,		
(In thousands)	**2023**	**2022**	**2021**
Expected tax at federal statutory rate	$ 40,747	$ 58,928	$ 93,507
State income tax, net of federal benefit	1,433	(1,414)	848
Federal and state research credits	(1,582)	(2,453)	1,260
Section 250 deduction	(15,274)	—	—
Noncontrolling interest	—	7,468	(21,626)
Impact of consolidation and deconsolidation of subsidiaries	—	(8,897)	—
Other	1,219	(125)	1,129
Change in valuation allowance	(12,167)	13,180	1,321
Total income tax expense, net	$ 14,376	$ 66,687	$ 76,439

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

	December 31,	
(In thousands)	2023	2022
Deferred tax assets		
Net operating loss carryforwards	$ 182,013	$ 149,646
Research and development tax credit carryforwards	21,357	21,230
Unrealized loss on investment, net	—	6,032
Deferred royalty obligation, net	18,084	17,404
Other	6,467	8,527
Total deferred tax assets before valuation allowance	227,921	202,839
Valuation allowance	(169,249)	(144,808)
Total deferred tax assets	58,672	58,031
Deferred tax liabilities		
Depreciation and amortization	(39,064)	(50,587)
Unrealized gain on investment, net	(13,747)	—
Inventory fair value adjustment	(6,424)	(12,410)
Other	—	(805)
Net deferred tax liabilities	$ (563)	$ (5,771)

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

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

As of December 31, 2023, we had federal net operating loss carryforwards of approximately $543.5 million, which will expire beginning 2034. As of December 31, 2023, we also had state net operating loss carryforwards of approximately $1.0 billion, which will expire beginning 2029 and state research tax credits of approximately $33.3 million, which do not expire.

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

We conducted an Internal Revenue Code of 1986, as amended, Section 382 ("Section 382") analysis of the Company through December 31, 2022 to determine whether an ownership change had occurred since inception. The Section 382 study concluded that it is more likely than not that the Company did not experience an ownership change during the testing period. If we ever undergo an ownership change, the utilization of the pre-ownership change net operating loss carryforwards or pre-ownership change tax attributes, such as research tax credits, to offset the post-ownership change income may be subject to an annual limitation, pursuant to Sections 382 and 383 of the Internal Revenue Code of 1986, as amended. Similar rules may apply under state tax laws.

As a result of the acquisition of Entasis, we conducted a study of Entasis' ownership changes and estimated that we will be able to utilize $155.6 million of its federal net operating losses, which are subject to annual limitations.

As a result of the acquisition of La Jolla, we also performed an analysis of its ownership changes and estimated that we will be able to utilize $309.5 million of its federal net operating losses, which are subject to annual limitations.

Our policy is to recognize interest and/or penalties related to income tax matters in income tax expense. As of December 31, 2023 and 2022, we had no accrued interest or penalties due to the Company's net operating losses available to offset any tax adjustments.

Uncertain Tax Positions

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

(In thousands)	Amount
Unrecognized tax benefits as of December 31, 2020	15,185
Net decrease in tax portions for 2021	(313)
Unrecognized tax benefits as of December 31, 2021	14,872
Net increase in tax portions for 2022	1,452
Unrecognized tax benefits as of December 31, 2022	16,324
Net increase in tax portions for 2023	3,119
Unrecognized tax benefits as of December 31, 2023	$ 19,443

We are subject to taxation in the U.S. and various state jurisdictions. The tax years 2006 through 2013, 2015 and forward remain open to examination by the federal and most state tax authorities due to net operating loss and overall credit carryforward positions.

In December 2021, the Organization for Economic Cooperation and Development ("OECD") enacted model rules for a new global minimum tax framework ("BEPS Pillar Two"), and various governments around the world have enacted, or are in the process of enacting legislation. We are in the process of evaluating whether and when these new rules may come into effect and apply to us. We plan to treat the tax if any as a period cost. We do not believe that the Pillar Two rules apply to us yet. As such, the potential future quantitative impact of the enacted or substantively enacted legislation is not yet reasonably estimable.

15. SUBSEQUENT EVENTS

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Innoviva, Inc. and subsidiaries (the "Company") as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows, for each of the two years in the period ended December 31, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 29, 2024, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Consolidated Entities and Equity and Long-term Investments—Primary Beneficiary Determination for Variable Interest Entity—Refer to Notes 1, 5, and 6 to the consolidated financial statements.

Critical Audit Matter Description

The Company invests in equity and debt securities of private and public companies. The Company evaluates its interests in these entities to determine whether they meet the definition of a variable interest entity (VIE) or a voting interest entity (VOE) and whether the Company is required to consolidate these entities. A VIE is consolidated by its primary beneficiary, which is the party that has both 1) the power to direct the activities that most significantly impact the economic performance of the VIE and 2) a variable interest that could potentially be significant to the VIE. To determine whether a variable interest that the Company holds could potentially be significant to the VIE, the Company considers both qualitative and quantitative factors regarding the nature, size, and form of the Company's involvement with the VIE. The Company will reconsider whether an entity is a VIE and whether the Company is the primary beneficiary of the entity upon the occurrence of certain types of events. The determination of the primary beneficiary of a VIE requires significant management judgement.

We identified the primary beneficiary determination for the Company's VIEs as a critical audit matter due to the complexity of the accounting principles related to the determination of the primary beneficiary of a VIE and the significant judgment required by management in evaluating the agreements and structure of the investments in determining the primary beneficiary of a VIE. This required a high degree of auditor judgment and an increased extent of effort, including the involvement of professionals with consolidation accounting expertise, when performing audit procedures to evaluate the Company's determination of whether it is the primary beneficiary for its VIEs.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the primary beneficiary determination for VIEs included the following, among others:

- We tested the effectiveness of controls over the Company's primary beneficiary determination for its VIEs, including management's determination of the party that has the power to direct the activities that most significantly impact the economic performance of the VIE and a variable interest that could potentially be significant to the VIE.
- We evaluated the appropriateness of the Company's accounting conclusions for consolidated and unconsolidated VIEs through the following:
    - Evaluated the investment structures and terms of the agreements, including reading the purchase agreements and other related documents.
    - Tested whether the Company appropriately determined the primary beneficiary by evaluating the contractual arrangements of the entity to determine if the Company has the power to direct activities that most significantly impact the economic performance of the VIE and if the Company has the obligation to absorb losses of the entity or the right to receive benefits from the entity that could be significant to the VIE.
    - For certain VIEs, with the assistance of professionals with expertise in consolidation accounting, evaluated the appropriateness of the Company's determination of the primary beneficiary of the VIE.
    - Evaluated the Company's disclosures related to the primary beneficiary determination of its consolidated entities and equity and long-term investments.

/s/ Deloitte & Touche LLP

San Jose, California
February 29, 2024

We have served as the Company's auditor since 2022.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the financial statements
We have audited the consolidated balance sheet of Innoviva, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2021 (not presented herein), the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We served as the Company's auditor from 2019 to 2021.

San Francisco, California
February 28, 2022

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

We conducted an evaluation as of December 31, 2023, under the supervision and with the participation of our management, including our chief executive officer and chief accounting 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 specified in the Commission's rules and forms and controls and procedures that are designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decision regarding required disclosure. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance levels.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in the *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2023.

Our independent registered public accounting firm, Deloitte & Touche LLP, has audited our internal control over financial reporting as of December 31, 2023. Their attestation report on the audit of our internal control over financial reporting is included below.

Limitations on the Effectiveness of Controls

Our management, including our principal executive officer and principal financial officer, 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

We completed our acquisitions of Entasis and La Jolla in 2022. We integrated the acquired operations and processes into our internal control environment and implemented necessary changes to our internal control over financial reporting, including, but not limited, to the creation of new controls related to inventory management, research and development activities and product sales.

Other than the above, there have been more material changes to our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) for the year ended December 31, 2023 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Innoviva, Inc. and subsidiaries (the "Company") as of December 31, 2023, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2023, of the Company and our report dated February 29, 2024, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

/s/ Deloitte & Touche LLP

San Jose, California
February 29, 2024

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

1. Financial Statements:

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

2. Financial Statement Schedules:

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

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

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

Exhibits

Exhibit Number	Description	Incorporated by Reference			Filed Herewith
		Form	Exhibit	Filing Date/Period End Date	
2.1	Agreement and Plan of Merger, dated as of May 23, 2022, by and among Innoviva, Inc., Innoviva Merger Sub, Inc. and Entasis Therapeutics	8-K	2.1	5/24/2022	
2.2	Agreement and Plan of Merger, dated as of July 10, 2022, by and among Innoviva, Inc., Innoviva Acquisition Sub, Inc. and La Jolla Pharmaceutical Company	8-K	2.1	7/11/2022	
3.1	Amended and Restated Certificate of Incorporation	8-K	99.2	4/28/2016	
3.2	Amended and Restated Bylaws, amended and restated as of January 1, 2023	8-K	3.1	1/4/2023	
4.1	Specimen certificate representing the common stock of the registrant	10-K	4.1	12/31/2006	
4.2	Indenture, dated as of January 24, 2013 by and between Theravance, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee	8-K	4.1	1/25/2013	
4.3	Form of 2.125% Convertible Subordinated Note Due 2023 (included in Exhibit 4.4)	8-K	4.2	1/25/2013	
4.4	Indenture (including form of Note) with respect to Innoviva's 2.50% Convertible Senior Notes due 2025, dated as of August 7, 2017, between Innoviva and The Bank of New York Mellon Trust Company, N.A., as trustee	8-K	4.1	8/7/2017	
4.5	Description of Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934	10-K	4.9	2/19/2020	
4.6	Indenture (including form of Note) with respect to Innoviva's 2.125% Convertible Senior Notes due 2028, dated as of March 7, 2022, between Innoviva, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee	8-K	4.1	3/8/2022	
10.2	Collaboration Agreement between the registrant and Glaxo Group Limited, dated as of November 14, 2002	10-Q	10.1	6/30/2014	
10.3	Amended and Restated Investors' Rights Agreement by and among the registrant and the parties listed therein, dated as of May 11, 2004	S-1	10.13	6/10/2004	
10.4*	Strategic Alliance Agreement between the registrant and Glaxo Group Limited, dated as of March 30, 2004	10-K	10.13	12/31/2013	
10.5+	Description of Cash Bonus Program, as amended	10-K	10.22	12/31/2009	
10.6+	Amendment to Change in Control Severance Plan effective December 16, 2009	10-K	10.47	12/31/2009	
10.7+	2009 Change in Control Severance Plan adopted December 16, 2009	10-K	10.48	12/31/2009	
10.8	Second Amendment to Amended and Restated Governance Agreement among the registrant, Glaxo Group Limited, GlaxoSmithKline plc and GlaxoSmithKline LLC, dated as of November 29, 2010	8-K	10.2	11/29/2010	
10.9	Amendment to Strategic Alliance Agreement, dated October 3, 2011	10-K	10.34	12/31/2011	
10.10+	2012 Equity Incentive Plan, as approved by the board of directors February 8, 2012 and approved by stockholders May 16, 2012 and forms of equity award	10-Q	10.38	6/30/2012	
10.11	Base Capped Call Transaction, dated January 17, 2013	8-K	10.1	1/23/2013	
10.12	Additional Capped Call Transaction, dated January 18, 2013	8-K	10.2	1/23/2013	
10.13	Master Agreement by and among Theravance, Inc., Theravance Biopharma, Inc. and Glaxo Group Limited, dated March 3, 2014	8-K/A	10.1	3/6/2014	
10.14*	Collaboration Agreement Amendment by and between Theravance, Inc. and Glaxo Group Limited, dated March 3, 2014	8-K/A	10.2	3/6/2014	
10.15*	Strategic Alliance Agreement Amendment by and between Theravance, Inc. and Glaxo Group Limited, dated March 3, 2014	8-K/A	10.3	3/6/2014	
10.16	Transition Services Agreement between Theravance and Theravance Biopharma, dated June 2, 2014	8-K	10.2	6/5/2014	
10.17	Tax Matters Agreement between Theravance and Theravance Biopharma, dated June 2, 2014	8-K	10.3	6/5/2014	

10.18	Employee Matters Agreement between Theravance and Theravance Biopharma, dated June 1, 2014	8-K	10.4	6/5/2014	
10.19	Theravance Respiratory Company, LLC Limited Liability Company Agreement between Theravance and Theravance Biopharma, dated May 31, 2014	8-K	10.5	6/5/2014	
10.20	Amendment/Clarification to Transition Services Agreement between Theravance and Theravance Biopharma, dated March 2, 2015	10-Q	10.64	3/31/2015	
10.21+	First Amendment to 2009 Change In Control Severance Plan (Renamed 2009 Severance Plan)	8-K	10.2	7/29/2015	
10.22	Form of Notice of Performance-Based Restricted Stock Award and Restricted Stock Award Agreement under 2012 Equity Incentive Plan (director form)	10-K	10.76	2/23/2018	
10.23+	Second Amendment to 2009 Severance Plan	10-Q	10.81	7/26/2018	
10.24+	Offer Letter with Marianne Zhen, dated September 7, 2018	8-K	10.1	9/11/2018	
10.25+	Offer Letter between Innoviva, Inc. and Pavel Raifeld, dated May 20, 2020	8-K	10.1	5/26/2020	
10.26+	Offer Letter between Innoviva, Inc. and Pavel Raifeld, dated April 29, 2022	8-K	10.1	5/2/2022	
10.27	Strategic Advisory Agreement, dated as of December 11, 2020, by and between Sarissa Capital Management LP and Innoviva, Inc.	8-K	10.1	12/14/2020	
10.28	Amended and Restated Limited Partnership Agreement of ISP Fund LP, dated as of December 11, 2020, by and among ISP Fund LP, Sarissa Capital Fund GP LP, Innoviva Strategic Partners LLC and the other parties named therein	8-K	10.2	12/14/2020	
10.29	Share Repurchase Agreement, dated as of May 2021, by and between Innoviva, Inc. and Glaxo Group Limited	8-K	10.1	5/20/2021	
10.30	Letter Agreement, dated as of May 20, 2021, by and among Innoviva Strategic Partners LLC, ISP Fund LP and Sarissa Capital Fung GP LP	8-K	10.2	5/20/2021	
10.31	Capped Call Confirmation dated March 2, 2022, by and among Innoviva, Inc., Bank of America, N.A., Goldman Sachs & Co. LLC and Deutsche Bank AG, London Branch	8-K	10.1	3/8/2022	
10.32	Amendment No. 1 to the Investor Rights Agreement, dated May 23, 2022, by and among Innoviva, Inc. and Entasis Therapeutics Holdings Inc.	8-K	10.1	5/24/2022	
10.33	Support Agreement, dated July 10, 2022, by and among Innoviva, Inc., Innoviva Acquisition Sub, Inc., Tang Capital Partners, LP and Kevin C. Tang Foundation	8-K	10.1	7/11/2022	
10.34	Equity Purchase Agreement, dated July 13, 2022, by and among Innoviva, Inc., Innoviva TRC Holdings LLC and Royalty Pharma Investments 2019 ICAV	8-K	10.1	7/13/2022	
10.35	Third Amendment to Collaboration Agreement, dated July 13, 2022, by and among Innoviva, Inc., Glaxo Group Limited, and Theravance Respiratory Company, LLC.	8-K	10.2	7/13/2022	
10.36+	Transition Agreement between Larry Edwards and Innoviva Specialty Therapeutics, Inc., dated February 23, 2023, and Release of Claims form signed by Larry Edwards, dated April 5, 2023	10-Q	10.1	5/9/2023	
10.37	2023 Employee Stock Purchase Plan	DEF 14A		4/28/2023	
10.38+	Offer Letter between Innoviva, Inc. and Stephen Basso dated July 28, 2023	8-K	10.1	8/25/2023	
21.1	List of Subsidiaries				X***
23.1	Consent of Independent Registered Public Accounting Firm				X
23.2	Consent of Independent Registered Public Accounting Firm				X***
23.3	Consent of Ernst & Young LLP Independent Registered Public Accounting Firm of Armata Pharmaceuticals, Inc.**				
24.1	Power of Attorney (see signature page to this Annual Report on Form 10-K)				X***
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934				X

31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934	X
32#	Certifications Pursuant to 18 U.S.C. Section 1350	
97	Innoviva Clawback Policy (effective as of October 2, 2023)	X***
99.1	Audited Consolidated Financial Statements of Armata Pharmaceuticals, Inc. at December 31, 2023, for the year ended December 31, 2023**	
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	X
101.SCH	Inline XBRL Taxonomy Extension Schema Document	X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)	X

+ Management contract or compensatory plan or arrangement required to be filed pursuant to Item 15(b) of Form 10-K.

* Confidential treatment has been granted for certain portions which are omitted in the copy of the exhibit electronically filed with the Securities and Exchange Commission. The omitted information has been filed separately with the Securities and Exchange Commission pursuant to Innoviva, Inc.'s application for confidential treatment.

** To be filed by amendment to this Annual Report on Form 10-K/A.

*** Previously filed with the Original Filing on February 29, 2024

Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INNOVIVA, INC.

Date: March 4, 2024

By: /s/ PAVEL RAIFELD

Pavel Raifeld

Chief Executive Officer

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-275502, 333-119559, 333-129669, 333-150753, 333-159042, 333-173923, 333-181763, and 333-197950 on Form S-8 of our reports dated February 29, 2024, relating to the financial statements of Innoviva, Inc. and the effectiveness of Innoviva, Inc.'s internal control over financial reporting appearing in this Annual Report on Form 10-K/A for the year ended December 31, 2023.

/s/ Deloitte & Touche LLP

San Jose, California
March 4, 2024

Exhibit 31.1

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

I, Pavel Raifeld, certify that:

1. I have reviewed this Annual Report on Form 10-K/A 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: March 4, 2024

/s/ PAVEL RAIFELD
Pavel Raifeld
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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

I, Stephen Basso, certify that:

1. I have reviewed this Annual Report on Form 10-K/A 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: March 4, 2024

/s/ STEPHEN BASSO
Stephen Basso
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32

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

I, Pavel Raifeld, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Innoviva, Inc. on Form 10-K/A for the fiscal year ended December 31, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition of Innoviva, Inc. at the end of the periods covered by such Annual Report on Form 10-K and results of operations of Innoviva, Inc. for the periods covered by such Annual Report on Form 10-K.

Date: March 4, 2024

By: /s/ PAVEL RAIFELD
Pavel Raifeld
Chief Executive Officer
(Principal Executive Officer)

I, Stephen Basso, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Innoviva, Inc. on Form 10-K/A for the fiscal year ended December 31, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition of Innoviva, Inc. at the end of the periods covered by such Annual Report on Form 10-K and results of operations of Innoviva, Inc. for the periods covered by such Annual Report on Form 10-K.

Date: March 4, 2024

By: /s/ STEPHEN BASSO
Stephen Basso
Chief Financial Officer
(Principal Financial Officer)

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