NEKTAR THERAPEUTICS
Form 10-K
February 29, 2012
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
**For the fiscal year ended December 31, 2011**

December 31, 2011

**or**

¨ **TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
**For the transition period from to**

**Commission File Number: 0-24006**

# NEKTAR THERAPEUTICS

**(Exact name of registrant as specified in its charter)**

| Delaware (State or other jurisdiction of incorporation or organization) | 94-3134940 (IRS Employer Identification No.) |
|---|---|

**455 Mission Bay Boulevard South**

**San Francisco, California 94158**

**(Address of principal executive offices and zip code)**

**415-482-5300**

**(Registrant s telephone number, including area code)**

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, $0.0001 par value | NASDAQ Global Select Market |

**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 x 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 x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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

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

The approximate aggregate market value of voting stock held by non-affiliates of the registrant, based upon the last sale price of the registrant s common stock on the last business day of the registrant s most recently completed second fiscal quarter, June 30, 2011 (based upon the closing sale price of the registrant s common stock listed as reported on the NASDAQ Global Select Market), was approximately $827,788,677. This calculation excludes approximately 441,119 shares held by directors and executive officers of the registrant. Exclusion of these shares does not constitute a determination that each such person is an affiliate of the registrant.

As of February 24, 2012, the number of outstanding shares of the registrant s common stock was 114,530,745.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of registrant s definitive Proxy Statement to be filed for its 2012 Annual Meeting of Stockholders are incorporated by reference into Part III hereof. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of the fiscal year covered by this Annual Report on Form 10-K.

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**NEKTAR THERAPEUTICS**

**2011 ANNUAL REPORT ON FORM 10-K**

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**Forward-Looking Statements**

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). All statements other than statements of historical fact are forward-looking statements for purposes of this annual report on Form 10-K, including any projections of earnings, revenue or other financial items, any statements of the plans and objectives of management for future operations (including, but not limited to, pre-clinical development, clinical trials and manufacturing), any statements concerning proposed drug candidates, any statements regarding future economic conditions or performance, any statements regarding the success of our collaboration arrangements, any statements regarding our plans and objectives to initiate clinical studies, and any statements of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as may, will, expects, plans, anticipates, estimates, potential or continue, negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, such expectations or any of the forward-looking statements may prove to be incorrect and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including, but not limited to, the risk factors set forth in Part I, Item 1A Risk Factors below and for the reasons described elsewhere in this annual report on Form 10-K. All forward-looking statements and reasons why results may differ included in this report are made as of the date hereof and we do not intend to update any forward-looking statements except as required by law or applicable regulations. Except where the context otherwise requires, in this annual report on Form 10-K, the Company, Nektar, we, us, and our refer to Nektar Therapeutics, a Delaware corporation, and, where appropriate, its subsidiaries.

**Trademarks**

The Nektar brand and product names, including but not limited to Nektar®, contained in this document are trademarks, registered trademarks or service marks of Nektar Therapeutics in the United States (U.S.) and certain other countries. This document also contains references to trademarks and service marks of other companies that are the property of their respective owners.

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**PART I**

**Item 1.** ***Business***

We are a clinical-stage biopharmaceutical company developing a pipeline of drug candidates that utilize our PEGylation and advanced polymer conjugate technology platforms, which are designed to improve the benefits of drugs for patients. Our current proprietary pipeline is comprised of drug candidates across a number of therapeutic areas including oncology, pain, anti-infectives, anti-viral and immunology. Our research and development activities involve small molecule drugs, peptides and other potential biologic drug candidates. We create our innovative drug candidates by using our proprietary advanced polymer conjugate technologies and expertise to modify the chemical structure of drugs to create new molecular entities. Polymer chemistry is a science focused on the synthesis or bonding of polymer architectures with drug molecules to alter the properties of a molecule when it is bonded with polymers. Additionally, we may utilize established pharmacologic targets to engineer a new drug candidate relying on a combination of the known properties of these targets and our proprietary polymer chemistry technology and expertise. Our drug candidates are designed to improve the pharmacokinetics, pharmacodynamics, half-life, bioavailability, metabolism or distribution of drugs and improve the overall benefits and use of a drug for the patient. Our objective is to apply our advanced polymer conjugate technology platform to create new drug candidates in multiple therapeutic areas that address large potential markets.

Our most advanced proprietary drug candidate, NKTR-118, is an oral peripherally-acting opioid antagonist, currently in Phase 3 clinical studies for the treatment of opioid-induced constipation (OIC) in patients with non-cancer pain and cancer pain. OIC is a common side effect of prescription opioids when used for chronic pain management. In September 2009, we entered into a global license agreement with AstraZeneca AB (AstraZeneca) for the global development and commercialization of NKTR-118 and NKTR-119. NKTR-119 is an early stage research and development program that is designed to combine various opioids with NKTR-118. AstraZeneca is responsible for all clinical, regulatory and commercialization costs for NKTR-118 and NKTR-119.

Our second most advanced drug candidate, NKTR-102, is a next-generation topoisomerase I inhibitor, currently being evaluated as a single-agent therapy in a Phase 3 clinical study in patients with metastatic breast cancer. This Phase 3 clinical study, which we call the BEACON study (BrEAst Cancer Outcomes with NKTR-102), was initiated by us in December 2011. The BEACON study is designed to enroll approximately 840 women with metastatic breast cancer who have had prior treatment with anthracycline, taxane and capecitabine in either the adjuvant or metastatic setting. Patients in the BEACON study will be randomized on a 1:1 basis to receive either single-agent NKTR-102 or a single agent of physician s choice. The primary endpoint of the BEACON study will be overall survival, and secondary endpoints will include progression-free survival and objective tumor response rate.

NKTR-102 is also being evaluated in a Phase 2 clinical study in patients with platinum-resistant ovarian cancer and a Phase 2 clinical study in patients with metastatic colorectal cancer. The Phase 2 clinical study of NKTR-102 in patients with platinum-resistant ovarian cancer completed enrollment of 71 patients in 2009. The study was further expanded to enroll up to 110 additional women with platinum-resistant ovarian cancer whose disease had progressed after prior treatment with Doxil® (doxorubicin HCl liposome injection). In November 2011, we announced that enrollment in this expanded Phase 2 study had significantly slowed due to a shortage of Doxil® resulting from serious manufacturing issues being experienced by the manufacturer and supplier of Doxil®. As of February 2012, approximately 94 of the planned 110 patients had been enrolled in the study. We are currently in the process of compiling the data from this expanded study and performing verification procedures on preliminary interim results from the patients enrolled to date. Results from this study and communication with government health authorities in both the United States and European Union (E.U.) will guide our future development and regulatory strategy for NKTR-102 in ovarian cancer. A Phase 2 clinical trial in patients with metastatic colorectal cancer is still enrolling patients, and a Phase 1 study of NKTR-102 in combination with F-fluorouracil/leucovorin is also continuing to enroll patients.

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We also have several proprietary pre-clinical and clinical drug candidates that are in the pain therapeutic area. NKTR-181 is an orally-available mu-opioid analgesic molecule with a long-acting profile to treat chronic pain that has been designed with the objective of addressing serious CNS-related side effects associated with standard opioid therapies. These CNS-related side effects include abuse liability, sedation and respiratory depression. We have completed two separate Phase 1 clinical studies for NKTR-181 and we are currently preparing for a Phase 2 clinical study that we plan to initiate in mid-2012. The Phase 2 clinical study design is a randomized, double-blind, efficacy and safety study of NKTR-181 as compared to placebo in patients with chronic pain. NKTR-192 is an orally available mu-opioid analgesic molecule with a short-acting profile to treat acute pain that has been designed with the objective to also address the serious CNS-related side effects associated with standard short-acting opioid therapies. NKTR-192 completed preclinical work in 2011 and we plan to begin a Phase 1 clinical study in 2012 subject to our investigational new drug application (IND) clearing the FDA review period.

We also have a number of license, manufacturing and supply agreements with leading biotechnology and pharmaceutical companies, including Affymax, Inc., Amgen Inc., Baxter Healthcare, MAP Pharmaceuticals, Inc., Merck & Co., Inc. (through its acquisition of Schering Plough), Pfizer Inc., F. Hoffmann-La Roche Ltd (Roche), and UCB Pharma. A total of seven products using our PEGylation technology have received regulatory approval in the U.S. or EU, and are currently marketed by our collaboration partners. There are also a number of other products in clinical development that incorporate our advanced PEGylation and advanced polymer conjugate technologies.

We have a significant collaboration with Baxter Healthcare to identify and develop PEGylated drug candidates with the objective of providing new long-acting therapies for hemophilia patients. We are providing our PEGylation technology and expertise. Baxter is responsible for all clinical development. The first drug candidate in this collaboration, BAX 855, is a longer-acting (PEGylated) form of a full-length recombinant factor VIII (rFVIII) protein in Phase 1 clinical development in patients with hemophilia A. In addition to incorporating our PEGylation technology, BAX 855 is also based on Baxter s ADVATE [Antihemophilic Factor (Recombinant) Plasma/Albumin-Free Method] full-length rFVIII molecule and plasma/albumin-free (PAF) manufacturing process. The Phase 1 clinical study is a prospective, open-label study that will assess the safety, tolerability and pharmacokinetics of BAX 855 in previously-treated patients aged 12 years or older with severe hemophilia A. When used for prophylaxis, Baxter s ADVATE requires patients to infuse every two to three days to reduce the occurrence of bleeding episodes. This Phase 1 clinical study is the first step in assessing whether BAX 855 can be infused less frequently in patients while achieving a similar efficacy and safety profile. If the Phase 1 clinical study is successful, Baxter plans to then initiate Phase 3 studies for BAX 855.

We also have a significant collaboration with Bayer Healthcare LLC (Bayer) to develop BAY41-6551 (NKTR-061, Amikacin Inhale), which is an inhaled solution of amikacin, an aminoglycoside antibiotic. We originally developed the liquid aerosol inhalation platform and NKTR-061 drug candidate and entered into a collaboration agreement with Bayer in August 2007 to further advance the drug candidate s development and potential commercialization. Under the collaboration agreement, we are responsible for all future development of the nebulizer device and clinical and commercial manufacturing and supply of the device. BAY41-6551 completed Phase 2 development and we and Bayer are currently preparing for the start of a Phase 3 clinical study. Bayer and Nektar have been working together to prepare for Phase 3 clinical program for BAY41-6551 following the consummation of the collaboration in August 2007. This program is significantly behind schedule due to the fact that Bayer and Nektar decided to finalize the design of the device for commercial manufacturing prior to initiating Phase 3 clinical development. In 2011, Bayer received agreement with the FDA on the design of the planned Phase 3 clinical studies of BAY41-6551 under the Special Protocol Assessment process that is intended to support the submission of a New Drug Application (NDA) if the planned Phase 3 clinical study is successful.

On December 31, 2008, we completed the sale and transfer of certain pulmonary technology rights, certain pulmonary collaboration agreements and approximately 140 of our dedicated pulmonary personnel and operations to Novartis Pharma AG. We retained all of our rights to BAY41-6551 and certain rights to receive

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royalties on net sales of the Cipro Inhale (also known as Ciprofloxacin Inhaled Powder or CIP) program with Bayer Schering Pharma AG that we transferred to Novartis as part of the transaction. We also retained certain rights to patents specific to inhaled insulin.

**Corporate Information**

We were incorporated in California in 1990 and reincorporated in Delaware in 1998. We maintain our executive offices at 455 Mission Bay Boulevard South, San Francisco, California 94158, and our main telephone number is (415) 482-5300. Our website is located at www.nektar.com. The information contained in, or that can be accessed through, our website is not part of, and is not incorporated in, this Annual Report.

**Our Technology Platform**

As a leader in the PEGylation field, we have advanced our technology platform to include first-generation PEGylation technology as well as new advanced polymer conjugate chemistries that can be tailored in very specific and customized ways with the objective of optimizing and significantly improving the profile of a wide range of molecules including many classes of drugs useful in many disease areas. PEGylation has been a highly effective technology platform for the development of therapeutics with significant commercial success, such as Roche s PEGASYS® (PEG-interferon alfa-2a) and Amgen s Neulasta® (pegfilgrastim). Nearly all of the PEGylated drugs approved over the last fifteen years were enabled with our PEGylation technology through our collaborations and licensing partnerships with a number of biotechnology and pharmaceutical companies. PEGylation is a versatile technology as a result of polyethylene glycol (PEG) being a water soluble, amphiphilic, non-toxic, non-immunogenic compound that is safely cleared from the body. Its primary use to date has been in currently approved biologic drugs to favorably alter their pharmacokinetic or pharmacodynamic properties. However, in spite of its widespread success in commercial drugs, there are limitations with the first-generation PEGylation approaches that have been used with biologics. Earlier PEGylation technology applications were limited, in that they could not be used successfully to improve small molecule drugs, antibody fragments and peptides, all of which could potentially benefit from the application of the technology. Other limitations of the early applications of PEGylation technology include sub-optimal bioavailability and bioactivity, and its limited ability to be used to fine-tune properties of the drug, as well as its inability to be used to create oral drugs.

With our expertise and proprietary technology in PEGylation, we have created the next generation of PEGylation technology. Our advanced polymer conjugate technology platform is designed to overcome the limitations of the first generation of the technology platform and allow the platform to be utilized with a broader range of molecules across many therapeutic areas.

Both our PEGylation and advanced polymer conjugate technology platforms have the potential to offer one or more of the following benefits:

- improve efficacy or safety in certain instances as a result of better pharmacokinetics, pharmacodynamics, longer half-life and sustained exposure of the drug;
- improve targeting or binding affinity of a drug to its target receptors with the potential to improve efficacy and reduce toxicity or drug resistance;
- improve solubility of a drug;
- enable oral administration of parenterally-administered drugs, or drugs that must be administered intravenously or subcutaneously, and increase oral bioavailability of small molecules;
- prevent drugs from crossing the blood-brain barrier, or reduce their rate of passage into the brain, thereby limiting undesirable central nervous system effects;

reduce first-pass metabolism effects of certain drug classes with the potential to improve efficacy, which could reduce the need for other medicines and reduce toxicity;

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reduce the rates of drug absorption and of elimination or metabolism by improving stability of the drug in the body and providing it with more time to act on its target; and

reduce immune response to certain macromolecules with the potential to prolong their effectiveness with repeated doses.

We have a broad range of approaches that we may use when designing our own drug candidates, some of which are outlined below:

***Small Molecule Stable Polymer Conjugates***

Our customized approaches for small molecule polymer conjugates allows for the fine-tuning of the physicochemical and pharmacological properties of small molecule oral drugs to potentially increase their therapeutic benefit. In addition, this approach can enable oral administration of subcutaneously or intravenously delivered small molecule drugs that have low bioavailability when delivered orally. The benefits of this approach can also include: improved potency, modified biodistribution with enhanced pharmacodynamics, and reduced transport across specific membrane barriers in the body, such as the blood-brain barrier. A primary example of reducing transport across the blood-brain barrier is NKTR-118, an orally-available peripheral opioid antagonist that is in Phase 3 clinical studies with our partner AstraZeneca. An additional example of the application of membrane transport, specifically slowing transport across the blood-brain barrier is NKTR-181, an orally-available mu-opioid analgesic molecule that has completed Phase 1 clinical development. An example of a drug candidate that uses this approach to avoid first-pass metabolism is NKTR-140, a protease inhibitor that is in the early stages of discovery research.

***Small Molecule Pro-Drug Releasable Polymer Conjugates***

The pro-drug polymer conjugation approach can be used to optimize the pharmacokinetics and pharmacodynamics of a small molecule drug to substantially increase both its efficacy and side effect profile. We are currently using this platform with oncolytics, which typically have sub-optimal half-lives that can limit their therapeutic efficacy. With our technology platform, we believe that these drugs can be modulated for programmed release within the body, optimized bioactivity and increased sustained exposure of active drug to tumor cells in the body. We are using this approach with the oncolytic drug candidate in our pipeline, NKTR-102, a next-generation topoisomerase I-inhibitor, currently in Phase 3 clinical development in metastatic breast cancer, and Phase 2 development in ovarian and colorectal cancers.

***Large Molecule Polymer Conjugates (Proteins and Peptides)***

Our customized approaches with large molecule polymer conjugates have enabled numerous successful PEGylated biologics on the market today. We are using our advanced polymer conjugation technology-based approach to enable peptides, which are much smaller in size than other biologics, such as proteins and antibody fragments. We are in the early stages of discovery research with a number of peptides that utilize this proprietary approach. Peptides are important in modulating many physiological processes in the body. Some of the benefits of working with peptides are: they are small, more easily optimized, and can be rapidly investigated for therapeutic potential. However, peptide drug discovery has been slowed by the extremely short half-life and limited bioavailability of these molecules.

Based on our knowledge of the technology and biologics, our scientists have designed novel hydrolyzable linkers that in many cases can be used to optimize bioactivity. Through rational drug design, a protein or peptide s pharmacokinetics and pharmacodynamics can be substantially improved and its half-life can be significantly extended. An example of this is BAX 855, a longer-acting (PEGylated) form of a full-length recombinant factor VIII (rFVIII) protein, which is currently being evaluated in Phase 1 clinical development by our partner Baxter for the treatment of hemophilia A. An additional example includes peginesatide, a synthetic,

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PEGylated peptidic compound that binds to and stimulates the erythropoietin receptor and thus acts as an erythropoiesis stimulating agent. Peginesatide has completed Phase 3 clinical studies and has been filed for approval with the FDA to treat renal anemia in patients with chronic kidney disease on dialysis by our partner Affymax, Inc.

***Antibody Fragment Polymer Conjugates***

This approach uses a large molecular weight PEG conjugated to antibody fragments in order to potentially improve their toxicity profile, extend their half-life and allow for ease of synthesis with the antibody. The specially designed PEG replaces the function of the Fc domain of full length antibodies with a branched architecture PEG with either stable or degradable linkage. This approach can be used to reduce antigenicity, reduce glomerular filtration rate, enhance uptake by inflamed tissues, and retain antigen-binding affinity and recognition. There is currently one approved product on the market that utilizes our technology with an antibody fragment, CIMZIA® (certoluzimab pegol), which was developed by our partner UCB Pharma and is approved for the treatment of Crohn s Disease in the U.S. and rheumatoid arthritis in the U.S. and E.U.

**Our Strategy**

The key elements of our business strategy are described below:

***Advance Our Proprietary Internal Clinical Pipeline of Drug Candidates that Leverage Our PEGylation and Advanced Polymer Conjugate Chemistry Platform***

Our objective is to create value by advancing our lead drug candidates through various stages of clinical development. To support this strategy, over the past four years we have significantly expanded and added expertise to our internal clinical development and regulatory departments. A key component of our development strategy is to potentially reduce the risks and time associated with drug development by capitalizing on the known safety and efficacy of approved drugs as well as established pharmacologic targets and drugs directed to those targets. For many of our novel drug candidates, we may seek to study the drug candidates in indications for which the parent drugs have not been studied or approved. We believe that the improved characteristics of our drug candidates will provide meaningful benefit to patients compared to the existing therapies. In addition, in certain instances we have the opportunity to develop new treatments for patients for which the parent drugs are not currently approved.

***Ensure Future Growth of our Proprietary Internal Pipeline through Internal Research Efforts and Advancement of our Preclinical Drug Candidates into Clinical Trials***

We believe it is important to maintain a diverse pipeline of new drug candidates to continue to build on the value of our business. Our discovery research organization is identifying new drug candidates by applying our technology platform to a wide range of molecule classes, including small molecules and large proteins, peptides and antibodies, across multiple therapeutic areas. We continue to advance our most promising research drug candidates into preclinical development with the objective to advance these early stage research programs to human clinical studies over the next several years.

***Enter into Strategic and High-Value Partnerships to Bring Certain of Our Drug Candidates to Market***

We decide on a drug candidate-by-drug candidate basis how far to advance clinical development (e.g. Phase 1, 2 or 3) and whether to commercialize products on our own, or seek a partner, or pursue a combination of these approaches. For example, in December 2010, we decided that we would move NKTR-102 into Phase 3 development in metastatic breast cancer prior to completing a collaboration partnership for this drug candidate. When we determine to seek a partner, our strategy is to enter into collaborations with leading pharmaceutical and biotechnology companies to fund further clinical development, manage the global regulatory filing process, and market and sell drugs in one or more geographies. The options for future collaboration arrangements range from

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comprehensive licensing and commercialization arrangements to co-promotion and co-development agreements with the structure of the collaboration depending on factors such as the structure of economic risk sharing, the cost and complexity of development, marketing and commercialization needs, therapeutic area and geographic capabilities.

***Continue to Build a Leading Intellectual Property Estate in the Field of PEGylation and Polymer Conjugate Chemistry across Therapeutic Modalities***

We are committed to continuing to build on our intellectual property position in the field of PEGylation and polymer conjugate chemistry. To that end, we have a comprehensive patent strategy with the objective of developing a patent estate covering a wide range of novel inventions including among others, polymer materials, conjugates, formulations, synthesis, therapeutic areas and methods of treatment.

**Nektar Proprietary Internal Drug Candidates in Clinical Development**

The following table summarizes our proprietary Nektar-discovered drug candidates that are being developed by us or in collaboration with other pharmaceutical companies. The table includes the type of molecule or drug, the target indications for the drug candidate, and the status of the clinical development program.

| Drug Candidate/Program | Target Indications | Status(1) |
|---|---|---|
| NKTR-118 (orally available peripheral opioid antagonist) | Opioid-induced constipation | Phase 3 (Partnered with AstraZeneca AB) |
| NKTR-102 (next-generation topoisomerase I inhibitor) | Metastatic breast cancer | Phase 3 |
| BAY41-6551 (Amikacin Inhale, formerly NKTR-061) | Gram-negative pneumonias | Completed Phase 2 (Partnered with Bayer Healthcare LLC)* |
| NKTR-102 | Platinum-resistant/refractory ovarian cancer | Phase 2 |
| NKTR-102 | Second-line metastatic colorectal cancer in patients with the KRAS gene mutation | Phase 2 |
| NKTR-181 (orally-available mu-opioid analgesic molecule) | Chronic pain | Phase 1 |
| NKTR-102 (in combination with F-fluorouracil/leucovorin) | Metastatic Colorectal cancer | Phase 1 |
| NKTR-119 (opioid/NKTR-118 combinations) | Pain | Research/Preclinical (Partnered with AstraZeneca AB) |
| NKTR-192 (orally-available mu-opioid analgesic molecule) | Acute pain | Research/Preclinical |
| NKTR-171 | Neuropathic pain | Research/Preclinical |
| NKTR-140 | HIV | Research/Preclinical |

(1) Status definitions are:
*Phase 3 or Pivotal* a drug candidate in large-scale clinical trials conducted to obtain regulatory approval to market and sell the drug (these trials are typically initiated following encouraging Phase 2 trial results).

*Phase 2* a drug candidate in clinical trials to establish dosing and efficacy in patients.

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*Phase 1* a drug candidate in clinical trials, typically in healthy subjects, to test safety. In the case of oncology drug candidates, Phase 1 clinical trials are typically conducted in cancer patients.

*Research/Preclinical* a drug candidate being studied in research by way of in-vitro studies and/or animal studies.

* This drug candidate uses a liquid aerosol technology platform that was transferred to Novartis by us in the pulmonary asset sale transaction that was completed on December 31, 2008. As part of that transaction, we retained an exclusive license to this technology for the development and commercialization of this drug candidate originally developed by us.

**Approved Drugs and Drug Candidates Enabled By Our Technology through Licensing Collaborations**

The following table outlines our collaborations with a number of pharmaceutical companies that license our intellectual property. A total of seven products using our PEGylation technology have received regulatory approval in the U.S. or Europe. There are also a number of other candidates that have been filed for approval or are in various stages of clinical development. These collaborations generally contain one or more elements including a license to our intellectual property rights and manufacturing and supply agreements under which we may receive manufacturing revenue, milestone payments, and/or royalties on commercial sales of drug products.

| Drug | Primary or Target Indications | Drug Marketer/Partner | Status(1) |
|---|---|---|---|
| Neulasta® (pegfilgrastim) | Neutropenia | Amgen Inc. | Approved |
| PEGASYS® (peginterferon alfa-2a) | Hepatitis-C | F. Hoffmann-La Roche Ltd | Approved |
| Somavert® (pegvisomant) | Acromegaly | Pfizer Inc. | Approved |
| PEG-INTRON® (peginterferon alfa-2b) | Hepatitis-C | Merck (formerly Schering-Plough Corporation) | Approved |
| Macugen® (pegaptanib sodium injection) | Age-related macular degeneration | Eyetech, Inc. | Approved |
| CIMZIA® (certolizumab pegol) | Rheumatoid arthritis | UCB Pharma | Approved in U.S., EU and Switzerland; filed in Japan* |
| CIMZIA® (certolizumab pegol) | Crohn s disease | UCB Pharma | Approved in the U.S. and Switzerland* |
| MIRCERA® (C.E.R.A.) (Continuous Erythropoietin Receptor Activator) | Anemia associated with chronic kidney disease in patients on dialysis and patients not on dialysis | F. Hoffmann-La Roche Ltd | Approved in U.S., EU and Japan (Launched only in the EU and Japan)** |
| Peginesatide (synthetic peptide-based, erythropoiesis-stimulating agent) | Anemia associated with chronic kidney disease (CKD) in adult patients on dialysis | Affymax, Inc. | Filed for approval in U.S. |
| LEVADEX® | Migraine | MAP Pharmaceuticals | Filed for approval in U.S. |
| CIMZIA® (certoluzimab pegol) | Psoriasis/Ankylosing Spondylitis | UCB Pharma | Phase 3 |
| Cipro Inhale | Cystic fibrosis lung infections | Bayer Schering Pharma AG | Completed Phase 2*** |
| BAX-855 (pegylated rFVIII) | Hemophilia A | Baxter Healthcare | Phase 1 |
| Longer-acting blood clotting proteins | Hemophilia | Baxter Healthcare | Research/Preclinical |

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(1) Status definitions are:

*Approved* regulatory approval to market and sell product obtained in the U.S., EU and other countries.

*Filed* an application for approval and marketing has been filed with the applicable government health authority.

*Phase 3 or Pivotal* product in large-scale clinical trials conducted to obtain regulatory approval to market and sell the drug (these trials are typically initiated following encouraging Phase 2 trial results).

*Phase 2* a drug candidate in clinical trials to establish dosing and efficacy in patients.

*Phase 1* a drug candidate in clinical trials, typically in healthy subjects, to test safety.

*Research/Preclinical* a drug candidate is being studied in research by way of vitro studies and/or animal studies

* In February 2012, we sold our rights to receive royalties on future worldwide net sales of CIMZIA® effective as of January 1, 2012 until the agreement with UCB is terminated or expires.

** Amgen Inc. prevailed in a patent lawsuit against F. Hoffmann-La Roche Ltd and as a result of this legal ruling Roche is currently prevented from marketing MIRCERA® in the U.S until July 2014. In February 2012, we sold our rights to receive royalties on future worldwide net sales of MIRCERA® effective as of January 1, 2012 until the agreement with Roche is terminated or expires.

*** This drug candidate was developed using our proprietary pulmonary delivery technology that was transferred by us to Novartis in an asset sale transaction that closed on December 31, 2008. As part of the transaction, Novartis assumed our rights and obligations for our Cipro Inhale agreements with Bayer Schering Pharma AG; however, we maintained the rights to receive certain royalties on commercial sales of Cipro Inhale if the drug candidate is approved.

With respect to all of our collaboration and license agreements with third parties, please refer to Item 1A, Risk Factors, including without limitation, We are a party to numerous collaboration agreements and other significant agreements which contain complex commercial terms that could result in disputes, litigation or indemnification liability that could adversely affect our business, results of operations and financial condition.

**Overview of Selected Nektar Proprietary Drug Development Programs and Significant Partnered Drug Development Programs**

***NKTR-118 and NKTR-119, License Agreement with AstraZeneca AB***

In September 2009, we entered into a global license agreement with AstraZeneca AB (AstraZeneca) pursuant to which we granted AstraZeneca a worldwide, exclusive, perpetual, royalty-bearing license under our patents and other intellectual property to develop, market and sell NKTR-118 and NKTR-119. Under the terms of this agreement, AstraZeneca made a license payment to us of $125.0 million and AstraZeneca has responsibility for all activities and bears all costs associated with research, development and commercialization for NKTR-118 and NKTR-119. For NKTR-118, we are also entitled to up to $235.0 million upon certain filings and commercial launch milestones for NKTR-118, and $375.0 million in sales milestones if the product achieves certain annual commercial sales levels. With respect to the $235.0 million in milestones due upon certain filings and commercial launch milestones for NKTR-118, when filing occurs in the US and in the EU or Japan, Nektar will be entitled to up to $95.0 million of those milestones. The remaining milestone payments are due upon the commercial launches of NKTR-118 in those regions. For NKTR-119, we are also eligible to receive significant development milestones as well as significant sales milestones if the program achieves certain annual commercial sales levels. For both NKTR-118 and NKTR-119, we are also entitled to significant double-digit royalty payments, varying by country of sale and level of annual net sales. Our right to receive royalties (subject to certain adjustments) in any particular country will expire upon the later of (a) specified period of time after the first commercial sale of the product in that country or (b) the expiration of patent rights in that particular country.

NKTR-118 is an orally-available peripheral opioid antagonist that is in Phase 3 clinical studies being conducted by AstraZeneca which AstraZeneca calls the KODIAC study. The KODIAC study is evaluating the

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efficacy and safety of NKTR-118 for the treatment of opioid-induced constipation (OIC) in patients with non-cancer pain and cancer pain. The KODIAC study includes two 12-week, randomized, placebo-controlled efficacy studies (with approximately 630 randomized patients each) and an open-label, randomized, 52-week long-term safety study with a usual care comparator arm. The 12-week efficacy studies will compare response rate among placebo and two different doses of NKTR-118 with primary endpoint at 12 weeks. There is a three month safety extension following one of the two 12-week studies. AstraZeneca is planning global regulatory submissions for NKTR-118, with first regulatory filings for NKTR-118 in the US and EU planned for 2013 if the KODIAC studies are successful.

Data from a Phase 2 study conducted by us showed that NKTR-118 achieved the primary endpoint of change from baseline in spontaneous bowel movements in patients taking opioids with chronic OIC. The study also showed that there was no apparent reversal of opioid-mediated analgesia with any of the NKTR-118 dose groups, as measured by no change in Numeric Rating Scale pain scores, no evidence of opioid withdrawal, and no increase in mean daily opioid use. The most commonly reported side effects from the Phase 2 clinical study of NKTR-118 were dose dependent gastrointestinal-related effects, which were mild and transient.

According to the American Pain Society and IMS Health, over 200 million opioid prescriptions are filled in the U.S. annually with annual worldwide sales of opioids exceeding $10 billion. Depending on the population studied and the definitions used, OIC occurs in up to 40-90% of patients taking opioids. Clinically, OIC is the most prevalent side effect of opioid therapy. Currently, there are no specific oral drugs approved or specifically indicated to treat OIC.

NKTR-119 is an early stage drug development program that is intended to combine NKTR-118 with selected opioids, with the goal of treating pain without the side effect of constipation traditionally associated with opioid therapy. AstraZeneca has agreed to use commercially reasonable efforts to develop one product based on NKTR-119 and has the right to develop multiple products which combine NKTR-118 with other opioids.

***NKTR-102 (next generation topoisomerase I inhibitor)***

We are developing NKTR-102, a next generation topoisomerase I (topo I) inhibitor, that was designed using our PEGylation technology. NKTR-102 is a novel macromolecular chemotherapeutic designed to enhance the anti-cancer effects of topo I inhibition while minimizing its toxicities. Unlike irinotecan, a first generation topo I inhibitor that exhibits a high initial peak concentration and short half-life, NKTR-102 s unique pro-drug design results in a lowered initial peak concentration of active topo I inhibitor in the blood. The large NKTR-102 molecule is inactive when administered. Over time, the body s natural enzymatic processes slowly metabolize the linkers within the molecule, continuously freeing active drug that then can work to stop tumor cell division through topo I inhibition. In preclinical models, NKTR-102 achieved a 300-fold increase in tumor concentration as compared to irinotecan. Because NKTR-102 is a large molecule, based on preclinical studies we believe that it may penetrate the leaky vasculature within the tumor environment more readily than normal vasculature, concentrating and trapping NKTR-102 in tumor tissue. Clinical studies have shown that NKTR-102 has an extended pharmacokinetic profile and remains in circulation throughout the entire chemotherapy cycle, providing sustained exposure to topo I inhibition.

NKTR-102 is currently being evaluated as a single-agent therapy (145 mg/m2 every 21 days) in a Phase 3 open-label, randomized, multicenter clinical study in patients with metastatic breast cancer. This Phase 3 clinical study, which we call BEACON (BrEAst Cancer Outcomes with NKTR-102), was initiated in December 2011. The BEACON study plans to include approximately 160 investigator sites worldwide including sites in North America, Eastern and Western Europe, and certain countries in Asia/Pacific. The BEACON study plans to enroll approximately 840 patients with metastatic breast cancer who have had prior treatment with anthracycline, taxane and capecitabine in either the adjuvant or metastatic setting. This study will randomize patients on a 1:1 basis to receive single-agent NKTR-102 or a single agent chosen from a defined set of physician s choice alternatives. The physician s choice single agents will include the following: ixabepilone, vinorelbine,

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gemcitabine, eribulin, or a taxane. Randomization will be stratified by geographic region, prior treatment with eribulin and whether or not the patient has triple negative breast cancer. The primary endpoint of the BEACON study will be overall survival, and secondary endpoints will include progression-free survival and objective tumor response rate. Secondary endpoints and objectives also include clinical benefit rate, duration of response, pharmacokinetic data, safety profiles, quality-of-life measurements, and pharmacoeconomic implications. Exploratory objectives of the study will include collecting specific biomarker data to correlate with objective tumor response rate, progression-free survival, overall survival and selected toxicities.

According to the American Cancer Society and World Health Organization, more than one million women worldwide are diagnosed with breast cancer globally every year. The chance of developing invasive breast cancer at some time in a woman s life is a little less than one in eight (12%). In 2011, there were an estimated 230,000 new cases of breast cancer in the United States and 460,000 new cases in Europe. Metastatic breast cancer refers to cancer that has spread from the breast to distant sites in the body. Anthracyclines and taxanes are the among the most active and widely used chemotherapeutic agents for breast cancer, but the increased use of these agents at an early stage of disease often renders tumors resistant to these drugs by the time the disease recurs, thereby reducing the number of treatment options for metastatic disease. There are currently no FDA-approved topoisomerase I inhibitors to treat breast cancer.

NKTR-102 is also being evaluated in a Phase 2 clinical study in patients with platinum-resistant ovarian cancer. This clinical study is an open label, randomized, study evaluating two treatment schedules of single-agent NKTR-102 (145 mg/m2 every 14 days or every 21 days). Each schedule originally followed a two-stage Simon design and a total of 71 patients were initially included in the study that was completed in the first half of 2010. In the second half of 2010, we expanded this Phase 2 study to include approximately 50 additional women who had previously received Doxil® therapy to continue to evaluate the every 21-day dose schedule of single-agent NKTR-102 in this subset of women. On March 1, 2011, we announced that we intended to further expand this Phase 2 clinical study by approximately 60 additional patients. In November 2011, we announced that enrollment in this expanded study had significantly slowed due to a shortage of Doxil® resulting from serious manufacturing issues being experienced by the manufacturer and supplier of Doxil®. As of February 2012, approximately 94 patients of the 110 patients had been enrolled in the study. We are currently in the process of compiling and performing verification procedures on the preliminary interim results from the patients enrolled to date in this study. Results from this study and communication with government health authorities in both the U.S. and E.U. will guide our future development and regulatory strategy for NKTR-102 in ovarian cancer.

Ovarian cancer is also a significant health problem for women worldwide. According to the American Cancer Society, in 2012, there will be an estimated 22,280 new cases of ovarian cancer diagnosed and an estimated 15,500 deaths from ovarian cancer in the United States. Ovarian cancer is the ninth most common cancer among women, excluding non-melanoma skin cancers. It ranks fifth in cancer deaths among women, accounting for more deaths than any other cancer of the female reproductive system. Historically, less than 40% of women with ovarian cancer are cured. According to the World Health Organization, about 230,000 women globally are diagnosed each year with ovarian cancer.

A NKTR-102 Phase 2 clinical study was initiated in June 2008 to evaluate the efficacy and safety of NKTR-102 monotherapy versus irinotecan in second-line metastatic colorectal cancer patients with the KRAS mutant gene. The primary endpoint of the Phase 2 clinical study in metastatic colorectal cancer is progression-free survival as compared to standard irinotecan monotherapy. According to recent data presented at the American Society of Clinical Oncology in 2010, it is estimated that up to 43.5% of colorectal cancer cases have this mutation in the KRAS gene and do not respond to EGFR-inhibitors, such as cetuximab. The Phase 2 clinical study is designed to enroll 174 patients with metastatic colorectal cancer. The study is still enrolling and patient enrollment in this study has been challenging due to the fact that the comparator arm of this study, single-agent irinotecan, is not the common standard of care for second line metastatic colorectal therapy in the U.S. or EU. In June 2010, we started a Phase 1 dose-escalation clinical study designed to enroll up to approximately 40 patients to evaluate NKTR-102 in combination with 5-fluorouracil (5-FU)/leucovorin in refractory solid tumor cancers

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and the study is still ongoing. The chemotherapy agent 5-FU is currently used as a part of a combination treatment regimen for colorectal cancer in combination with irinotecan, which is also known as the FOLFIRI regimen.

Colorectal cancer is the third most commonly diagnosed cancer and the second leading cause of cancer death in the U.S. According to the American Cancer Society, nearly 141,210 new cases of colon and rectal cancer were diagnosed in the U.S. in 2011, and about 49,000 people will die annually of the disease. Worldwide, over 1.2 million people are diagnosed annually with colorectal cancer. Most metastatic colorectal cancer patients have recurrence within two years and require retreatment with chemotherapy regimens. The majority of metastatic colorectal cancer patients receive irinotecan-based regimens, primarily in combination with 5-FU/leucovorin. Colorectal cancer is the third leading cause of cancer-related deaths in the United States when men and women are considered separately, and the second leading cause when both sexes are combined. It was expected to cause about 49,380 deaths (29,001 in men and 20,379 in women) during 2011 in the U.S. Worldwide, according to the World Health Organization, there are 690,000 deaths annually from colorectal cancers.

***BAY41-6551 (Amikacin Inhale, formerly NKTR-061), Agreement with Bayer Healthcare LLC***

In August 2007, we entered into a co-development, license and co-promotion agreement with Bayer Healthcare LLC (Bayer) to develop a specially-formulated Amikacin (BAY41-6551, Amikacin Inhale, formerly called NKTR-061). Under the terms of the agreement, Bayer is responsible for most future clinical development and commercialization costs, all activities to support worldwide regulatory filings, approvals and related activities, further development of formulated Amikacin and final product packaging for BAY41-6551. We are responsible for all future development of the nebulizer device through the completion of Phase 3 clinical studies and for clinical and commercial manufacturing and supply of the nebulizer device. We have engaged third party contract manufacturers to perform our device manufacturing obligations for this program. We are entitled to up to $60.0 million in development milestone payments as well as sales milestone payments upon achievement of certain annual sales targets. We are also entitled to royalties based on annual worldwide net sales of BAY41-6551. Our right to receive these royalties in any particular country will expire upon the later of ten years after the first commercial sale of the product in that country or the expiration of certain patent rights in that particular country, subject to certain exceptions. The agreement expires in relation to a particular country upon the expiration of all royalty and payment obligations between the parties related to such country. Subject to termination fee payment obligations, Bayer also has the right to terminate the agreement for convenience. In addition, the agreement may also be terminated by either party for certain product safety concerns, the product s failure to meet certain minimum commercial profile requirements or uncured material breaches by the other party.

BAY41-6551 is in clinical development to treat Gram-negative pneumonias, including hospital-acquired (HAP), healthcare-associated, and ventilator-associated pneumonias. Gram-negative pneumonias are often the result of complications of other patient conditions or surgeries. Gram-negative pneumonias carry a mortality risk that can exceed 50% in mechanically-ventilated patients and accounts for a substantial proportion of the pneumonias in intensive care units today. BAY41-6551 is designed to be an adjunctive therapy to the current antibiotic therapies administered intravenously as standard of care. The targeted aerosol delivery platform in BAY41-6551 delivers the antimicrobial agent directly to the site of infection in the lungs. This drug candidate can be integrated with conventional mechanical ventilators or used as a hand-held off-vent device for patients no longer requiring breathing assistance. This drug candidate has completed Phase 2 clinical development. In 2011, Bayer received agreement with the U.S. Food and Drug Administration (FDA) on the design of the Phase 3 clinical studies of BAY41-6551 under the Special Protocol Assessment (SPA) process that is intended to support the submission of a New Drug Application (NDA) if the Phase 3 clinical study commences and is successful.

Bayer and Nektar have been working together to prepare for Phase 3 clinical studies of BAY41-6551 following the consummation of the collaboration in August 2007. The program is significantly behind schedule. The reason for this is that Bayer and Nektar decided to finalize the design of the device for commercial

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manufacturing prior to initiating Phase 3 clinical development with the objective of commencing Phase 3 clinical trials as soon as possible following completion of this work. Please refer to Item 1A, Risk Factors, If we or our partners are not able to manufacture drugs or drug substances in quantities and at costs that are commercially feasible, we may fail to meet our contractual obligations or our proprietary and partnered product candidates may experience clinical delays or constrained commercial supply which could significantly harm our business.

***NKTR-181 (mu-opioid analgesic molecule for chronic pain)***

NKTR-181 is an orally-available mu-opioid drug candidate in development as a long-acting analgesic to treat chronic pain. NKTR-181 is designed with the objective to address the abuse liability and serious central nervous system (CNS) side effects associated with current opioid therapies. NKTR-181 is a novel mu-opioid analgesic molecule created using Nektar s proprietary polymer conjugate technology, which provides it with a long-acting profile and slows its entry into the CNS. Its potential differentiating properties are inherent to the design of the new molecule and as a new molecular structure, NKTR-181 does not rely on a formulation approach to prevent its conversion into a more abusable form of an opioid.

In 2011, we completed two separate Phase 1 clinical studies of NKTR-181. The first study, a single-ascending dose study of NKTR-181 evaluated the pharmacokinetics and pharmacodynamics of a 50-fold range of single oral doses of NKTR-181 in 84 healthy subjects at up to 500 mg dose levels. The second study, a multiple-ascending dose study of NKTR-181 evaluated the pharmacokinetics and pharmacodynamics of four separate dose cohorts of NKTR-181 (100 mg 400 mg) administered orally twice-daily. The study enrolled a total of 60 healthy subjects over an eight-day treatment period, and included a placebo arm (n=3) for each dose cohort. Measurements in the study include plasma concentrations-time profiles, reductions in pupil diameter, and a cold pressor test, a model of pain used in healthy subjects to measure central analgesic activity. In this multiple dose Phase 1 clinical study, NKTR-181 exhibited a sustained analgesic response, which we believe supports its future development as a twice-daily oral tablet for the treatment of chronic pain conditions. Pupillometry data from the study demonstrated that NKTR-181 s centrally-mediated opioid effects are dose-dependent and indicates that the molecule enters the brain slowly, which has the potential to reduce the euphoria and other CNS side effects that are associated with current opioids. NKTR-181 was also well-tolerated at all doses evaluated in both studies. The Phase 2 clinical program is planned to begin in mid-2012 and will include a randomized, double-blind, efficacy and safety study of NKTR-181 as compared to placebo in patients with chronic pain.

According to a 2011 report from the National Academy of Sciences, chronic pain conditions, such as osteoarthritis, back pain and cancer pain, affect at least 126 million adults in the U.S. annually and contribute to over $100 billion a year in lost productivity. Opioids are considered to be the most effective therapeutic option for pain. However, opioids cause significant problems for physicians and patients because of their serious side effects such as respiratory depression and sedation, as well as the risks they pose for addiction, abuse, misuse, and diversion. The FDA has cited prescription opioid analgesics as being at the center of a major public health crisis of addiction, misuse, abuse, overdose and death. A 2010 report from the Center for Disease Control and Prevention (CDC) notes that emergency room visits tied to the abuse of prescription painkillers is at an all-time high, having increased 111 percent over a 5-year period.

***NKTR-192 (mu-opioid analgesic molecule for acute pain)***

NKTR-192 is an orally-available mu-opioid analgesic molecule in preclinical development that is intended to be a short-acting analgesic to treat acute pain. NKTR-192 is also designed to address the abuse liability and serious central nervous system (CNS) side effects associated with current opioid therapies. NKTR-192 is also designed to have slow entry into the CNS. Its differentiating properties are inherent to the design of the new molecule and as a new molecular structure, NKTR-192 does not rely on a formulation approach to prevent its conversion into a more abusable form of an opioid. NKTR-192 completed preclinical work in 2011 and we plan to begin a Phase 1 clinical study in 2012 following submission of an investigational new drug application (IND)

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and the expiration or completion of the FDA review period and our resolution of any issues raised by the FDA, if any, prior to the IND becoming effective.

**Overview of Select Technology Licensing Collaborations and Programs**

We have a number of product candidates in clinical development and approved products in collaboration with our partners that use our technology or involve rights over which we have patents or other proprietary intellectual property. In a typical collaboration involving our PEGylation technology, we license our proprietary intellectual property related to our PEGylation technology or proprietary conjugated drug molecules in consideration for upfront payments, development milestone payments and royalties from sales of the resulting commercial product as well as sales milestones. In certain cases, we also manufacture and supply our proprietary PEGylation materials to our partners.

***Peginesatide, Agreement with Affymax, Inc.***

In April 2004, we entered into a license, manufacturing and supply agreement with Affymax, Inc. (Affymax), under which we granted Affymax a worldwide, non-exclusive license to certain of our proprietary PEGylation technology to develop, manufacture and commercialize peginesatide. Peginesatide is a synthetic PEGylated peptidic compound that binds to and stimulates the erythropoietin receptor and thus acts as an erythropoietin stimulating agent (ESA). The compound was discovered by Affymax and is being co-developed by Affymax and Takeda Pharmaceutical Company Limited. In May 2011, Affymax filed a NDA with the FDA for peginesatide to treat anemia in patients with chronic kidney disease (CKD) on dialysis. If approved, peginesatide may be the first once-monthly ESA for anemia in CKD for dialysis patients available in the U.S. In December 2011, the FDA Oncologic Drugs Advisory Committee (ODAC) voted 15 to 1, with 1 abstention, that peginesatide demonstrated a favorable benefit/risk profile for use in the treatment of dialysis patients with anemia due to CKD. While the FDA is not bound by the recommendation of ODAC, its guidance will be considered by the FDA in its review of the NDA. The scheduled Prescription Drug User Fee Act (PDUFA) date for peginesatide is March 27, 2012. The FDA endeavors to complete its review of NDAs by the PDUFA date but does not always do so and the FDA s decision regarding a NDA can be delayed significantly beyond the original PDUFA date through various regulatory delays or regulatory actions.

We currently manufacture our proprietary PEGylation materials for Affymax on a fixed price basis subject to annual adjustments. Affymax has an option to convert this manufacturing pricing arrangement to cost plus at any time prior to the date the NDA for peginesatide is submitted to the FDA. In addition, Affymax is responsible for all clinical development, regulatory and commercialization expenses and we are entitled to development milestones and royalties on net sales of peginesatide. We will share a portion of our future royalty payments with Enzon Pharmaceuticals, Inc. Our right to receive royalties in any particular country will expire upon the later of ten years after the first commercial sale of the product in that country or the expiration of patent rights in that particular country. The agreement expires on a country-by-country basis upon the expiration of Affymax s royalty obligations. The agreement may also be terminated by either party for the other party s continued material breach after expiration of a cure period or by us in the event that Affymax challenges the validity or enforceability of any patent licensed to them under the agreement.

***LEVADEX®, Agreement with MAP Pharmaceuticals***

In June 2004, we entered into a license agreement with MAP Pharmaceuticals, Inc. (MAP) which includes a worldwide, exclusive license, to certain of our patents and other intellectual property rights to develop and commercialize a formulation of dihydroergotamine for administration to patients via the pulmonary or nasal delivery route. In 2006, we amended and restated this agreement. Under the terms of the agreement, we have the right to receive certain milestone payments based on development criteria that are solely the responsibility of MAP and royalties based on net sales of LEVADEX®. Our right to receive royalties in any particular country will expire upon the later of (i) 10 years after first commercial sale in that country, (ii) the date upon which the

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licensed know-how becomes known to the general public, and (iii) expiration of certain patent claims, each on a country-by-country basis. Either party may terminate the agreement upon a material, uncured default of the other party. On May 26, 2011, MAP submitted a NDA to the FDA for LEVADEX and the PDUFA date is March 26, 2012. The FDA endeavors to complete its review of NDAs by the PDUFA date but does not always do so and the FDA s decision regarding a NDA can be delayed significantly beyond the original PDUFA date through various regulatory delays or regulatory actions.

***BAX 855 and Long-Acting Therapies for Hemophilia A and Hemophilia B, Agreement with Subsidiaries of Baxter International***

In September 2005, we entered into an exclusive research, development, license, manufacturing and supply agreement with Baxter Healthcare SA and Baxter Healthcare Corporation (Baxter) to develop products with an extended half-life for the treatment and prophylaxis of Hemophilia A patients using our proprietary PEGylation technology. The first product in this collaboration, BAX 855, is a longer-acting (PEGylated) form of a full-length recombinant factor VIII (rFVIII) protein which entered Phase 1 clinical development in late 2011. BAX 855 uses Nektar s proprietary PEGylation technology and is also based on Baxter s ADVATE [Antihemophilic Factor (Recombinant) Plasma/Albumin-Free Method] full-length rFVIII molecule and plasma/albumin-free (PAF) manufacturing process. The Phase 1 trial is a prospective, open-label study that will assess the safety, tolerability and pharmacokinetics of BAX 855 in previously-treated patients aged 12 years or older with severe hemophilia A. When used for prophylaxis, Baxter s ADVATE requires patients to infuse every two to three days to reduce the occurrence of bleeding episodes. This Phase 1 clinical study is the first step in assessing whether BAX 855 can be infused less frequently. If the Phase 1 clinical study is successful, Baxter plans to initiate Phase 3 studies for the program.

In December 2007, we expanded our agreement with Baxter to include the license of our PEGylation technology and proprietary PEGylation methods with the potential to improve the half-life of any future drug products Baxter may develop for the treatment and prophylaxis of Hemophilia B patients. Under the terms of the agreement with Baxter, we are entitled to research and development funding, and we manufacture our proprietary PEGylation materials for Baxter on a cost plus basis. Baxter is responsible for all clinical development, regulatory, and commercialization expenses. In relation to Hemophilia A, we are entitled to up to $84.0 million in total development and sales milestone payments of which $8.5 million has been paid to date, as well as royalties on net sales varying by product and country of sale. Our right to receive these royalties in any particular country will expire upon the later of ten years after the first commercial sale of the product in that country or the expiration of patent rights in certain designated countries or in that particular country.

In relation to Hemophilia B and other blood-clotting factor diseases, we are entitled to up to $44.0 million in development and sales milestone payments of which $6.0 million has been paid to date, as well as royalties on net sales varying by product and country of sale. Our right to receive these royalties in any particular country will expire upon the later of twelve years after the first commercial sale of the product in that country or the expiration of patent rights in certain designated countries or in that particular country. The agreement expires in relation to a particular product and country upon the expiration of all of Baxter s royalty obligations related to such product and country. The agreement may also be terminated by either party for the other party s material breach or insolvency, provided that such other party has been given a chance to cure or remedy such breach or insolvency. Subject to certain limitations as to time, and possible termination fee payment obligations, Baxter also has the right to terminate the agreement for convenience. We have the right to terminate the agreement or convert Baxter s license from exclusive to non-exclusive in the event Baxter fails to comply with certain diligence obligations.

***Cipro Inhale, Agreement with Bayer Schering Pharma AG Assigned to Novartis as of December 31, 2008***

We were a party to a collaborative research, development and commercialization agreement with Bayer Schering Pharma AG related to the development of an inhaled powder formulation of Ciprofloxacin for the

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treatment of chronic lung infections caused by *Pseudomonas aeruginosa* in cystic fibrosis patients. Cipro Inhale has completed Phase 2 clinical development with Bayer for the treatment of chronic lung infections. As of December 31, 2008, we assigned the agreement to Novartis Pharma AG in connection with the closing of the pulmonary asset sale transaction. We maintain the right to receive certain potential royalties in the future based on net product sales if Cipro Inhale receives regulatory approval and is successfully commercialized.

**Overview of Select Licensing Partnerships for Approved Products**

***Neulasta®, Agreement with Amgen, Inc.***

In July 1995, we entered into a non-exclusive supply and license agreement (1995 Agreement) with Amgen, Inc., pursuant to which we licensed our proprietary PEGylation technology to be used in the development and manufacture of Neulasta. Neulasta selectively stimulates the production of neutrophils that are depleted by cytotoxic chemotherapy, a condition called neutropenia that makes it more difficult for the body to fight infections. On October 29, 2010, we amended and restated the 1995 Agreement by entering into a supply, dedicated suite and manufacturing guarantee agreement (2010 Agreement) and an amended and restated license agreement with Amgen Inc. and Amgen Manufacturing., Limited (together referred to as Amgen). Under the terms of the 2010 Agreement, we guarantee the manufacture and supply of our proprietary PEGylation materials (Polymer Materials) to Amgen in an existing manufacturing suite to be used exclusively for the manufacture of Polymer Materials for Amgen in our manufacturing facility in Huntsville, Alabama. This supply arrangement is on a non-exclusive basis (other than the use of the manufacturing suite and certain equipment) whereby we are free to manufacture and supply the Polymer Materials to any other third party and Amgen is free to procure the Polymer Materials from any other third party. Under the terms of the 2010 Agreement, we received a $50.0 million upfront payment in return for guaranteeing supply of certain quantities of Polymer Materials to Amgen and the Additional Rights described below, and Amgen will pay manufacturing fees calculated based on fixed and variable components applicable to the Polymer Materials ordered by Amgen and delivered by us. Amgen has no minimum purchase commitments. If quantities of the Polymer Materials ordered by Amgen exceed specified quantities (with each specified quantity representing a small portion of the quantity that we historically supplied to Amgen), significant additional payments become payable to us in return for guaranteeing supply of additional quantities of the Polymer Materials.

The term of the Agreement runs through October 29, 2020. In the event we become subject to a bankruptcy or insolvency proceeding, we cease to own or control the manufacturing facility in Huntsville, Alabama, we fail to manufacture and supply the Polymer Materials or certain other events occur, Amgen or its designated third party will have the right to elect, among certain other options, to take title to the dedicated equipment and access the manufacturing facility to operate the manufacturing suite solely for the purpose of manufacturing the Polymer Materials (Additional Rights). Amgen may terminate the 2010 Agreement for convenience or due to an uncured material default by us. Either party may terminate the 2010 Agreement in the event of insolvency or bankruptcy of the other party.

***PEGASYS®, Agreement with F. Hoffmann-La Roche Ltd***

In February 1997, we entered into a license, manufacturing and supply agreement with F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc. (Roche), under which we granted Roche a worldwide, exclusive license to use certain intellectual property related to our PEGylation materials to manufacture and commercialize a certain class of products, of which PEGASYS is the only product currently commercialized. PEGASYS is approved in the U.S., E.U. and other countries for the treatment of Hepatitis C and is designed to help the patient s immune system fight the Hepatitis C virus. As a result of Roche exercising a license extension option in December 2009, beginning in 2010 Roche has the right to manufacture all of its requirements for our proprietary PEGylation materials for PEGASYS and we supply raw materials or perform additional manufacturing, if any, only on a back-up basis. The agreement expires on the later of January 10, 2015 or the expiration of our last relevant patent containing a valid claim.

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***Somavert®, Agreement with Pfizer, Inc.***

In January 2000, we entered into a license, manufacturing and supply agreement with Sensus Drug Development Corporation (subsequently acquired by Pharmacia Corp. in 2001 and then acquired by Pfizer, Inc. in 2003), for the PEGylation of Somavert (pegvisomant), a human growth hormone receptor antagonist for the treatment of acromegaly. We currently manufacture our proprietary PEGylation reagent for Pfizer on a price per gram basis. The agreement expires on the later of ten years from the grant of first marketing authorization in the designated territory, which occurred in March 2003, or the expiration of our last relevant patent containing a valid claim. In addition, Pfizer may terminate the agreement if marketing authorization is withdrawn or marketing is no longer feasible due to certain circumstances, and either party may terminate for cause if certain conditions are met.

***PEG-Intron®, Agreement with Merck (through its acquisition of Schering-Plough Corporation)***

In February 2000, we entered into a manufacturing and supply agreement with Schering-Plough Corporation (Schering) for the manufacture and supply of our proprietary PEGylation materials to be used by Schering in production of a pegylated recombinant human interferon-alpha (PEG-Intron). PEG-Intron is a treatment for patients with Hepatitis C. Schering was acquired by and become a wholly-owned subsidiary of Merck & Co., Inc. We currently manufacture our proprietary PEGylation materials for Schering on a price per gram basis. In December 2010, the parties amended the manufacturing and supply agreement to provide for a transition plan to an alternative manufacturer and extension of the term through the successful manufacturing transition or December 31, 2018 at the latest. The amended agreement provided for a one-time payment and milestone payments as well as increased pricing for any future manufacturing performed by us.

***Macugen®, Agreement with Eyetech, Inc.***

In 2002, we entered into a license, manufacturing and supply agreement with Eyetech, Inc. (Eyetech), pursuant to which we license certain intellectual property related to our proprietary PEGylation technology for the development and commercialization of Macugen®, a PEGylated anti-vascular endothelial growth factor aptamer currently approved in the U.S. and E.U. for age-related macular degeneration. We currently manufacture our proprietary PEGylation materials for Eyetech on a price per gram basis. Under the terms of the agreement, we will receive royalties on net product sales in any particular country for the longer of ten years from the date of the first commercial sale of the product in that country or the duration of patent coverage. We share a portion of the payments received under this agreement with Enzon Pharmaceuticals, Inc. The agreement expires upon the expiration of our last relevant patent containing a valid claim. In addition, Eyetech may terminate the agreement if marketing authorization is withdrawn or marketing is no longer feasible due to certain circumstances, and either party may terminate for cause if certain conditions are met.

***CIMZIA®, Agreement with UCB Pharma***

In December 2000, we entered into a license, manufacturing and supply agreement for CIMZIA® (certolizumab pegol) with Celltech Chiroscience Ltd., which was acquired by UCB Pharma (UCB) in 2004. Under the terms of the agreement, UCB is responsible for all clinical development, regulatory, and commercialization expenses. We have the right to receive manufacturing revenue on the basis of a fixed price per gram. We were also entitled to receive royalties on net sales of the CIMZIA® product for the longer of ten years from the first commercial sale of the product anywhere in the world or the expiration of patent rights in a particular country. In February 2012, we sold our rights to receive royalties on future worldwide net sales of CIMZIA® effective as of January 1, 2012 until the agreement with UCB is terminated or expires. This sale is further discussed in Note 14 of Item 8, Financial Statements and Supplementary Data. We share a portion of the payments we receive from UCB with Enzon Pharmaceuticals, Inc. The agreement expires upon the expiration of all of UCB s royalty obligations, provided that the agreement can be extended for successive two year renewal

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periods upon mutual agreement of the parties. In addition, UCB may terminate the agreement should it cease the development and marketing of CIMZIA® and either party may terminate for cause under certain conditions.

***MIRCERA® (C.E.R.A.) (Continuous Erythropoietin Receptor Activator), Agreement with F. Hoffmann-La Roche Ltd***

In December 2000, we entered into a license, manufacturing and supply agreement with F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc. (Roche), which was amended and restated in its entirety in December 2005. Pursuant to the agreement, we license our intellectual property related to our proprietary PEGylation materials for the manufacture and commercialization of Roche s MIRCERA® product. As of the end of 2006, we were no longer required to manufacture and supply our proprietary PEGylation materials for MIRCERA®, however, in February 2012, we entered into a new supply arrangement with Roche under which we agreed to resume manufacture of our proprietary PEGylation materials for MIRCERA on a non-exclusive basis for a specified time period. MIRCERA® is a novel continuous erythropoietin receptor activator indicated for the treatment of anemia associated with chronic kidney disease in patients on dialysis and patients not on dialysis. We were entitled to receive royalties on net sales of the MIRCERA® product in any particular country for the longer of ten years from the first commercial sale of the product in that country or the expiration of patent rights in that particular country. In February 2012, we sold our rights to receive royalties on future worldwide net sales of MIRCERA® effective as of January 1, 2012 until the agreement with Roche is terminated or expires. This sale is further discussed in Note 14 of Item 8, Financial Statements and Supplementary Data. The agreement expires upon the expiration of all of Roche s royalty obligations, unless earlier terminated by Roche for convenience or by either party for cause under certain conditions.

**Significant Developments in our Business that Occurred in 2008**

***Exit from the Inhaled Insulin Programs***

In 1995, we entered into a collaborative development and licensing agreement with Pfizer to develop and market Exubera® and, in 2006 and 2007, we entered into a series of interim letter agreements with Pfizer to develop a next generation form of dry powder inhaled insulin and proprietary inhaler device, also known as NGI. In January 2006, Exubera received marketing approval in the U.S. and EU for the treatment of adults with Type 1 and Type 2 diabetes. Under the collaborative development and licensing agreement, Pfizer had sole responsibility for marketing and selling Exubera. We performed all of the manufacturing of the Exubera dry powder insulin, and we supplied Pfizer with the Exubera inhalers through third party contract manufacturers (Bespak Europe Ltd. and Tech Group North America, Inc.). We recorded no revenue from Pfizer related to these activities for the years ended December 31, 2011, 2010, 2009, and 2008.

On October 18, 2007, Pfizer announced that it was exiting the Exubera business and gave notice of termination under our collaborative development and licensing agreement. On November 9, 2007, we entered into a termination agreement and mutual release with Pfizer. Under this agreement we received a one-time payment of $135.0 million in November 2007 from Pfizer in satisfaction of all outstanding contractual obligations under our then-existing agreements relating to Exubera and NGI. All agreements between Pfizer and us related to Exubera and NGI, other than the termination agreement and mutual release and a related interim Exubera manufacturing maintenance letter, terminated on November 9, 2007. In February 2008, we entered into a termination agreement with Bespak and Tech Group pursuant to which we paid an aggregate of $40.2 million in satisfaction of outstanding accounts payable and termination costs and expenses that were due under the Exubera inhaler contract manufacturing agreement. We also entered into a maintenance agreement with both Pfizer and Tech Group to preserve key personnel and manufacturing capacity to support potential future Exubera inhaler manufacturing if we found a new partner for the inhaled insulin program.

On April 9, 2008, we announced that we had ceased all negotiations with potential partners for Exubera and NGI as a result of new data analysis from ongoing clinical trials conducted by Pfizer which indicated an increase in the number of new cases of lung cancer in Exubera patients who were former smokers as compared to patients

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in the control group who were not former smokers. In April 2008, we ceased all spending associated with maintaining Exubera manufacturing capacity and any further NGI development, including, but not limited to, terminating the Exubera manufacturing capacity maintenance arrangements with Pfizer and Tech Group.

***Asset Sale to Novartis***

On December 31, 2008, we completed the sale of certain assets related to our pulmonary business, associated technology and intellectual property to Novartis Pharma AG and Novartis Pharmaceuticals Corporation (together referred to as Novartis) for a purchase price of $115.0 million in cash (Novartis Pulmonary Asset Sale). Under the terms of the transaction, we transferred to Novartis certain assets and obligations related to our pulmonary technology, development and manufacturing operations including:

- dry powder and liquid pulmonary technology platform including but not limited to our pulmonary inhalation devices, formulation technology, manufacturing technology and related intellectual property;
- capital equipment, information systems and facility lease obligations for our pulmonary development and manufacturing facility in San Carlos, California;
- manufacturing and associated development services payments for the Cipro Inhale program;
- manufacturing and royalty rights to the Tobramycin Inhalation Powder (TIP) program through the termination of our collaboration agreement with Novartis;
- certain other interests that we had in two private companies; and
- approximately 140 of our personnel primarily dedicated to our pulmonary technology, development programs, and manufacturing operations.

In addition, we retained all of our rights to BAY41-6551, partnered with Bayer Healthcare LLC, certain royalty rights for the Cipro Inhale development program partnered with Bayer Schering Pharma AG, and certain intellectual property rights specific to inhaled insulin.

In connection with the Novartis Pulmonary Asset Sale, we also entered into an Exclusive License Agreement with Novartis Pharma. Pursuant to the Exclusive License Agreement, Novartis Pharma granted back to us an exclusive, irrevocable, perpetual, non-transferable, royalty-free and worldwide license under certain specific patent rights and other related intellectual property rights acquired by Novartis Pharma from Nektar in the transaction, as well as certain improvements or modifications thereto that are made by Novartis Pharma after the closing. Certain of such patent rights and other related intellectual property rights relate to our development program for inhaled vancomycin or are necessary for us to satisfy certain of our continuing contractual obligations to third parties, including in connection with development, manufacture, sale, and commercialization activities related to BAY41-6551. We also entered into a service agreement pursuant to which we have subcontracted to Novartis certain services to be performed related to our partnered program for BAY41-6551 and a transition services agreement pursuant to which Novartis and we will provide each other with specified services for limited time periods following the closing of the Novartis Pulmonary Asset Sale to facilitate the transition of the acquired assets and business from us to Novartis.

**Government Regulation**

The research and development, clinical testing, manufacture and marketing of products using our technologies are subject to regulation by the FDA and by comparable regulatory agencies in other countries. These national agencies and other federal, state and local entities regulate, among other things, research and development activities and the testing (in vitro, in animals, and in human clinical trials), manufacture, labeling, storage, recordkeeping, approval, marketing, advertising and promotion of our products.

The approval process required by the FDA before a product using any of our technologies may be marketed in the U.S. depends on whether the chemical composition of the product has previously been approved for use in

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other dosage forms. If the product is a new chemical entity that has not been previously approved, the process includes the following:

- extensive preclinical laboratory and animal testing;
- submission of an Investigational New Drug application (IND) prior to commencing clinical trials;
- adequate and well-controlled human clinical trials to establish the safety and efficacy of the drug for the intended indication; and
- submission to the FDA of an NDA for approval of a drug, a BLA for approval of a biological product or a Premarket Approval Application (PMA) or Premarket Notification 510(k) for a medical device product (a 510(k)).

If the active chemical ingredient has been previously approved by the FDA, the approval process is similar, except that certain preclinical tests relating to systemic toxicity normally required for the IND and NDA or BLA may not be necessary if the company has a right of reference to such data or is eligible for approval under Section 505(b)(2) of the Federal Food, Drug, and Cosmetic Act or the biosimilars provisions of the Public Health Services Act.

Preclinical tests include laboratory evaluation of product chemistry and animal studies to assess the safety and efficacy of the product and its chosen formulation. Preclinical safety tests must be conducted by laboratories that comply with FDA good laboratory practices (GLP) regulations. The results of the preclinical tests for drugs, biological products and combination products subject to the primary jurisdiction of the FDA s Center for Drug Evaluation and Research (CDER) or Center for Biologics Evaluation and Research (CBER) are submitted to the FDA as part of the IND and are reviewed by the FDA before clinical trials can begin. Clinical trials may begin 30 days after receipt of the IND by the FDA, unless the FDA raises objections or requires clarification within that period.

Clinical trials involve the administration of the drug to healthy volunteers or patients under the supervision of a qualified, identified medical investigator according to a protocol submitted in the IND for FDA review. Drug products to be used in clinical trials must be manufactured according to current good manufacturing practices (cGMP). Clinical trials are conducted in accordance with protocols that detail the objectives of the study and the parameters to be used to monitor participant safety and product efficacy as well as other criteria to be evaluated in the study. Each protocol is submitted to the FDA in the IND.

Apart from the IND process described above, each clinical study must be reviewed by an independent Institutional Review Board (IRB) and the IRB must be kept current with respect to the status of the clinical study. The IRB considers, among other things, ethical factors, the potential risks to subjects participating in the trial and the possible liability to the institution where the trial is conducted. The IRB also reviews and approves the informed consent form to be signed by the trial participants and any significant changes in the clinical study.

Clinical trials are typically conducted in three sequential phases. Phase 1 involves the initial introduction of the drug into healthy human subjects (in most cases) and the product generally is tested for tolerability, pharmacokinetics, absorption, metabolism and excretion. Phase 2 involves studies in a limited patient population to:

- determine the preliminary efficacy of the product for specific targeted indications;
- determine dosage and regimen of administration; and
- identify possible adverse effects and safety risks.

If Phase 2 trials demonstrate that a product appears to be effective and to have an acceptable safety profile, Phase 3 trials are undertaken to evaluate the further clinical efficacy and safety of the drug and formulation

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within an expanded patient population at geographically dispersed clinical study sites and in large enough trials to provide statistical proof of efficacy and tolerability. The FDA, the clinical trial sponsor, the investigators or the IRB may suspend clinical trials at any time if any one of them believes that study participants are being subjected to an unacceptable health risk. In some cases, the FDA and the drug sponsor may determine that Phase 2 trials are not needed prior to entering Phase 3 trials.

Following a series of formal meetings and communications between the drug sponsor and the regulatory agencies, the results of product development, preclinical studies and clinical studies are submitted to the FDA as an NDA or BLA for approval of the marketing and commercial shipment of the drug product. The FDA may deny approval if applicable regulatory criteria are not satisfied or may require additional clinical or pharmaceutical testing or requirements. Even if such data are submitted, the FDA may ultimately decide that the NDA or BLA does not satisfy all of the criteria for approval. Additionally, the approved labeling may narrowly limit the conditions of use of the product, including the intended uses, or impose warnings, precautions or contraindications which could significantly limit the potential market for the product. Further, as a condition of approval, the FDA may impose post-market surveillance, or Phase 4, studies or risk evaluation and mitigation strategies. Product approvals, once obtained, may be withdrawn if compliance with regulatory standards is not maintained or if safety concerns arise after the product reaches the market. The FDA may require additional post-marketing clinical testing and pharmacovigilance programs to monitor the effect of drug products that have been commercialized and has the power to prevent or limit future marketing of the product based on the results of such programs. After approval, there are ongoing reporting obligations concerning adverse reactions associated with the product, including expedited reports for serious and unexpected adverse events.

Each manufacturing establishment producing drug product for the U.S. market must be registered with the FDA and typically is inspected by the FDA prior to NDA or BLA approval of a drug product manufactured by such establishment. Establishments handling controlled substances must also be licensed by the U.S. Drug Enforcement Administration. Manufacturing establishments of U.S. marketed products are subject to inspections by the FDA for compliance with cGMP and other U.S. regulatory requirements. They are also subject to U.S. federal, state, and local regulations regarding workplace safety, environmental protection and hazardous and controlled substance controls, among others.

A number of the drugs we are developing are already approved for marketing by the FDA in another form or using another delivery system. We believe that, when working with drugs approved in other forms, the approval process for products using our alternative drug delivery or formulation technologies may involve less risk and require fewer tests than new chemical entities do. However, we expect that our formulations will often use excipients not currently approved for use. Use of these excipients will require additional toxicological testing that may increase the costs of, or length of time needed to, gain regulatory approval. In addition, as they relate to our products, regulatory procedures may change as regulators gain relevant experience, and any such changes may delay or increase the cost of regulatory approvals.

For product candidates currently under development utilizing pulmonary technology, the pulmonary inhaler devices are considered to be part of a drug and device combination for deep lung delivery of each specific molecule. The FDA will make a determination as to the most appropriate center and division within the agency that will assume primary responsibility for the review of the applicable applications, which would consist of an IND and an NDA or BLA where CDER or CBER are determined to have primary jurisdiction or an investigational device exemption application and PMA or 510(k) where the Center for Devices and Radiological Health (CDRH) is determined to have primary jurisdiction. In the case of our product candidates, CDER in consultation with CDRH could be involved in the review. The assessment of jurisdiction within the FDA is based upon the primary mode of action of the drug or the location of the specific expertise in one of the centers.

Where CDRH is determined to have primary jurisdiction over a product, 510(k) clearance or PMA approval is required. Medical devices are classified into one of three classes Class I, Class II, or Class III depending on the degree of risk associated with each medical device and the extent of control needed to ensure safety and

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effectiveness. Devices deemed to pose lower risks are placed in either Class I or II, which requires the manufacturer to submit to the FDA a Premarket Notification requesting permission to commercially distribute the device. This process is known as 510(k) clearance. Some low risk devices are exempted from this requirement. Devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a previously cleared 510(k) device are placed in Class III, requiring PMA approval.

To date, our partners have generally been responsible for clinical and regulatory approval procedures, but we may participate in this process by submitting to the FDA a drug master file developed and maintained by us which contains data concerning the manufacturing processes for the inhaler device or drug. For our proprietary products, we prepare and submit an IND and are responsible for additional clinical and regulatory procedures for product candidates being developed under an IND. The clinical and manufacturing, development and regulatory review and approval process generally takes a number of years and requires the expenditure of substantial resources. Our ability to manufacture and market products, whether developed by us or under collaboration agreements, ultimately depends upon the completion of satisfactory clinical trials and success in obtaining marketing approvals from the FDA and equivalent foreign health authorities.

Sales of our products outside the U.S. are subject to local regulatory requirements governing clinical trials and marketing approval for drugs. Such requirements vary widely from country to country.

In the U.S., under the Orphan Drug Act, the FDA may grant orphan drug designation to drugs intended to treat a rare disease or condition, which is generally a disease or condition that affects fewer than 200,000 individuals in the U.S. The company that obtains the first FDA approval for a designated orphan drug for a rare disease receives marketing exclusivity for use of that drug for the designated condition for a period of seven years. In addition, the Orphan Drug Act provides for protocol assistance, tax credits, research grants, and exclusions from user fees for sponsors of orphan products. Once a product receives orphan drug exclusivity, a second product that is considered to be the same drug for the same indication may be approved during the exclusivity period only if the second product is shown to be clinically superior to the original orphan drug in that it is more effective, safer or otherwise makes a major contribution to patient care or the holder of exclusive approval cannot assure the availability of sufficient quantities of the orphan drug to meet the needs of patients with the disease or condition for which the drug was designated. Similar incentives also are available for orphan drugs in the E.U.

In the U.S., the FDA may grant Fast Track designation to a product candidate, which allows the FDA to expedite the review of new drugs that are intended for serious or life-threatening conditions and that demonstrate the potential to address unmet medical needs. An important feature of Fast Track designation is that it emphasizes the critical nature of close, early communication between the FDA and the sponsor company to improve the efficiency of product development.

**Patents and Proprietary Rights**

We invest a significant portion of our resources in the creation and development of new drug compounds that serve unmet needs in the treatment of patients. In doing so, we create intellectual property. As part of our strategy to secure our intellectual property created by these efforts, we routinely apply for patents, rely on trade secret protection, and enter into contractual obligations with third parties. When appropriate, we will defend our intellectual property, taking any and all legal remedies available to us, including, for example, asserting patent infringement, trade secret misappropriation and breach of contract claims. As of January 1, 2012, we owned greater than 120 U.S. and 420 foreign patents. Currently, we have over approximately 110 patent applications pending in the U.S. and 550 pending in other countries.

A focus area of our current drug creation and development efforts centers on our innovations in and improvements to our PEGylation and advanced polymer conjugate technology platforms. In this area, our patent

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portfolio contains patents and patent applications that encompass our PEGylation and advanced polymer conjugate technology platforms, some of which we acquired in our acquisition of Shearwater Corporation in June 2001. More specifically, our patents and patent applications cover polymer architecture, drug conjugates, formulations, methods of making polymers and polymer conjugates, and methods of administering polymer conjugates. Our patent strategy is to file patent applications on innovations and improvements to cover a significant majority of the major pharmaceutical markets in the world. Generally, patents have a term of twenty years from the earliest priority date (assuming all maintenance fees are paid). In some instances, patent terms can be increased or decreased, depending on the laws and regulations of the country or jurisdiction that issued the patent.

In January 2002, we entered into a Cross-License and Option Agreement with Enzon Pharmaceuticals, Inc., pursuant to which we and Enzon provided certain licenses to selected portions of each party s PEGylation patent portfolio. In certain cases, we have the option to license certain of Enzon s PEGylation patents for use in our proprietary products or for sublicenses to third parties in each case in exchange for payments to Enzon based on manufacturing profits, revenue share or royalties on net sales if a designated product candidate is approved in one or more markets.

In connection with the Novartis Pulmonary Asset Sale, as of December 31, 2008, we entered into an exclusive license agreement with Novartis Pharma. Pursuant to the exclusive license agreement, Novartis Pharma grants back to us an exclusive, irrevocable, perpetual, royalty-free and worldwide license under certain specific patent rights and other related intellectual property rights acquired by Novartis from us in the Novartis Pulmonary Asset Sale, as well as certain improvements or modifications thereto that are made by Novartis. Certain of such patent rights and other related intellectual property rights relate to our development program for inhaled vancomycin or are necessary for us to satisfy certain continuing contractual obligations to third parties, including in connection with development, manufacture, sale, and commercialization activities related to BAY41-6551 partnered with Bayer Healthcare LLC.

The patent positions of pharmaceutical and biotechnology companies, including ours, involve complex legal and factual issues. There can be no assurance that the patents we apply for will be issued to us or that the patents that are issued to us will be held valid and enforceable in a court of law. Even for patents that are enforceable, we anticipate that any attempt to enforce our patents would be time consuming and costly. Additionally, the coverage claimed in a patent application can be significantly reduced before the patent is issued. As a consequence, we do not know whether any of our pending patent applications will be granted with broad coverage or whether the claims that eventually issue, or those that have issued, will be circumvented. Since publication of discoveries in scientific or patent literature often lag behind actual discoveries, we cannot be certain that we were the first inventor of inventions covered by our patents or patent applications or that we were the first to file patent applications for such inventions. Moreover, we may have to participate in interference proceedings in the U.S. Patent and Trademark Office, which could result in substantial cost to us, even if the eventual outcome is favorable. An adverse outcome could subject us to significant liabilities to third parties, require disputed rights to be licensed from or to third parties or require us to cease using the technology in dispute. Please refer to Item 1A, Risk Factors, including but not limited to We may not be able to obtain intellectual property licenses related to the development of our technology on a commercially reasonable basis, if at all, and If any of our pending patent applications do not issue, or are deemed invalid following issuance, we may lose valuable intellectual property protection.

U.S. and foreign patent rights and other proprietary rights exist that are owned by third parties and relate to pharmaceutical compositions and reagents, medical devices and equipment and methods for preparation, packaging and delivery of pharmaceutical compositions. We cannot predict with any certainty which, if any, of these rights will be considered relevant to our technology by authorities in the various jurisdictions where such rights exist, nor can we predict with certainty which, if any, of these rights will or may be asserted against us by third parties. We could incur substantial costs in defending ourselves and our partners against any such claims. Furthermore, parties making such claims may be able to obtain injunctive or other equitable relief, which could

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effectively block our ability to develop or commercialize some or all of our products in the U.S. and abroad and could result in the award of substantial damages. In the event of a claim of infringement, we or our partners may be required to obtain one or more licenses from third parties. There can be no assurance that we can obtain a license to any technology that we determine we need on reasonable terms, if at all, or that we could develop or otherwise obtain alternative technology. The failure to obtain licenses if needed may have a material adverse effect on our business, results of operations and financial condition.

We also rely on trade secret protection for our confidential and proprietary information. No assurance can be given that we can meaningfully protect our trade secrets. Others may independently develop substantially equivalent confidential and proprietary information or otherwise gain access to, or disclose, our trade secrets. Please refer to Item 1A, Risk Factors, including but not limited to We rely on trade secret protection and other unpatented proprietary rights for important proprietary technologies, and any loss of such rights could harm our business, results of operations and financial condition.

In certain situations in which we work with drugs covered by one or more patents, our ability to develop and commercialize our technologies may be affected by limitations in our access to these proprietary drugs. Even if we believe we are free to work with a proprietary drug, we cannot guarantee that we will not be accused of, or determined to be, infringing a third party s rights and be prohibited from working with the drug or found liable for damages. Any such restriction on access or liability for damages would have a material adverse effect on our business, results of operations and financial condition.

It is our policy to require our employees and consultants, outside scientific collaborators, sponsored researchers and other advisors who receive confidential information from us to execute confidentiality agreements upon the commencement of employment or consulting relationships with us. These agreements provide that all confidential information developed or made known to the individual during the course of the individual s relationship with us is to be kept confidential and not disclosed to third parties except in specific circumstances. The agreements provide that all inventions conceived by an employee shall be our property. There can be no assurance, however, that these agreements will provide meaningful protection or adequate remedies for our trade secrets in the event of unauthorized use or disclosure of such information.

**Customer Concentrations**

Our revenue is derived from our collaboration agreements with partners, under which we may receive contract research payments, milestone payments based on clinical progress, regulatory progress or net sales achievements, royalties or manufacturing revenue. UCB Pharma and Roche, represented 27% and 16% of our revenue, respectively, for the year ended December 31, 2011. No other collaboration partner accounted for more than 10% of our total revenue during the year ended December 31, 2011.

**Backlog**

Pursuant to our collaboration agreements, we manufacture and supply our proprietary PEGylation materials, inventory is produced and sales are made pursuant to customer purchase orders for delivery. The volume of our proprietary PEGylation materials actually ordered by our customers, as well as shipment schedules, are subject to frequent revisions that reflect changes in both the customers needs and our manufacturing capacity. In our partnered programs where we provide contract research services, those services are typically provided under a work plan that is subject to frequent revisions that change based on the development needs and status of the program. The backlog at a particular time is affected by a number of factors, including scheduled date of manufacture and delivery and development program status. In light of industry practice and our own experience, we do not believe that backlog as of any particular date is indicative of future results.

**Competition**

Competition in the pharmaceutical and biotechnology industry is intense and characterized by aggressive research and development and rapidly-evolving science, technology, and standards of medical care throughout

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the world. We frequently compete with pharmaceutical companies and other institutions with greater financial, research and development, marketing and sales, manufacturing and managerial capabilities. We face competition from these companies not just in product development but also in areas such as recruiting employees, acquiring technologies that might enhance our ability to commercialize products, establishing relationships with certain research and academic institutions, enrolling patients in clinical trials and seeking program partnerships and collaborations with larger pharmaceutical companies.

***Science and Technology Competition***

We believe that our proprietary and partnered products will compete with others in the market on the basis of one or more of the following parameters: efficacy, safety, ease of use and cost. We face intense science and technology competition from a multitude of technologies seeking to enhance the efficacy, safety and ease of use of approved drugs and new drug molecule candidates. A number of the drug candidates in our pipeline have direct and indirect competition from large pharmaceutical companies and biopharmaceutical companies. With our PEGylation and advanced polymer conjugate technologies, we believe we have competitive advantages relating to factors such as efficacy, safety, ease of use and cost for certain applications and molecules. We constantly monitor scientific and medical developments in order to improve our current technologies, seek licensing opportunities where appropriate, and determine the best applications for our technology platforms.

In the fields of PEGylation and advanced polymer conjugate technologies, our competitors include Dr. Reddy s Laboratories, Enzon Pharmaceuticals, Inc., Mountain View Pharmaceuticals, Inc., SunBio Corporation, NOF Corporation, and Novo Nordisk A/S (formerly assets held by Neose Technologies, Inc.). Several other chemical, biotechnology and pharmaceutical companies may also be developing PEGylation technology, advanced polymer conjugate technology or technologies intended to deliver similar scientific and medical benefits. Some of these companies license intellectual property or pegylation materials to other companies, while others apply the technology to create their own drug candidates.

***Product and Program Specific Competition***

***NKTR-118 (orally-available peripheral opioid antagonist)***

There are no oral drugs approved specifically for the treatment of opioid-induced constipation (OIC) or opioid bowel dysfunction (OBD). The only approved treatment for OIC is a subcutaneous treatment known as methylnaltrexone bromide marketed by Salix Pharmaceuticals, Ltd under a license from Progenics Pharmaceuticals, Inc. Methylnaltrexone bromide is indicated for the treatment of opioid-induced constipation in patients with advanced illness who are receiving palliative care, when response to laxative therapy has not been sufficient. On December 20, 2011, Salix and Progenics announced positive results from a Phase 3 clinical study of oral methylnaltrexone in chronic, non-cancer pain patients with opioid-induced constipation. Other therapies used to treat OIC and OBD include over-the-counter laxatives and stool softeners, such as docusate sodium, senna, and milk of magnesia. These therapies do not address the underlying cause of constipation as a result of opioid use and are generally viewed as ineffective or only partially effective to treat the symptoms of OID and OBD.

There are a number of companies developing potential products which are in various stages of clinical development and are being evaluated for the treatment of OIC and OBD in different patient populations. Potential competitors include Progenics Pharmaceuticals, Inc. in collaboration with Salix Pharmaceuticals, Ltd., Adolor Corporation, GlaxoSmithKline, Ironwood Pharmaceuticals, Inc. in collaboration with Forest Laboratories, Mundipharma Int. Limited, Theravance, Inc., Sucampo Pharmaceuticals, Alkermes, Inc. and Takeda Pharmaceutical Company Limited.

***NKTR-102 (next-generation topoisomerase I inhibitor)***

There are a number of chemotherapies and cancer therapies approved today and in various stages of clinical development for breast and ovarian cancers including but not limited to: Avastin® (bevacizumab), Navalbine®

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(vinolrebine), Ixempra® (ixabepilone),, Ellence® (epirubicin), Gemzar® (gemcitabine), Herceptin® (trastuzumab), Hycamtin® (topotecan), Halaven® (eribulin), Paraplatin® (carboplatin), and Taxol® (paclitaxel). These therapies are only partially effective in treating breast and ovarian cancer. Major pharmaceutical or biotechnology companies with approved drugs or drugs in development for these cancers include Bristol-Meyers Squibb, Eisai, Inc., Roche Holding Group (including its Genentech subsidiary), GlaxoSmithKline plc, Pfizer, Inc., Eli Lilly & Co., and many others. There are currently no drugs in Phase 3 development to specifically treat metastatic breast cancer following anthracylcline, taxane and capecitabine therapy in either the adjuvant or metastatic setting.

There are also a number of chemotherapies and cancer therapies approved today and in clinical development for the treatment of colorectal cancer. Approved therapies for the treatment of colorectal cancer include Eloxatin® (oxaliplatin), Camptosar® (irinotecan), Avastin® (bevacizumab), Erbitux® (cetuximab), Vectibi® (panitumumab), Xeloda® (capecitabine), Adrucil® (fluorouracil), and Wellcovorin® (leucovorin). These therapies are only partially effective in treating the disease. There are a number of drugs in various stages of preclinical and clinical development from companies exploring cancer therapies or improved chemotherapeutic agents to potentially treat colorectal cancer. If these drugs are approved, they could be competitive with NKTR-102 if it is approved by government health authorities. These include products in development from Bristol-Myers Squibb Company, Pfizer, Inc., GlaxoSmithKline plc, Antigenics, Inc., F. Hoffman-La Roche Ltd, Novartis AG, Cell Therapeutics, Inc., Neopharm Inc., Meditech Research Ltd, Alchemia Limited, and many others.

***BAY41-6551 (Amikacin Inhale, formerly NKTR-061)***

There are currently no approved drugs on the market for adjunctive treatment or prevention of Gram-negative pneumonias in mechanically ventilated patients which are also administered via the pulmonary route. The current standard of care includes approved intravenous antibiotics which are partially effective for the treatment of either hospital-acquired pneumonia or ventilator-associated pneumonia in patients on mechanical ventilators. These drugs include drugs that fall into the categories of antipseudomonal cephalosporins, antipseudomonal carbepenems, beta-lactam/beta-lactamase inhibitors, antipseudomonal fluoroquinolones, such as ciprofloxacin or levofloxacin, and aminoglycosides, such as amikacin, gentamycin or tobramycin.

**Research and Development**

Our total research and development expenditures can be disaggregated into the following significant types of expenses (in millions):

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Salaries and employee benefits | $ 43.8 | $ 37.8 | $ 29.4 |
| Stock compensation expense | 7.9 | 7.2 | 3.4 |
| Facility and equipment | 12.9 | 13.0 | 9.9 |
| Outside services, including Contract Research Organizations | 43.0 | 33.4 | 38.9 |
| Supplies, including clinical trial materials | 14.9 | 13.1 | 10.4 |
| Travel, lodging and meals | 3.1 | 2.5 | 1.7 |
| Other | 1.0 | 1.1 | 1.4 |
| Research and development expense | $ 126.8 | $ 108.1 | $ 95.1 |

**Manufacturing and Supply**

We have a manufacturing facility located in Huntsville, Alabama that is capable of manufacturing PEGylated derivatives and starting materials for active pharmaceutical ingredients (APIs). The facility is also used to produce APIs to support the early phases of clinical development of our proprietary drug candidates. The facility and associated equipment are designed and operated to be consistent with the all applicable laws and regulations.

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As we do not maintain the capability to manufacture finished drug products, we utilize contract manufacturers to manufacture the finished drug product for us. We source drug starting materials for our manufacturing activities from one or more suppliers. For the drug starting materials necessary for our proprietary drug candidate development, we have agreements for the supply of such drug components with drug manufacturers or suppliers that we believe have sufficient capacity to meet our demands. However, from time to time, we source critical raw materials and services from one or a limited number of suppliers and there is a risk that if such supply or services were interrupted, it would materially harm our business. In addition, we typically order raw materials and services on a purchase order basis and do not enter into long-term dedicated capacity or minimum supply arrangements.

**Environment**

As a manufacturer of PEG reagents for the U.S. market, we are subject to inspections by the FDA for compliance with cGMP and other U.S. regulatory requirements, including U.S. federal, state and local regulations regarding environmental protection and hazardous and controlled substance controls, among others. Environmental laws and regulations are complex, change frequently and have tended to become more stringent over time. We have incurred, and may continue to incur, significant expenditures to ensure we are in compliance with these laws and regulations. We would be subject to significant penalties for failure to comply with these laws and regulations.

**Employees and Consultants**

As of December 31, 2011, we had 423 employees, of which 315 employees were engaged in research and development, commercial operations and quality activities and 108 employees were engaged in general administration and business development. Of the 423 employees, 342 were located in the United States and 81 were located in India. We have a number of employees who hold advanced degrees, such as Ph.D.s. None of our employees are covered by a collective bargaining agreement, and we have experienced no work stoppages. We believe that we maintain good relations with our employees.

To complement our own expert professional staff, we utilize specialists in regulatory affairs, process engineering, manufacturing, quality assurance, clinical development and business development. These individuals include certain of our scientific advisors as well as independent consultants.

**Available Information**

Our website address is *http://www.nektar.com*. The information in, or that can be accessed through, our website is not part of this annual report on Form 10-K. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports are available, free of charge, on or through our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities Exchange Commission (SEC). The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding our filings at *www.sec.gov*.

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**EXECUTIVE OFFICERS OF THE REGISTRANT**

The following table sets forth the names, ages and positions of our executive officers as of February 28, 2012:

| Name | Age | Position |
|---|---|---|
| Howard W. Robin | 59 | Director, President and Chief Executive Officer |
| John Nicholson | 60 | Senior Vice President and Chief Financial Officer |
| Stephen K. Doberstein, Ph.D. | 53 | Senior Vice President and Chief Scientific Officer |
| Gil M. Labrucherie, J.D. | 40 | Senior Vice President, General Counsel and Secretary |
| Jillian B. Thomsen | 46 | Senior Vice President, Finance and Chief Accounting Officer |
| Rinko Ghosh | 48 | Senior Vice President and Chief Business Officer |

*Howard W. Robin* has served as our President and Chief Executive Officer since January 2007 and has served as a member of our Board of Directors since February 2007. Mr. Robin served as Chief Executive Officer, President and director of Sirna Therapeutics, Inc., a clinical-stage biotechnology company pioneering RNAi-based therapies for serious diseases and conditions, from July 2001 to November 2006 and served as their Chief Operating Officer, President and Director from January 2001 to June 2001. From 1991 to 2001, Mr. Robin was Corporate Vice President and General Manager at Berlex Laboratories, Inc., the U.S. pharmaceutical subsidiary of the German pharmaceutical firm Schering AG, and, from 1987 to 1991, he served as their Vice President of Finance and Business Development and Chief Financial Officer. From 1984 to 1987, Mr. Robin was Director of Business Planning and Development at Berlex and was a Senior Associate with Arthur Andersen LLP prior to joining Berlex. Since February 2006, Mr. Robin has served as a member of the Board of Directors of Acologix, Inc., a biopharmaceutical company focused on therapeutic compounds for the treatment of osteo-renal diseases. He received his B.S. in Accounting and Finance from Fairleigh Dickinson University in 1974.

*John Nicholson* has served as our Senior Vice President and Chief Financial Officer since December 2007. Mr. Nicholson joined the Company as Senior Vice President of Corporate Development and Business Operations in October 2007 and was appointed Senior Vice President and Chief Financial Officer in December 2007. Before joining Nektar, Mr. Nicholson spent 18 years in various executive roles at Schering Berlin, Inc., the U.S. management holding company of Bayer Schering Pharma AG, a pharmaceutical company. From 1997 to September 2007, Mr. Nicholson served as Schering Berlin Inc. s Vice President of Corporate Development and Treasurer. From 2001 to September 2007, he concurrently served as President of Schering Berlin Insurance Co., and from February 2007 through September 2007, he also concurrently served as President of Bayer Pharma Chemicals and Schering Berlin Capital Corp. Mr. Nicholson holds a B.B.A. from the University of Toledo.

*Stephen K. Doberstein, Ph.D.* has served as our Senior Vice President and Chief Scientific Officer since January 2010. From October 2008 through December 2009, Dr. Doberstein served as Vice President, Research at Xoma (US) LLC, a publicly traded clinical stage biotechnology company. From July 2004 until August 2008, he served as Vice President, Research at privately held Five Prime Therapeutics, a clinical stage biotechnology company. From September 2001 until July 2004, Dr. Doberstein was Vice President, Research at privately held Xencor, Inc., a clinical stage biotechnology company. From 1997 to 2000, he held various pharmaceutical research positions at Exelixis, Inc., a publicly traded clinical stage biotechnology company. Prior to working at Exelixis, Dr. Doberstein was a Howard Hughes Postdoctoral Fellow and a Muscular Dystrophy Association Senior Postdoctoral Fellow at the University of California Berkeley. Dr. Doberstein received his Ph.D. Biochemistry, Cell and Molecular Biology from the Johns Hopkins University School of Medicine and received a B.S. in Chemical Engineering from the University of Delaware.

*Gil M. Labrucherie* has served as our Senior Vice President, General Counsel and Secretary since April 2007, responsible for all aspects of our legal affairs. Mr. Labrucherie served as our Vice President, Corporate

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Legal from October 2005 through April 2007. From October 2000 to September 2005, Mr. Labrucherie was Vice President of Corporate Development at E2open. While at E2open, Mr. Labrucherie was responsible for global corporate alliances and merger and acquisition activity. Prior to E2open, he was the Senior Director of Corporate Development at AltaVista Company, an Internet search company, where he was responsible for strategic partnerships and mergers and acquisitions. Mr. Labrucherie began his career as an associate in the corporate practice of the law firm of Wilson Sonsini Goodrich & Rosati and Graham & James (DLA Piper Rudnick). Mr. Labrucherie received his J.D. from the Berkeley Law School and a B.A. from the University of California Davis.

*Jillian B. Thomsen* has served as our Senior Vice President, Finance and Chief Accounting Officer since February 2010. From March 2006 through March 2008, Ms. Thomsen served as our Vice President Finance and Corporate Controller and from April 2008 through January 2010 she served as our Vice President Finance and Chief Accounting Officer. Before joining Nektar, Ms. Thomsen was Vice President Finance and Deputy Corporate Controller of Calpine Corporation from September 2002 to February 2006. Ms. Thomsen is a certified public accountant and previously was a senior manager at Arthur Andersen LLP, where she worked from 1990 to 2002, and specialized in audits of multinational consumer products, life sciences, manufacturing and energy companies. Ms. Thomsen holds a Masters of Accountancy from the University of Denver and a B.A. in Business Economics from Colorado College.

*Rinko Ghosh* has served as our Senior Vice President and Chief Business Officer since March 2010. He served as our Senior Vice President, Business Development and Alliance Management from March 2008 through February 2010, our Vice President, Business Development from August 2006 until February 2008, Senior Director, Business Development from July 2005 until July 2006, and prior to that he worked in a variety of corporate and business development roles for us from May 2001 to June 2005. From February 2001 to April 2001, he was engaged as a commercial development consultant at Aviron (now Medimmune/AstraZeneca) in Palo Alto. From 1999 to 2000, Mr. Ghosh was co-Chief Executive Officer of a private biotechnology company in Asia. From 1994 to 1999, he was engaged as a management consultant with A.T. Kearney, a global management consulting firm. From 1989 to 1992, he worked as an environmental consultant with Environ Corporation, a human health and environmental consulting firm. Mr. Ghosh earned his M.B.A. from the Wharton School, University of Pennsylvania, his M.S. in Environmental Engineering from Vanderbilt University, and his B.S. in Chemical Engineering from the Indian Institute of Technology, Bombay.

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**Item 1A.** ***Risk Factors***

We are providing the following cautionary discussion of risk factors, uncertainties and assumptions that we believe are relevant to our business. These are factors that, individually or in the aggregate, we think could cause our actual results to differ materially from expected and historical results and our forward-looking statements. We note these factors for investors as permitted by Section 21E of the Exchange Act and Section 27A of the Securities Act. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider this section to be a complete discussion of all potential risks or uncertainties that may substantially impact our business. Moreover, we operate in a competitive and rapidly changing environment. New factors emerge from time to time and it is not possible to predict the impact of all of these factors on our business, financial condition or results of operations.

**Risks Related to Our Business**

***Drug development is a long and inherently uncertain process with a high risk of failure at every stage of development.***

We have a number of proprietary drug candidates and partnered drug candidates in research and development ranging from the early discovery research phase through preclinical testing and clinical trials. Preclinical testing and clinical studies are long, expensive and highly uncertain processes. It will take us, or our collaborative partners, several years to complete clinical studies. The start or end of a clinical study is often delayed or halted due to changing regulatory requirements, manufacturing challenges, required clinical trial administrative actions, slower than anticipated patient enrollment, changing standards of care, availability or prevalence of use of a comparator drug or required prior therapy, clinical outcomes, or our own financial constraints.

Drug development is a highly uncertain scientific and medical endeavor, and failure can unexpectedly occur at any stage of clinical development. Typically, there is a high rate of attrition for drug candidates in preclinical and clinical trials due to scientific feasibility, safety, efficacy, changing standards of medical care and other variables. The risk of failure is increased for our drug candidates that are based on new technologies, such as the application of our advanced polymer conjugate technology to small molecules, including NKTR-118, NKTR-119, NKTR-102, NKTR-181, NKTR-192 and other drug candidates currently in discovery research or preclinical development. The failure of one or more of our drug candidates could have a material adverse effect on our business, financial condition and results of operations.

***Even with success in preclinical testing and previously completed clinical trials, the risk of clinical failure for any drug candidate remains high prior to regulatory approval.***

A number of companies have suffered significant unforeseen failures in late stage clinical studies due to factors such as inconclusive efficacy results and adverse medical events, even after achieving positive results in earlier clinical studies that were satisfactory both to them and to reviewing government health authorities. While the NKTR-118, NKTR-102, and Amikacin Inhale drug candidates have each demonstrated positive results from Phase 2 clinical studies, there is a substantial risk that Phase 3 clinical study outcomes from these drug candidates from larger patient populations will not demonstrate positive efficacy, safety or other clinical outcomes sufficient to support regulatory filings and achieve regulatory approval. Phase 3 clinical outcomes remain very unpredictable and it is possible that one or more of these Phase 3 clinical studies could fail at any time due to efficacy, safety or other important clinical findings or regulatory requirements. If one or more of these drug candidates fail in Phase 3 clinical studies, it would have a material adverse effect on our business, financial condition and results of operations.

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***If we or our partners do not obtain regulatory approval for our drug candidates on a timely basis, or at all, or if the terms of any approval impose significant restrictions or limitations on use, our business, results of operations and financial condition will be negatively affected.***

We or our partners may not obtain regulatory approval for drug candidates on a timely basis, or at all, or the terms of any approval (which in some countries includes pricing approval) may impose significant restrictions or limitations on use. Drug candidates must undergo rigorous animal and human testing and an extensive FDA mandated or equivalent foreign government health authority review process for safety and efficacy. This process generally takes a number of years and requires the expenditure of substantial resources. The time required for completing testing and obtaining approvals is uncertain, and the FDA and other U.S. and foreign regulatory agencies have substantial discretion, at any phase of development, to terminate clinical studies, require additional clinical development or other testing, delay or withhold registration and marketing approval and mandate product withdrawals, including recalls. In addition, undesirable side effects caused by our drug candidates could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restricted label or the delay or denial of regulatory approval by regulatory authorities.

Even if we or our partners receive regulatory approval of a product, the approval may limit the indicated uses for which the drug may be marketed. Our partnered drugs that have obtained regulatory approval, and the manufacturing processes for these products, are subject to continued review and periodic inspections by the FDA and other regulatory authorities. Discovery from such review and inspection of previously unknown problems may result in restrictions on marketed products or on us, including withdrawal or recall of such products from the market, suspension of related manufacturing operations or a more restricted label. The failure to obtain timely regulatory approval of product candidates, any product marketing limitations or a product withdrawal would negatively impact our business, results of operations and financial condition.

***We will need to raise substantial additional capital to repay the $215.0 million in convertible notes due in September 2012 and fund our planned future operations, and we may be unable to secure such capital without dilutive financing transactions.***

On February 29, 2012, we received $124.0 million in gross proceeds from the sale of our royalty interest in the CIMZIA® and MIRCERA® drug products. Additionally, we incurred approximately $4.5 million in transaction costs. We plan to use the proceeds from this transaction towards the repayment of our $215.0 million in convertible subordinated notes due in September 2012. We are actively pursuing other non-dilutive financing alternatives such as the sale of additional royalty interests held by us or term loan arrangements. We may seek to repurchase our convertible notes through cash purchases in open market transactions, privately negotiated transactions and/or a tender offer, if we can do so on attractive terms. If non-dilutive financing alternatives are not available to us on commercially reasonable terms or at all, in order to continue future operations as planned, we will be required to pursue dilutive equity-based financing alternatives such as the issuance of convertible debt or common stock to fund the remaining balance of the convertible notes and to provide sufficient capital to fund our future operations. The issuance of convertible notes, common stock, preferred stock or securities convertible into or exchangeable for our securities would dilute the percentage ownership of our current common stock security holders and could significantly lower the market value of our common stock. In addition, a financing could result in the issuance of new securities that may have rights, preferences or privileges senior to those of our existing stockholders. If we issue convertible notes or enter into a term loan arrangement, the payment of principal and interest on such indebtedness may limit funds available for our business activities such as the continued advancement of our research and development pipeline, and such indebtedness could impose covenants that restrict our ability to operate our business. These restrictive covenants may include limitations on additional borrowing and specific restrictions on the use of our assets, as well as prohibitions on our ability to create liens or make investments.

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***We have substantial future capital requirements and there is a risk we may not have access to sufficient capital to meet our current business plan. If we do not receive substantial milestone payments from our existing collaboration agreements, execute new high value collaborations or other arrangements, or are unable to raise additional capital in one or more financing transactions, we would be unable to continue our current level of investment in research and development.***

As of December 31, 2011, we had cash, cash equivalents, and investments in marketable securities valued at approximately $414.9 million and indebtedness of approximately $239.9 million, including approximately $215.0 million in convertible subordinated notes due September 2012, $17.0 million in capital lease obligations, and $7.9 million of other liabilities. While we believe that our cash position will be sufficient to meet our liquidity requirements through at least the next 12 months, our future capital requirements will depend upon numerous unpredictable factors, including:

- if and when we receive potential milestone payments and royalties from our existing collaborations if the drug candidates subject to those collaborations achieve clinical, regulatory or commercial success, in particular, if the Phase 3 KODIAC studies being conducted by AstraZeneca for NKTR-118 are successful and AstraZeneca files an NDA with the FDA and a marketing application with the European Medicines Agency for NKTR-118, we will be entitled to $95 million in milestone payments;

- the progress, timing, cost and results of our clinical development programs in particular our Phase 3 BEACON study for NKTR-102 and our planned Phase 2 clinical study for NKTR-181;

- the success, progress, timing and costs of our efforts to implement new collaborations, licenses and other transactions that increase our current net cash, such as the sale of additional royalty interests held by us, term loan or other debt arrangements, and the issuance of securities;

- the cost, timing and outcomes of clinical studies and regulatory reviews of our proprietary drug candidates that we have licensed to our collaboration partners (e.g., NKTR-118, Amikacin Inhale, BAX 855);

- the outcome of the regulatory review process and commercial success of drug products for which we are entitled to receive royalties (e.g., Affymax s peginesatide and Map Pharmaceutical s Levadex®);

- the number of patients, enrollment criteria, primary and secondary endpoints, and the number of clinical studies required by the government health authorities in order to consider for approval our drug candidates and those of our collaboration partners;

- our general and administrative expenses, capital expenditures and other uses of cash; and

- disputes concerning patents, proprietary rights, or license and collaboration agreements that negatively impact our receipt of milestone payments or royalties or require us to make significant payments arising from licenses, settlements, adverse judgments or ongoing royalties.

A significant multi-year capital commitment is required to advance our drug candidates through the various stages of research and development in order to generate sufficient data to enable high value collaboration partnerships with significant up-front payments or to successfully achieve regulatory approval. If sufficient capital is not available to us or is not available on commercially reasonable terms, it could require us to delay or reduce one or more of our research and development programs. If we are unable to sufficiently advance our research and development programs, it could substantially impair the value of such programs and result in a material adverse effect on our business, financial condition and results of operations.

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***The results from the expanded Phase 2 clinical study for NKTR-102 in women with platinum-resistant/refractory ovarian cancer are unlikely to result in a review or an approval of a new drug application (NDA) by the United States Food and Drug Administration (FDA), and the future results from this trial are difficult to predict.***

We expanded the NKTR-102 Phase 2 study by 110 patients in women with platinum-resistant/refractory ovarian cancer that had received prior Doxil® therapy with the potential for us to consider an early NDA submission after we evaluate these expanded study results. As of February 2012, approximately 94 of the planned 110 patients had been enrolled in the study. Due to an ongoing supply shortage of Doxil®, we do not expect to complete full enrollment of this study. We are currently in the process of compiling and performing verification procedures on preliminary interim results from the patients. Acceptance and approval of an NDA by the FDA almost always requires the sponsor to conduct comparative Phase 3 clinical studies prior to acceptance for review or approval of an NDA. As a result, acceptance for review or approval of an accelerated NDA submitted to the FDA based on overall response rate from our single-arm Phase 2 study in platinum-resistant/refractory ovarian cancer would be unusual and is highly unlikely. Therefore we do not expect the FDA to accept or approve an accelerated NDA based on this Phase 2 clinical study. The FDA has significant discretion to determine what constitutes a high unmet medical need, what therapies should be considered available to patients regardless of which therapies are approved or typically prescribed in a particular setting, the relevance of certain efficacy end points (e.g. overall response rate, progression free survival, overall survival), and the number of patients required to be studied to demonstrate sufficient therapeutic benefit and safety profile. One or more of such judgments and determinations by the FDA could impair our ability to submit an accelerated NDA for platinum resistant/refractory ovarian cancer patients, and even if submitted, whether the FDA would accept it for review and/or approve the NDA.

Further, this expansion of our Phase 2 study in platinum resistant/refractory ovarian cancer will necessarily change the final efficacy (e.g., overall response rates, progression-free survival, overall survival) and safety (i.e., frequency and severity of serious adverse events) results, and, accordingly, the final results in this study remain subject to substantial change and could be materially and adversely different from previously announced results. If the clinical studies for NKTR-102 ovarian cancer are not successful, it could significantly harm our business, results of operations and financial condition.

***While we have conducted numerous experiments using laboratory and home-based chemistry techniques that have not been able to convert NKTR-181 into a rapid-acting and more abusable opioid, there is a risk that in the future a technique could be discovered to convert NKTR-181 into a rapid-acting and more abusable opioid which would significantly diminish the value of this drug candidate.***

An important objective of our NKTR-181 drug development program is to create a unique opioid molecule that does not rapidly enter a patient s central nervous system and therefore has the potential to be less susceptible to abuse than alternative opioid therapies. To date, we have conducted numerous experiments using laboratory and home-based chemistry techniques that have been unable to convert NKTR-181 into a rapidly-acting, more abusable form of opioid. In the future, an alternative chemistry technique, process or method of administration, or combination thereof, may be discovered to enable the conversion of NKTR-181 into a more abusable opioid which could significantly and negatively impact the potential of NKTR-181.

***If we are unable to establish and maintain collaboration partnerships on attractive commercial terms, our business, results of operations and financial condition could suffer.***

We intend to continue to seek partnerships with pharmaceutical and biotechnology partners to fund a portion of our research and development capital requirements. For example, in September 2009 we entered into a license agreement with AstraZeneca for NKTR-118 and NKTR-119 that included an upfront payment of $125.0 million. The timing of new collaboration partnerships is difficult to predict due to availability of clinical data, the outcomes from our clinical studies, the number of potential partners that need to complete due diligence and

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approval processes, the definitive agreement negotiation process and numerous other unpredictable factors that can delay, impede or prevent significant transactions. If we are unable to find suitable partners or to negotiate collaboration arrangements with favorable commercial terms with respect to our existing and future drug candidates or the licensing of our intellectual property, or if any arrangements we negotiate, or have negotiated, are terminated, it could have a material adverse effect on our business, financial condition and results of operations.

***Preliminary and interim data from our clinical studies that we announce or publish from time to time is subject to audit and verification procedures that could result in material changes in the final data and may change as more patient data becomes available.***

From time to time, we publish preliminary or interim data from our clinical studies. Preliminary data remains subject to audit confirmation and verification procedures that may result in the final data being materially different from the preliminary data we previously published. Interim data is also subject to the risk that one or more of the clinical outcomes may materially change as patient enrollment continues and more patient data becomes available. As a result, preliminary and interim data should be viewed with caution until the final data are available. Material adverse changes in the final data could significantly harm our business prospects.

***The commercial potential of a drug candidate in development is difficult to predict. If the market size for a new drug is significantly smaller than we anticipate, it could significantly and negatively impact our revenue, results of operations and financial condition.***

It is very difficult to estimate the commercial potential of product candidates due to important factors such as safety and efficacy compared to other available treatments, including potential generic drug alternatives with similar efficacy profiles, changing standards of care, third party payer reimbursement standards, patient and physician preferences, the availability of competitive alternatives that may emerge either during the long drug development process or after commercial introduction, and the availability of generic versions of our successful product candidates following approval by government health authorities based on the expiration of regulatory exclusivity or our inability to prevent generic versions from coming to market by asserting our patents. If due to one or more of these risks the market potential for a drug candidate is lower than we anticipated, it could significantly and negatively impact the commercial terms of any collaboration partnership potential for such drug candidate or, if we have already entered into a collaboration for such drug candidate, the revenue potential from royalty and milestone payments could be significantly diminished and would negatively impact our business, financial condition and results of operations.

***We may not be able to obtain intellectual property licenses related to the development of our technology on a commercially reasonable basis, if at all.***

Numerous pending and issued U.S. and foreign patent rights and other proprietary rights owned by third parties relate to pharmaceutical compositions, methods of preparation and manufacturing, and methods of use and administration. We cannot predict with any certainty which, if any, patent references will be considered relevant to our or our collaboration partners technology or drug candidates by authorities in the various jurisdictions where such rights exist, nor can we predict with certainty which, if any, of these rights will or may be asserted against us by third parties. In certain cases, we have existing licenses or cross-licenses with third parties, however the scope and adequacy of these licenses is very uncertain and can change substantially during long development and commercialization cycles for biotechnology and pharmaceutical products. There can be no assurance that we can obtain a license to any technology that we determine we need on reasonable terms, if at all, or that we could develop or otherwise obtain alternate technology. If we are required to enter into a license with a third party, our potential economic benefit for the products subject to the license will be diminished. If a license is not available on commercially reasonable terms or at all, our business, results of operations, and financial condition could be significantly harmed and we may be prevented from developing and selling the drug.

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***We are a party to numerous collaboration agreements and other significant agreements which contain complex commercial terms that could result in disputes, litigation or indemnification liability that could adversely affect our business, results of operations and financial condition.***

We currently derive, and expect to derive in the foreseeable future, all of our revenue from collaboration agreements with biotechnology and pharmaceutical companies. These collaboration agreements contain complex commercial terms, including:

- clinical development and commercialization obligations that are based on certain commercial reasonableness performance standards that can often be difficult to enforce if disputes arise as to adequacy of performance;
- research and development performance and reimbursement obligations for our personnel and other resources allocated to partnered drug candidate development programs;
- clinical and commercial manufacturing agreements, some of which are priced on an actual cost basis for products supplied by us to our partners with complicated cost allocation formulas and methodologies;
- intellectual property ownership allocation between us and our partners for improvements and new inventions developed during the course of the collaboration;
- royalties on drug sales based on a number of complex variables, including net sales calculations, geography, scope of patent claim coverage, patent life, generic competitors, bundled pricing and other factors; and
- indemnity obligations for intellectual property infringement, product liability and certain other claims.

On September 20, 2009, we entered into a worldwide exclusive license agreement with AstraZeneca for the further development and commercialization of NKTR-118 and NKTR-119. In addition, we have also entered into complex commercial agreements with Novartis in connection with the sale of certain assets related to our pulmonary business, associated technology and intellectual property to Novartis (the Novartis Pulmonary Asset Sale), which was completed on December 31, 2008. As part of the Novartis Pulmonary Asset Sale, we entered an exclusive license agreement with Novartis Pharma pursuant to which Novartis Pharma grants back to us an exclusive, irrevocable, perpetual, royalty-free and worldwide license under certain specific patent rights and other related intellectual property rights necessary for us to satisfy certain continuing contractual obligations to third parties, including in connection with development, manufacture, sale and commercialization activities related to our partnered program for Amikacin Inhale with Bayer. We also entered into a service agreement pursuant to which we have subcontracted to Novartis certain services to be performed related to our partner program for Amikacin Inhale. Our agreements with AstraZeneca and Novartis contain complex representations and warranties, covenants and indemnification obligations that could result in substantial future liability and harm our financial condition if we breach any of our agreements with AstraZeneca or Novartis or any third party agreements impacted by these complex transactions.

From time to time, we have informal dispute resolution discussions with third parties regarding the appropriate interpretation of the complex commercial terms contained in our agreements. One or more disputes may arise or escalate in the future regarding our collaboration agreements, transaction documents, or third-party license agreements that may ultimately result in costly litigation and unfavorable interpretation of contract terms, which would have a material adverse effect on our business, financial condition and results of operations.

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***We could be involved in legal proceedings and may incur substantial litigation costs and liabilities that will adversely affect our business, financial condition and results of operations.***

From time to time, third parties have asserted, and may in the future assert, that we or our partners infringe their proprietary rights, such as patents and trade secrets, or have otherwise breached our obligations to them. The third party often bases its assertions on a claim that its patents cover our technology platform or drug candidates or that we have misappropriated its confidential or proprietary information. Similar assertions of infringement could be based on future patents that may issue to third parties. In certain of our agreements with our partners, we are obligated to indemnify and hold harmless our collaboration partners from intellectual property infringement, product liability and certain other claims, which could cause us to incur substantial costs and liability if we are called upon to defend ourselves and our partners against any claims. If a third party obtains injunctive or other equitable relief against us or our partners, they could effectively prevent us, or our partners, from developing or commercializing, or deriving revenue from, certain drugs or drug candidates in the U.S. and abroad. For instance, F. Hoffmann-La Roche Ltd, to which we license our proprietary PEGylation reagent intellectual property for use in the MIRCERA® product, was a party to a significant patent infringement lawsuit brought by Amgen Inc. related to Roche s proposed marketing and sale of MIRCERA® to treat chemotherapy anemia in the U.S. In October 2008, a federal court ruled in favor of Amgen, issuing a permanent injunction preventing Roche from marketing or selling MIRCERA® in the U.S. Roche and Amgen subsequently entered into a settlement and limited license agreement which allows Roche to begin selling MIRCERA® in the U.S. in July 2014. Currently, the Research Foundation of the State University of New York (SUNY) seeks to recover amounts it alleges it is owed pursuant to a technology licensing contract between SUNY and us. SUNY has filed an action in the United States District Court for the Northern District of New York. We dispute SUNY s claims. However, we cannot predict with certainty the eventual outcome of any pending or future litigation. Costs associated with such litigation, substantial damage claims, indemnification claims or royalties paid for licenses from third parties could have a material adverse effect on our business, financial condition and results of operations.

Third-party claims involving proprietary rights or other matters could also result in substantial settlement payments or substantial damages to be paid by us. For instance, a settlement might require us to enter a license agreement under which we would pay substantial royalties or other compensation to a third party, diminishing our future economic returns from the related drug. In October 2011, we entered into a settlement related to a trade secret and breach of contract litigation where we agreed to make an upfront payment of $2.7 million and a future contingent payment of $3.0 million if a certain drug candidate receives FDA approval. In 2006, we entered into a litigation settlement related to an intellectual property dispute with the University of Alabama in Huntsville pursuant to which we paid $11.0 million and agreed to pay an additional $10.0 million in equal $1.0 million installments over ten years ending with the last payment due on July 1, 2016.

***If any of our pending patent applications do not issue, or are deemed invalid following issuance, we may lose valuable intellectual property protection.***

The patent positions of pharmaceutical and biotechnology companies, such as ours, are uncertain and involve complex legal and factual issues. We own greater than 120 U.S. and 420 foreign patents and a number of pending patent applications that cover various aspects of our technologies. We have filed patent applications, and plan to file additional patent applications, covering various aspects of our PEGylation and advanced polymer conjugate technologies and our proprietary product candidates. There can be no assurance that patents that have issued will be valid and enforceable or that patents for which we apply will issue with broad coverage, if at all. The coverage claimed in a patent application can be significantly reduced before the patent is issued and, as a consequence, our patent applications may result in patents with narrow coverage that may not prevent competition from similar drugs. The scope of our patent claim coverage can be critical to our right to receive royalties from our collaboration partnerships. Since publication of discoveries in scientific or patent literature often lags behind the date of such discoveries, we cannot be certain that we were the first inventor of inventions covered by our patents or patent applications. As part of the patent application process, we may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office, which could result in

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substantial cost to us, even if the eventual outcome is favorable. Further, an issued patent may undergo further proceedings to limit its scope so as not to provide meaningful protection and any claims that have issued, or that eventually issue, may be circumvented or otherwise invalidated. Any attempt to enforce our patents or patent application rights could be time consuming and costly. An adverse outcome could subject us to significant liabilities to third parties, require disputed rights to be licensed from or to third parties or require us to cease using the technology in dispute. Even if a patent is issued and enforceable, because development and commercialization of pharmaceutical products can be subject to substantial delays, patents may expire early and provide only a short period of protection, if any, following commercialization of related products.

There are many laws, regulations and judicial decisions that dictate and otherwise influence the manner in which patent applications are filed and prosecuted and in which patents are granted and enforced. Changes to these laws, regulations and judicial decisions are subject to influences outside of our control and may negatively affect our business, including our ability to obtain meaningful patent coverage or enforcement rights to any of our issued patents. New laws, regulations and judicial decisions may be retroactive in effect, potentially reducing or eliminating our ability to implement our patent-related strategies. Changes to laws, regulations and judicial decisions that affect our business are often difficult or impossible to foresee, which limits our ability to adequately adapt our patent strategies to these changes.

***Our manufacturing operations and those of our contract manufacturers are subject to governmental regulatory requirements, which, if not met, would have a material adverse effect on our business, results of operations and financial condition.***

We and our contract manufacturers are required in certain cases to maintain compliance with current good manufacturing practices (cGMP), including cGMP guidelines applicable to active pharmaceutical ingredients, and are subject to inspections by the FDA or comparable agencies in other jurisdictions to confirm such compliance. We anticipate periodic regulatory inspections of our drug manufacturing facilities and the manufacturing facilities of our contract manufacturers for compliance with applicable regulatory requirements. Any failure to follow and document our or our contract manufacturers adherence to such cGMP regulations or satisfy other manufacturing and product release regulatory requirements may disrupt our ability to meet our manufacturing obligations to our customers, lead to significant delays in the availability of products for commercial use or clinical study, result in the termination or hold on a clinical study or delay or prevent filing or approval of marketing applications for our products. Failure to comply with applicable regulations may also result in sanctions being imposed on us, including fines, injunctions, civil penalties, failure of regulatory authorities to grant marketing approval of our products, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of products, operating restrictions and criminal prosecutions, any of which could harm our business. The results of these inspections could result in costly manufacturing changes or facility or capital equipment upgrades to satisfy the FDA that our manufacturing and quality control procedures are in substantial compliance with cGMP. Manufacturing delays, for us or our contract manufacturers, pending resolution of regulatory deficiencies or suspensions would have a material adverse effect on our business, results of operations and financial condition.

***If we or our contract manufacturers are not able to manufacture drugs or drug substances in sufficient quantities that meet applicable quality standards, it could delay clinical studies, result in reduced sales or constitute a breach of our contractual obligations, any of which could significantly harm our business, financial condition and results of operations.***

If we or our contract manufacturers are not able to manufacture and supply sufficient drug quantities meeting applicable quality standards required to support large clinical studies or commercial manufacturing in a timely manner, we risk delaying our clinical studies or those of our collaboration partners, reducing drug sales by our collaboration partners or breaching contractual obligations. As a result, we could incur substantial costs and damages, and reduce or even eliminate product or royalty revenue. In some cases, we rely on contract manufacturing organizations to manufacture and supply drug product for our clinical studies and those of our

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collaboration partners. Pharmaceutical manufacturing involves significant risks and uncertainties related to the demonstration of adequate stability, sufficient purification of the drug substance and drug product, the identification and elimination of impurities, optimal formulations, process validation, and challenges in controlling for all of these variables. We have faced and may in the future face significant difficulties, delays and unexpected expenses as we validate third party contract manufacturers required for drug supply to support our clinical studies and the clinical studies and products of our collaboration partners. Failure by us or our contract manufacturers to supply drug product in sufficient quantities that meet all applicable quality requirements could result in supply shortages for our clinical studies or the clinical studies and commercial activities of our collaboration partners. Such failures could significantly and materially delay clinical trials and regulatory submissions or result in reduced sales, any of which could significantly harm our business prospects, results of operations and financial condition.

Failures in device manufacturing has similar effects. For instance, we entered a service agreement with Novartis pursuant to which we subcontract to Novartis certain important services to be performed in relation to our partnered program for Amikacin Inhale with Bayer Healthcare LLC. If our subcontractors do not dedicate adequate resources to our programs, we risk breach of our obligations to our partners. Building and validating large scale clinical or commercial-scale manufacturing facilities and processes, recruiting and training qualified personnel and obtaining necessary regulatory approvals is complex, expensive and time consuming. In the past we have encountered challenges in scaling up manufacturing to meet the requirements of large scale clinical trials without making modifications to the drug formulation, which may cause significant delays in clinical development. We have experienced repeated significant delays in starting the Phase 3 clinical development program for Amikacin Inhale as we seek to finalize and validate the device design with a demonstrated capability to be manufactured at commercial scale. This work is ongoing and there remains significant risk in finalizing, validating, and producing the device at sufficient quantities meeting applicable quality requirements until this work is completed. Drug/device combination products are particularly complex, expensive and time-consuming to develop due to the number of variables involved in the final product design, including ease of patient/doctor use, maintenance of clinical efficacy, reliability and cost of manufacturing, regulatory approval requirements and standards and other important factors. There continues to be substantial and unpredictable risk and uncertainty related to manufacturing and supply until such time as the commercial supply chain is validated and proven.

***Our revenue is exclusively derived from our collaboration agreements, which can result in significant fluctuation in our revenue from period to period, and our past revenue is therefore not necessarily indicative of our future revenue.***

Our revenue is derived from our collaboration agreements from which we receive contract research payments, milestone payments based on clinical progress, regulatory progress or net sales achievements, royalties and manufacturing revenue. Significant variations in the timing of receipt of cash payments and our recognition of revenue can result from significant milestone payments based on the execution of new collaboration agreements, the timing of clinical outcomes, regulatory approval, commercial launch and the achievement of certain annual sales thresholds. The amount of our revenue derived from collaboration agreements in any given period will depend on a number of unpredictable factors, including our ability to find and maintain suitable collaboration partners, the timing of the negotiation and conclusion of collaboration agreements with such partners, whether and when we or our collaboration partners achieve clinical, regulatory and sales milestones, the timing of regulatory approvals in one or more major markets, reimbursement levels by private and government payers, and the market introduction of new drugs or generic versions of the approved drug, as well as other factors.

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***If our partners, on which we depend to obtain regulatory approvals for and to commercialize our partnered drug candidates, are not successful, or if such collaborations fail, the development or commercialization of our partnered drug candidates may be delayed or unsuccessful.***

When we sign a collaborative development agreement or license agreement to develop a drug candidate with a pharmaceutical or biotechnology company, the pharmaceutical or biotechnology company is generally expected to:

- design and conduct large scale clinical studies;
- prepare and file documents necessary to obtain government approvals to sell a given drug candidate; and/or
- market and sell the drugs when and if they are approved.

Our reliance on collaboration partners poses a number of risks to our business, including risks that:

- we may be unable to control whether, and the extent to which, our partners devote sufficient resources to the development programs or commercial marketing and sales efforts;
- disputes may arise or escalate in the future with respect to the ownership of rights to technology or intellectual property developed with partners;
- disagreements with partners could lead to delays in, or termination of, the research, development or commercialization of product candidates or to litigation or arbitration proceedings;
- contracts with our partners may fail to provide us with significant protection, or to be effectively enforced, in the event one of our partners fails to perform;
- partners have considerable discretion in electing whether to pursue the development of any additional product candidates and may pursue alternative technologies or products either on their own or in collaboration with our competitors;
- partners with marketing rights may choose to devote fewer resources to the marketing of our partnered products than they do to products of their own development or products in-licensed from other third parties;
- the timing and level of resources that our partners dedicate to the development program will affect the timing and amount of revenue we receive;
- we do not have the ability to unilaterally terminate agreements (or partners may have extension or renewal rights) that we believe are not on commercially reasonable terms or consistent with our current business strategy;

partners may be unable to pay us as expected; and

partners may terminate their agreements with us unilaterally for any or no reason, in some cases with the payment of a termination fee penalty and in other cases with no termination fee penalty.

Given these risks, the success of our current and future partnerships is highly unpredictable and can have a substantial negative or positive impact on our business. We have entered into collaborations in the past that have been subsequently terminated, such as our collaboration with Pfizer for the development and commercialization of inhaled insulin that was terminated by Pfizer in November 2007. If other collaborations are suspended or terminated, our ability to commercialize certain other proposed product candidates could also be negatively impacted. If our collaborations fail, our product development or commercialization of product candidates could be delayed or cancelled, which would negatively impact our business, results of operations and financial condition.

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***If we are unable either to create sales, marketing and distribution capabilities or to enter into agreements with third parties to perform these functions, we will be unable to commercialize our products successfully.***

We currently have no sales, marketing or distribution capabilities. To commercialize any of our drugs that receive regulatory approval for commercialization, we must either develop internal sales, marketing and distribution capabilities, which would be expensive and time consuming, or enter into collaboration arrangements with third parties to perform these services. If we decide to market our products directly, we must commit significant financial and managerial resources to develop a marketing and sales force with technical expertise and with supporting distribution, administration and compliance capabilities. Factors that may inhibit our efforts to commercialize our products directly or indirectly with our partners include:

- our inability to recruit and retain adequate numbers of effective sales and marketing personnel;
- the inability of sales personnel to obtain access to or persuade adequate numbers of physicians to use or prescribe our products;
- the lack of complementary products or multiple product pricing arrangements may put us at a competitive disadvantage relative to companies with more extensive product lines; and
- unforeseen costs and expenses associated with creating and sustaining an independent sales and marketing organization.

***If we, or our partners through our collaborations, are not successful in recruiting sales and marketing personnel or in building a sales and marketing infrastructure, we will have difficulty commercializing our products, which would adversely affect our business, results of operations and financial condition.***

To the extent we rely on other pharmaceutical or biotechnology companies with established sales, marketing and distribution systems to market our products, we will need to establish and maintain partnership arrangements, and we may not be able to enter into these arrangements on acceptable terms or at all. To the extent that we enter into co-promotion or other arrangements, any revenues we receive will depend upon the efforts of third parties, which may not be successful and are only partially in our control. In the event that we market our products without a partner, we would be required to build a sales and marketing organization and infrastructure, which would require a significant investment and we may not be successful in building this organization and infrastructure in a timely or efficient manner.

***We purchase some of the starting material for drugs and drug candidates from a single source or a limited number of suppliers, and the partial or complete loss of one of these suppliers could cause production delays, clinical trial delays, substantial loss of revenue and contract liability to third parties.***

We often face very limited supply of a critical raw material that can only be obtained from a single, or a limited number of, suppliers, which could cause production delays, clinical trial delays, substantial lost revenue opportunity or contract liability to third parties. For example, there are only a limited number of qualified suppliers, and in some cases single source suppliers, for the raw materials included in our PEGylation and advanced polymer conjugate drug formulations, and any interruption in supply or failure to procure such raw materials on commercially feasible terms could harm our business by delaying our clinical trials, impeding commercialization of approved drugs or increasing our costs to the extent we cannot pass on increased costs to a manufacturing customer.

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***We rely on trade secret protection and other unpatented proprietary rights for important proprietary technologies, and any loss of such rights could harm our business, results of operations and financial condition.***

We rely on trade secret protection for our confidential and proprietary information. No assurance can be given that others will not independently develop substantially equivalent confidential and proprietary information or otherwise gain access to our trade secrets or disclose such technology, or that we can meaningfully protect our trade secrets. In addition, unpatented proprietary rights, including trade secrets and know-how, can be difficult to protect and may lose their value if they are independently developed by a third party or if their secrecy is lost. Any loss of trade secret protection or other unpatented proprietary rights could harm our business, results of operations and financial condition.

***We expect to continue to incur substantial losses and negative cash flow from operations and may not achieve or sustain profitability in the future.***

For the year ended December 31, 2011, we reported a net loss of $134.0 million. If and when we achieve profitability depends upon a number of factors, including the timing and recognition of milestone payments and royalties received, the timing of revenue under our collaboration agreements, the amount of investments we make in our proprietary product candidates and the regulatory approval and market success of our product candidates. We may not be able to achieve and sustain profitability.

Other factors that will affect whether we achieve and sustain profitability include our ability, alone or together with our partners, to:

- develop drugs utilizing our technologies, either independently or in collaboration with other pharmaceutical or biotech companies;
- effectively estimate and manage clinical development costs, particularly the cost of the BEACON study and the Phase 2 clinical study for NKTR-181;
- receive necessary regulatory and marketing approvals;
- maintain or expand manufacturing at necessary levels;
- achieve market acceptance of our partnered products;
- receive royalties on products that have been approved, marketed or submitted for marketing approval with regulatory authorities; and
- maintain sufficient funds to finance our activities.

***If government and private insurance programs do not provide payment or reimbursement for our partnered products or proprietary products, those products will not be widely accepted, which would have a negative impact on our business, results of operations and financial condition.***

In both domestic and foreign markets, sales of our partnered and proprietary products that have received regulatory approval will depend in part on market acceptance among physicians and patients, pricing approvals by government authorities and the availability of payment or reimbursement from third-party payers, such as government health administration authorities, managed care providers, private health insurers and other organizations. Such third-party payers are increasingly challenging the price and cost effectiveness of medical products and services. Therefore, significant uncertainty exists as to the pricing approvals for, and the payment or reimbursement status of, newly approved healthcare products. Moreover, legislation and regulations affecting the pricing of pharmaceuticals may change before regulatory agencies approve our proposed products for marketing and could further limit pricing approvals for, and reimbursement of, our products from government authorities and third-party payers. A government or third-party payer decision not to approve pricing for, or provide adequate coverage and reimbursements of, our products would limit market acceptance of such products.

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***We depend on third parties to conduct the clinical trials for our proprietary product candidates and any failure of those parties to fulfill their obligations could harm our development and commercialization plans.***

We depend on independent clinical investigators, contract research organizations and other third-party service providers to conduct clinical trials for our proprietary product candidates. We rely heavily on these parties for successful execution of our clinical trials. Though we are ultimately responsible for the results of their activities, many aspects of their activities are beyond our control. For example, we are responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan and protocols for the trial, but the independent clinical investigators may prioritize other projects over ours or communicate issues regarding our products to us in an untimely manner. Third parties may not complete activities on schedule or may not conduct our clinical trials in accordance with regulatory requirements or our stated protocols. The early termination of any of our clinical trial arrangements, the failure of third parties to comply with the regulations and requirements governing clinical trials or our reliance on results of trials that we have not directly conducted or monitored could hinder or delay the development, approval and commercialization of our product candidates and would adversely affect our business, results of operations and financial condition.

***Significant competition for our polymer conjugate chemistry technology platforms and our partnered and proprietary products and product candidates could make our technologies, products or product candidates obsolete or uncompetitive, which would negatively impact our business, results of operations and financial condition.***

Our PEGylation and advanced polymer conjugate chemistry platforms and our partnered and proprietary products and product candidates compete with various pharmaceutical and biotechnology companies. Competitors of our PEGylation and polymer conjugate chemistry technologies include Dr. Reddy s Laboratories Ltd., Enzon Pharmaceuticals, Inc., SunBio Corporation, Mountain View Pharmaceuticals, Inc., Novo Nordisk A/S (formerly assets held by Neose Technologies, Inc.), and NOF Corporation. Several other chemical, biotechnology and pharmaceutical companies may also be developing PEGylation technologies or technologies that have similar impact on target drug molecules. Some of these companies license or provide the technology to other companies, while others are developing the technology for internal use.

There are several competitors for our proprietary product candidates currently in development. For Amikacin Inhale, the current standard of care includes several approved intravenous antibiotics for the treatment of either hospital-acquired pneumonia or ventilator-associated pneumonia in patients on mechanical ventilators. For NKTR-118, there are currently several alternative therapies used to address opioid-induced constipation (OIC) and opioid-induced bowel dysfunction (OBD), including subcutaneous Relistor® (methylnaltrexone bromide) and oral and rectal over-the-counter laxatives and stool softeners such as docusate sodium, senna and milk of magnesia. In addition, there are a number of companies developing potential products which are in various stages of clinical development and are being evaluated for the treatment of OIC and OBD in different patient populations, including Adolor Corporation, Progenics Pharmaceuticals, Inc. in collaboration with Salix Pharmaceuticals, Ltd., Mundipharma Int. Limited, Sucampo Pharmaceuticals, Alkermes, Inc. and Takeda Pharmaceutical Company Limited. For NKTR-102, there are a number of chemotherapies and cancer therapies approved today and in various stages of clinical development for ovarian and breast cancers including but not limited to: Avastin® (bevacizumab), Camptosar® (irinotecan), Doxil® (doxorubicin HCl), Ellence® (epirubicin), Gemzar® (gemcitabine), Herceptin® (trastuzumab), Hycamtin® (topotecan), Iniparib, Paraplatin® (carboplatin), and Taxol® (paclitaxel). Major pharmaceutical or biotechnology companies with approved drugs or drugs in development for these cancers include Bristol-Meyers Squibb, Eli Lilly & Co., Roche, GlaxoSmithKline plc, Johnson and Johnson, Pfizer, Inc., Sanofi Aventis, and many others. There are approved therapies for the treatment of colorectal cancer, including Eloxatin® (oxaliplatin), Camptosar® (irinotecan), Avastin® (bevacizumab), Erbitux® (cetuximab), Vectibix® (panitumumab), Xeloda® (capecitabine), Adrucil® (fluorouracil), and Wellcovorin ® (leucovorin). In addition, there are a number of drugs in various stages of preclinical and clinical development from companies exploring cancer therapies or improved chemotherapeutic

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agents to potentially treat colorectal cancer, including, but not limited to, products in development from Bristol-Myers Squibb Company, Pfizer, Inc., GlaxoSmithKline plc, Antigenics, Inc., F. Hoffmann-La Roche Ltd, Novartis AG, Cell Therapeutics, Inc., Neopharm Inc., Meditech Research Ltd, Alchemia Limited, Enzon Pharmaceuticals, Inc. and others.

There can be no assurance that we or our partners will successfully develop, obtain regulatory approvals for and commercialize next-generation or new products that will successfully compete with those of our competitors. Many of our competitors have greater financial, research and development, marketing and sales, manufacturing and managerial capabilities. We face competition from these companies not just in product development but also in areas such as recruiting employees, acquiring technologies that might enhance our ability to commercialize products, establishing relationships with certain research and academic institutions, enrolling patients in clinical trials and seeking program partnerships and collaborations with larger pharmaceutical companies. As a result, our competitors may succeed in developing competing technologies, obtaining regulatory approval or gaining market acceptance for products before we do. These developments could make our products or technologies uncompetitive or obsolete.

***If product liability lawsuits are brought against us, we may incur substantial liabilities.***

The manufacture, clinical testing, marketing and sale of medical products involve inherent product liability risks. If product liability costs exceed our product liability insurance coverage, we may incur substantial liabilities that could have a severe negative impact on our financial position. Whether or not we are ultimately successful in any product liability litigation, such litigation would consume substantial amounts of our financial and managerial resources and might result in adverse publicity, all of which would impair our business. Additionally, we may not be able to maintain our clinical trial insurance or product liability insurance at an acceptable cost, if at all, and this insurance may not provide adequate coverage against potential claims or losses.

***Our future depends on the proper management of our current and future business operations and their associated expenses.***

Our business strategy requires us to manage our business to provide for the continued development and potential commercialization of our proprietary and partnered drug candidates. Our strategy also calls for us to undertake increased research and development activities and to manage an increasing number of relationships with partners and other third parties, while simultaneously managing the capital necessary to support this strategy. Our decision to bear a majority or all of the clinical development costs of NKTR-102 substantially increases our future capital requirements. If we are unable to manage effectively our current operations and any growth we may experience, our business, financial condition and results of operations may be adversely affected. If we are unable to effectively manage our expenses, we may find it necessary to reduce our personnel-related costs through reductions in our workforce, which could harm our operations, employee morale and impair our ability to retain and recruit talent. Furthermore, if adequate funds are not available, we may be required to obtain funds through arrangements with partners or other sources that may require us to relinquish rights to certain of our technologies, products or future economic rights that we would not otherwise relinquish or require us to enter into other financing arrangements on unfavorable terms.

***We are dependent on our management team and key technical personnel, and the loss of any key manager or employee may impair our ability to develop our products effectively and may harm our business, operating results and financial condition.***

Our success largely depends on the continued services of our executive officers and other key personnel. The loss of one or more members of our management team or other key employees could seriously harm our business, operating results and financial condition. The relationships that our key managers have cultivated within our industry make us particularly dependent upon their continued employment with us. We are also dependent on the continued services of our technical personnel because of the highly technical nature of our

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products and the regulatory approval process. Because our executive officers and key employees are not obligated to provide us with continued services, they could terminate their employment with us at any time without penalty. We do not have any post-employment noncompetition agreements with any of our employees and do not maintain key person life insurance policies on any of our executive officers or key employees.

***Because competition for highly qualified technical personnel is intense, we may not be able to attract and retain the personnel we need to support our operations and growth.***

We must attract and retain experts in the areas of clinical testing, manufacturing, regulatory, finance, marketing and distribution and develop additional expertise in our existing personnel. We face intense competition from other biopharmaceutical companies, research and academic institutions and other organizations for qualified personnel. Many of the organizations with which we compete for qualified personnel have greater resources than we have. Because competition for skilled personnel in our industry is intense, companies such as ours sometimes experience high attrition rates with regard to their skilled employees. Further, in making employment decisions, job candidates often consider the value of the stock options they are to receive in connection with their employment. Our equity incentive plan and employee benefit plans may not be effective in motivating or retaining our employees or attracting new employees, and significant volatility in the price of our stock may adversely affect our ability to attract or retain qualified personnel. If we fail to attract new personnel or to retain and motivate our current personnel, our business and future growth prospects could be severely harmed.

***If earthquakes and other catastrophic events strike, our business may be harmed.***

Our corporate headquarters, including a substantial portion of our research and development operations, are located in the San Francisco Bay Area, a region known for seismic activity and a potential terrorist target. In addition, we own facilities for the manufacture of products using our PEGylation and advanced polymer conjugate technologies in Huntsville, Alabama and own and lease offices in Hyderabad, India. There are no backup facilities for our manufacturing operations located in Huntsville, Alabama. In the event of an earthquake or other natural disaster, political instability, or terrorist event in any of these locations, our ability to manufacture and supply materials for drug candidates in development and our ability to meet our manufacturing obligations to our customers would be significantly disrupted and our business, results of operations and financial condition would be harmed. Our collaborative partners may also be subject to catastrophic events, such as hurricanes and tornadoes, any of which could harm our business, results of operations and financial condition. We have not undertaken a systematic analysis of the potential consequences to our business, results of operations and financial condition from a major earthquake or other catastrophic event, such as a fire, sustained loss of power, terrorist activity or other disaster, and do not have a recovery plan for such disasters. In addition, our insurance coverage may not be sufficient to compensate us for actual losses from any interruption of our business that may occur.

***We have implemented certain anti-takeover measures, which make it more difficult to acquire us, even though such acquisitions may be beneficial to our stockholders.***

Provisions of our certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us, even though such acquisitions may be beneficial to our stockholders. These anti-takeover provisions include:

- establishment of a classified board of directors such that not all members of the board may be elected at one time;
- lack of a provision for cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;
- the ability of our board to authorize the issuance of blank check preferred stock to increase the number of outstanding shares and thwart a takeover attempt;

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prohibition on stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of stockholders;

establishment of advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings; and

limitations on who may call a special meeting of stockholders.

Further, provisions of Delaware law relating to business combinations with interested stockholders may discourage, delay or prevent a third party from acquiring us. These provisions may also discourage, delay or prevent a third party from acquiring a large portion of our securities or initiating a tender offer or proxy contest, even if our stockholders might receive a premium for their shares in the acquisition over the then current market prices. We also have a change of control severance benefit plan which provides for certain cash severance, stock award acceleration and other benefits in the event our employees are terminated (or, in some cases, resign for specified reasons) following an acquisition. This severance plan could discourage a third party from acquiring us.

***The price of our common stock is expected to remain volatile.***

Our stock price is volatile. During the year ended December 31, 2011, based on closing bid prices on The NASDAQ Global Select Market, our stock price ranged from $12.53 to $4.22 per share. We expect our stock price to remain volatile. In addition, as our convertible notes are convertible into shares of our common stock, volatility or depressed prices of our common stock could have a similar effect on the trading price of our notes. Also, interest rate fluctuations can affect the price of our convertible notes. A variety of factors may have a significant effect on the market price of our common stock or notes, including:

announcements of data from, or material developments in, our clinical studies and those of our collaboration partners, including data regarding efficacy and safety, delays in clinical development, regulatory approval or commercial launch;

announcements by collaboration partners as to their plans or expectations related to drug candidates and approved drugs in which we have a substantial economic interest;

announcements regarding terminations or disputes under our collaboration agreements;

fluctuations in our results of operations;

developments in patent or other proprietary rights, including intellectual property litigation or entering into intellectual property license agreements and the costs associated with those arrangements;

announcements of technological innovations or new therapeutic products that may compete with our approved products or products under development;

announcements of changes in governmental regulation affecting us or our competitors;

hedging activities by purchasers of our convertible notes;

litigation brought against us or third parties to whom we have indemnification obligations;

public concern as to the safety of drug formulations developed by us or others; and

general market conditions.

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**Item 1B.** ***Unresolved Staff Comments***
None.

**Item 2.** ***Properties***
**California**

We lease a 102,283 square foot facility in the Mission Bay Area of San Francisco, California (Mission Bay Facility), under an operating lease which expires in 2020. In November 2010, we moved into the Mission Bay Facility relocating all of our functions from the San Carlos, California facility (San Carlos Facility), including our corporate headquarters and research and development for our PEGylation and advanced polymer conjugate technology operations. In December 2011, we expanded our lease of the Mission Bay Facility to include an additional 24,002 square feet of space. However, we retain the right to terminate the lease expansion on May 31, 2013. If we do not exercise the early termination right, the lease for the expanded space will expire in 2020, on the same date as the original lease agreement for the Mission Bay Facility.

Our lease for approximately 100,000 square feet of the San Carlos Facility is under a capital lease which expires in 2016. We have subleased a portion of the San Carlos Facility and are currently seeking one or more subtenants for the remaining space.

**Alabama**

We currently own three facilities consisting of approximately 149,333 square feet in Huntsville, Alabama, which house laboratories as well as administrative, clinical and commercial manufacturing facilities for our PEGylation and advanced polymer conjugate technology operations.

**India**

We own a research and development facility consisting of approximately 88,000 square feet, near Hyderabad, India. In addition, we lease approximately 504 square feet of office space in Hyderabad, India, under a one-year operating lease that will expire in 2012.

**Item 3.** ***Legal Proceedings***
From time to time, we are subject to legal proceedings, including the proceedings described specifically below. We are not currently a party to or aware of any proceedings that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or results of operations.

On November 18, 2009, the Research Foundation of the State University of New York (SUNY) filed an action against Nektar in the United States District Court for the Northern District of New York. SUNY seeks to recover amounts it alleges it is owed pursuant to a technology licensing contract between Nektar and SUNY. We dispute SUNY s claims. Discovery in the matter is continuing and a trial ready date has been set for September 1, 2012. We believe that SUNY s claims are without merit. No reasonable estimate of the possible loss or range of loss can be made at this time and no liabilities have been recorded for this matter on our Consolidated Balance Sheets as of December 31, 2011 or 2010.

**Item 4.** ***[Removed and Reserved]***

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**PART II**

**Item 5.** ***Market for Registrant s Common Equity and Related Stockholder Matters***

Our common stock trades on the NASDAQ Global Select Market under the symbol NKTR. The table below sets forth the high and low closing sales prices for our common stock as reported on the NASDAQ Global Select Market during the periods indicated.

| | High | Low |
|---|---|---|
| ***Year Ended December 31, 2010:*** | | |
| 1st Quarter | $ 15.52 | $ 9.39 |
| 2nd Quarter | 15.58 | 11.25 |
| 3rd Quarter | 15.21 | 11.60 |
| 4th Quarter | 15.88 | 12.30 |
| ***Year Ended December 31, 2011:*** | | |
| 1st Quarter | $ 12.53 | $ 8.58 |
| 2nd Quarter | 10.44 | 7.22 |
| 3rd Quarter | 7.65 | 4.85 |
| 4th Quarter | 5.62 | 4.22 |

**Holders of Record**

As of February 24, 2012, there were approximately 251 holders of record of our common stock.

**Dividend Policy**

We have never declared or paid any cash dividends on our common stock. We currently expect to retain any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends on our common stock in the foreseeable future.

There were no sales of unregistered securities and there were no common stock repurchases made during the year ended December 31, 2011.

**Securities Authorized for Issuance Under Equity Compensation Plans**

Information regarding our equity compensation plans as of December 31, 2011 is disclosed in Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this Annual Report on Form 10-K and is incorporated herein by reference from our proxy statement for our 2011 annual meeting of stockholders to be filed with the SEC pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

**Performance Measurement Comparison**

The material in this section is being furnished and shall not be deemed filed with the SEC for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section, nor shall the material in this section be deemed to be incorporated by reference in any registration statement or other document filed with the SEC under the Securities Act or the Exchange Act, except as otherwise expressly stated in such filing.

The following graph compares, for the five year period ended December 31, 2011, the cumulative total stockholder return (change in stock price plus reinvested dividends) of our common stock with (i) the NASDAQ Composite Index, (ii) the NASDAQ Pharmaceutical Index, (iii) the RGD SmallCap Pharmaceutical Index, (iv) the NASDAQ Biotechnology Index and (v) the RDG SmallCap Biotechnology Index. Measurement points are the last trading day of each of our fiscal years ended December 31, 2007, December 31, 2008, December 31,

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2009, December 31, 2010 and December 31, 2011. The graph assumes that $100 was invested on December 31, 2006 in the common stock of the Company, the NASDAQ Composite Index, the Nasdaq Pharmaceutical Index, the RGD SmallCap Pharmaceutical Index, the NASDAQ Biotechnology Index and the RDG SmallCap Biotechnology Index and assumes reinvestment of any dividends. The stock price performance in the graph is not intended to forecast or indicate future stock price performance.

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**Item 6.** ***Selected Financial Data***

**SELECTED CONSOLIDATED FINANCIAL INFORMATION**

**(In thousands, except per share information)**

The selected consolidated financial data set forth below should be read together with the consolidated financial statements and related notes, Management s Discussion and Analysis of Financial Condition and Results of Operations, and the other information contained herein.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2011** | **2010** | **2009** | **2008** | **2007** |
| **Statements of Operations Data:** | | | | | |
| Revenue: | | | | | |
| Product sales(1) | $ 24,864 | | | | |