NEKTAR THERAPEUTICS
Form 10-Q
April 29, 2011

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011

or

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

455 Mission Bay Boulevard South
San Francisco, California 94158
(Address of principal executive offices)
415-482-5300
(Registrant s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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 þ No o

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

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

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

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

The number of outstanding shares of the registrant s Common Stock, $0.0001 par value, was 114,073,353 on April 25, 2011.

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PART II: OTHER INFORMATION

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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 quarterly report on Form 10-Q, 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 or other new products or services, 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 Phase 3 clinical trials, 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, or the 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 II, Item 1A Risk Factors below and for the reasons described elsewhere in this quarterly report on Form 10-Q. 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 quarterly report on Form 10-Q, the Company, Nektar, we, us, and our refer to Nektar Therapeutics, a Delaware corporation, and, wh 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: FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements Unaudited:

NEKTAR THERAPEUTICS
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share information)
(Unaudited)

	March 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,485	$ 17,755
Short-term investments	496,157	298,177
Accounts receivable	2,160	25,102
Inventory	11,712	7,266
Other current assets	6,859	5,679
Total current assets	539,373	353,979
Property and equipment, net	87,628	89,773
Goodwill	76,501	76,501
Other assets	976	972
Total assets	$ 704,478	$ 521,225
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 3,481	$ 7,194
Accrued compensation	7,680	9,252
Accrued expenses	9,231	8,540
Accrued clinical trial expenses	13,649	12,144
Deferred revenue, current portion	19,974	20,584
Other current liabilities	4,865	6,394
Total current liabilities	58,880	64,108
Convertible subordinated notes	214,955	214,955
Capital lease obligations, less current portion	16,448	17,014
Deferred revenue, less current portion	122,818	124,763
Deferred gain	3,934	4,152
Other long-term liabilities	6,205	5,571
Total liabilities	423,240	430,563
Commitments and contingencies		
Stockholders equity:		
Preferred stock, 10,000 shares authorized Series A, $0.0001 par value; 3,100 shares designated; no shares issued or outstanding at March 31, 2011 and December 31, 2010		
Common stock, $0.0001 par value; 300,000 authorized; 114,023 shares and 94,517 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	11	9

Capital in excess of par value	1,580,990	1,354,232
Accumulated other comprehensive income	818	968
Accumulated deficit	(1,300,581)	(1,264,547)
Total stockholders equity	281,238	90,662
Total liabilities and stockholders equity	$ 704,478	$ 521,225

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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NEKTAR THERAPEUTICS
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share information)
(Unaudited)

	Three months ended March 31,	
	2011	**2010**
Revenue:		
Product sales and royalties	$ 4,793	$ 3,584
License, collaboration and other	6,506	29,653
Total revenue	11,299	33,237
Operating costs and expenses:		
Cost of goods sold	3,263	4,296
Research and development	30,176	23,286
General and administrative	11,727	9,013
Total operating costs and expenses	45,166	36,595
Loss from operations	(33,867)	(3,358)
Non-operating income (expense):		
Interest income	432	463
Interest expense	(2,585)	(2,951)
Other income, net	134	24
Total non-operating expense	(2,019)	(2,464)
Loss before provision for income taxes	(35,886)	(5,822)
Provision for income taxes	148	308
Net loss	$ (36,034)	$ (6,130)
Basic and diluted net loss per share	$ (0.33)	$ (0.07)
Weighted average shares outstanding used in computing basic and diluted net loss per share	108,677	93,631

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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NEKTAR THERAPEUTICS
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three months ended March 31,	
	2011	**2010**
Cash flows from operating activities:		
Net loss	$ (36,034)	$ (6,130)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,856	4,149
Stock-based compensation	4,802	3,744
Other non-cash transactions	309	(235)
Changes in operating assets and liabilities:		
Accounts receivable	22,942	(2,908)
Inventory	(4,446)	(2,232)
Other assets	(1,199)	(883)
Accounts payable	(2,895)	1,748
Accrued compensation	(1,572)	(4,348)
Accrued expenses	1,961	1,354
Accrued clinical trial expenses	1,505	(552)
Deferred revenue	(2,555)	(26,568)
Other liabilities	(1,544)	(1,302)
Net cash used in operating activities	$ (14,870)	$ (34,163)
Cash flows from investing activities:		
Purchases of investments	(372,723)	(115,277)
Sales of investments	61,368	8,197
Maturities of investments	113,235	112,074
Purchases of property and equipment	(3,765)	(3,973)
Net cash (used in) provided by investing activities	$ (201,885)	$ 1,021
Cash flows from financing activities:		
Payments of loan and capital lease obligations	(459)	(359)
Issuance of common stock, net of issuance costs	221,958	4,776
Net cash provided by financing activities	$ 221,499	$ 4,417
Effect of exchange rates on cash and cash equivalents	(14)	(300)
Net increase (decrease) in cash and cash equivalents	$ 4,730	$ (29,025)
Cash and cash equivalents at beginning of period	17,755	49,597
Cash and cash equivalents at end of period	$ 22,485	$ 20,572

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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NEKTAR THERAPEUTICS
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2011
(Unaudited)

Note 1 Organization and Summary of Significant Accounting Policies

Organization

We are a clinical-stage biopharmaceutical company headquartered in San Francisco, California and incorporated in Delaware. We are developing a pipeline of drug candidates that utilize our PEGylation and advanced polymer conjugate technology platforms designed to improve the benefits of drugs for patients.

Basis of Presentation and Principles of Consolidation

Our consolidated financial statements include the financial position, results of operations and cash flows of our wholly-owned subsidiaries: Nektar Therapeutics (India) Private Limited (Nektar India) and Nektar Therapeutics UK Limited (Nektar UK) and Aerogen, Inc. All intercompany accounts and transactions have been eliminated in consolidation. On December 2, 2010, we completed the dissolution of Aerogen, Inc. and all remaining assets were transferred to Nektar Therapeutics.

We prepared our Condensed Consolidated Financial Statements following the requirements of the Securities and Exchange Commission (SEC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. generally accepted accounting principles (GAAP) for annual periods can be condensed or omitted. In the opinion of management, these financial statements include all normal and recurring adjustments that we consider necessary for the fair presentation of our financial position and operating results.

Our Condensed Consolidated Financial Statements are denominated in U.S. dollars. Accordingly, changes in exchange rates between the applicable foreign currency and the U.S. dollar will affect the translation of each foreign subsidiary s financial results into U.S. dollars for purposes of reporting our consolidated financial results. Translation gains and losses are included in accumulated other comprehensive income in the stockholders equity section of the Condensed Consolidated Balance Sheets. To date, such cumulative translation adjustments have not been material to our consolidated financial position.

Revenue, expenses, assets, and liabilities can vary during each quarter of the year. The results and trends in these interim Condensed Consolidated Financial Statements may not be indicative of the results to be expected for the full year or any other periods.

The accompanying Condensed Consolidated Balance Sheet as of March 31, 2011, the Condensed Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010, and the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010 are unaudited. The Condensed Consolidated Balance Sheet data as of December 31, 2010 was derived from the audited consolidated financial statements which are included in our Annual Report on Form 10-K filed with the SEC on March 1, 2011. The information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and the accompanying notes to those financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from these estimates. On an ongoing basis, we evaluate our estimates, including those related to deferred revenue recognition periods, inventories, the impairment of investments and long-lived assets, restructuring and contingencies, stock-based compensation, and litigation, amongst others. We base our estimates on historical experience and on other assumptions that management believes are reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and

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liabilities when these values are not readily apparent from other sources.

Segment Information

We operate in one business segment which focuses on applying our technology platforms to improve the performance of established and novel medicines. We operate in one segment because our business offerings have similar economics and other characteristics, including the nature of products and manufacturing processes, types of customers, distribution methods and regulatory environment. We are comprehensively managed as one business segment by our Chief Executive Officer and his management team.

Significant Concentrations

Our customers are primarily pharmaceutical and biotechnology companies that are located in the U.S. and Europe. Our accounts receivable balance contains billed and unbilled trade receivables from product sales, royalties, and amounts due under collaborative research and development agreements. We provide for an allowance for doubtful accounts by reserving for specifically identified doubtful accounts. We generally do not require collateral from our customers. We regularly review our customers payment histories and associated credit risk. We have not experienced significant credit losses from our accounts receivable and therefore recorded no allowance for doubtful accounts at both March 31, 2011 and December 31, 2010.

We are dependent on our suppliers and contract manufacturers to provide raw materials, drugs and devices of appropriate quality and reliability and to meet applicable regulatory requirements. In certain cases, we rely on single sources of supply. Consequently, in the event that supplies are delayed or interrupted for any reason, our ability to develop and produce our products could be impaired, which could have a material adverse effect on our business, financial condition and results of operations.

Revenue

Product sales and royalties

Product sales are primarily derived from cost-plus and fixed price manufacturing and supply agreements with our collaboration partners and revenue is recognized in accordance with the terms of the related agreement. We have not experienced any significant returns from our customers.

Generally, we are entitled to royalties from our partners based on their net sales of approved products. We recognize royalty revenue when the cash is received or when the royalty amount to be received is estimable and collection is reasonably assured.

License, collaboration and other

We enter into license and manufacturing agreements and collaborative research and development arrangements with pharmaceutical and biotechnology partners that may involve multiple deliverables. Our arrangements may contain one or more of the following elements: upfront fees, contract research and development, milestone payments, manufacturing and supply, royalties, and license fees. Each deliverable in the arrangement is evaluated to determine whether it meets the criteria to be accounted for as a separate unit of accounting or whether it should be combined with other deliverables. Revenue is recognized for each element when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed or determinable, and collection is reasonably assured.

On January 1, 2011, we adopted on a prospective basis Accounting Standards Update (ASU) 2009-13, which amends the criteria to identify separate units of accounting within Subtopic 605-25, Revenue Recognition-Multiple-Element Arrangements. The adoption of the standard did not impact our financial position or results of operations as of and for the three month period ended March 31, 2011 as we did not enter into or materially modify any multiple-element arrangements during that period. However, the adoption of

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this standard may result in revenue recognition patterns for future agreements that are materially different from those recognized for our existing multiple-element arrangements.

Upfront fees received for license and collaborative agreements entered into prior to January 1, 2011 are recognized ratably over our expected performance period under the arrangement. Management makes its best estimate of the period over which we expect to fulfill our performance obligations, which may include technology transfer assistance, clinical development activities, and manufacturing activities from development through the commercialization of the product. Given the uncertainties of research and development collaborations, significant judgment is required to determine the duration of the performance period.

On January 1, 2011, we elected to prospectively adopt ASU 2010-17, Milestone Method of Revenue Recognition . Under the milestone method, contingent consideration received from the achievement of a substantive milestone is recognized in its entirety in the period in which the milestone is achieved, which we believe is more consistent with the substance of our performance under our various license and collaboration agreements. A milestone is defined as an event (i) that can only be achieved based in whole or in part on either the entity s performance or on the occurrence of a specific outcome resulting from the entity s performance, (ii) for which there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved, and (iii) that would result in additional payments being due to the entity. A milestone is substantive if the consideration earned from the achievement of the milestone is consistent with our performance required to achieve the milestone or the increase in value to the collaboration resulting from our performance, relates solely to our past performance, and is reasonable relative to all of the other deliverables and payments within the arrangement.

Our license and collaboration agreements with our partners provide for payments to us upon the achievement of development milestones, such as the completion of clinical trials or regulatory approval for drug candidates. As of January 1, 2011, our agreements with partners included potential future payments for development milestones as defined in the respective agreements totaling approximately $183.8 million, including potential milestone payments totaling $60.0 million from our agreement with Bayer Healthcare LLC. Given the challenges inherent in developing and obtaining approval for pharmaceutical and biologic products, there was substantial uncertainty whether any such milestones would be achieved at the time these licensing and collaboration agreements were entered into. In addition, we evaluated whether the development milestones met the remaining criteria to be considered substantive. As a result of our analysis, we consider our development milestones to be substantive and, accordingly, we expect to recognize as revenue future payments received from such milestones as we achieve each milestone. The election to adopt the milestone method did not impact our financial position or results of operations as of and for the three month period ended March 31, 2011. However, this policy election may result in revenue recognition patterns for future milestones that are materially different from those recognized for milestones received prior to adoption.

Milestone payments received prior to January 1, 2011 have been deferred and are recognized as revenue ratably over the period of time from the achievement of the milestone to our estimated date on which the next milestone will be achieved. Management makes its best estimate of the period of time until the next milestone is expected to be reached. Final milestone payments are recorded and recognized upon achieving the respective milestone, provided that collection is reasonably assured. The Company will continue to recognize milestones payments received prior to January 1, 2011 in this manner. As of March 31, 2011, we have deferred revenue of approximately $0.7 million from milestone payments received prior to January 1, 2011 that we estimate will be recognized ratably through 2013.

Our license and collaboration agreements with certain partners also provide for contingent payments to us based solely upon the performance of our partner. In particular, our agreement with AstraZeneca AB includes contingent payments of $235.0 million based on development activities to be completed solely by AstraZeneca since we have no further performance obligations under this agreement. For such contingent payments we expect to recognize the payments as revenue upon receipt, provided that collection is reasonably assured.

Our license and collaboration agreements with our partners also provide for payments to us upon the achievement of specified sales volumes of commercialized products. We consider these payments to be similar to royalty payments and we recognize such sales-based payments upon achievement of the milestone, provided that collection is reasonably assured.

Income Taxes

We account for income taxes under the liability method, in which deferred tax assets and liabilities are determined based on differences between the financial reporting and tax reporting bases of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Realization of deferred tax assets is dependent upon future earnings, the timing and amount of which are uncertain. We record a valuation allowance against deferred tax assets to reduce their carrying value to an amount that is more likely than not to be realized.

For the three month periods ended March 31, 2011 and 2010, we recorded an income tax provision for our operations in India at an effective tax rate of 33% and 34%, respectively. The U.S. Federal deferred tax assets generated from our net operating losses have been fully reserved as we believe it is not more likely than not that the benefit will be realized.

Note 2 Cash, Cash Equivalents, and Available-For-Sale Investments

Cash, cash equivalents, and available-for-sale investments are as follows (in thousands):

	Estimated Fair Value at	
	March 31, 2011	December 31, 2010
Cash and cash equivalents	$ 22,485	$ 17,755
Short-term investments	496,157	298,177
Total cash, cash equivalents, and available-for-sale investments	$ 518,642	$ 315,932

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Our portfolio of cash, cash equivalents, and available-for-sale investments includes (in thousands):

	Estimated Fair Value at	
	March 31, 2011	December 31, 2010
Corporate notes and bonds	$ 340,866	$ 190,527
U.S. corporate commercial paper	136,794	82,361
Obligations of U.S. government agencies	22,003	25,289
Cash and money market funds	18,979	17,755
Total cash, cash equivalents, and available-for-sale investments	$ 518,642	$ 315,932

We invest in liquid, high quality debt securities. Our investments in debt securities are subject to interest rate risk. To minimize the exposure due to an adverse shift in interest rates, we invest in short-term securities and maintain a weighted average maturity of one year or less. At March 31, 2011 and December 31, 2010, our average portfolio duration was approximately six months and five months, respectively, and the maturity of any single investment did not exceed twelve months.

During the three month periods ended March 31, 2011 and 2010, we sold available-for-sale securities totaling $61.4 million and $8.2 million, respectively, and realized gains and losses of less than $0.1 million in each of the periods. The cost of securities sold is based on the specific identification method.

Gross unrealized gains and losses were not significant at March 31, 2011 and December 31, 2010. The gross unrealized losses were primarily due to changes in interest rates on fixed income securities. Based on our available cash and our expected operating cash requirements, we do not intend to sell these securities and it is more likely than not that we will not be required to sell these securities before we recover the amortized cost basis. Accordingly, we believe there are no other-than-temporary impairments on these securities and have not recorded a provision for impairment.

We use a market approach to value our Level 2 investments as described in the table below. The disclosed fair value related to our investments is based primarily on the reported fair values in our period-end brokerage statements. We independently validate these fair values using available market quotes and other information.

The following table represents the fair value hierarchy for our financial assets measured at fair value on a recurring basis as of March 31, 2011 (in thousands):

	Level 1	Level 2	Level 3	Total
Corporate notes and bonds	$	$ 340,866	$	$ 340,866
U.S. corporate commercial paper		136,794		136,794
Obligations of U.S. government agencies		22,003		22,003
Money market funds	18,578			18,578
Cash equivalents and available-for-sale investments	$ 18,578	$ 499,663	$	$ 518,241
Cash				401
Cash, cash equivalents, and available-for-sale investments				$ 518,642

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2	Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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Note 3 Inventory

Inventory consists of the following (in thousands):

	March 31, 2011	December 31, 2010
Raw materials	$ 7,482	$ 6,101
Work-in-process	2,083	
Finished goods	2,147	1,165
Total	$ 11,712	$ 7,266

Inventory is manufactured upon receipt of firm orders from our licensing partners. Inventory includes direct materials, direct labor, and manufacturing overhead and is determined on a first-in, first-out basis. Inventory is stated at the lower of cost or market and is net of reserves of $2.5 million and $4.0 million as of March 31, 2011 and December 31, 2010, respectively. Reserves are determined using specific identification plus an estimated reserve for potential defective or excess inventory based on historical experience or projected usage.

Note 4 Commitments and Contingencies

Legal Matters

From time to time, we are involved in lawsuits, arbitrations, claims, investigations and proceedings, consisting of intellectual property, commercial, employment and other matters, which arise in the ordinary course of business. We make provisions for liabilities when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Such provisions, if necessary, are reviewed at least quarterly and adjusted to reflect the impact of settlement negotiations, judicial and administrative rulings, advice of legal counsel, and other information and events pertaining to a particular case. Litigation is inherently unpredictable. If any unfavorable ruling were to occur in any specific period, there exists the possibility of a material adverse impact on the results of operations of that period or on our cash flows and liquidity.

Indemnifications in Connection with Commercial Agreements

As part of our collaboration agreements with our partners related to the license, development, manufacture and supply of drugs based on our proprietary technologies, we generally agree to defend, indemnify and hold harmless our partners from and against third party liabilities arising out of the agreement, including product liability (with respect to our activities) and infringement of intellectual property to the extent the intellectual property is developed by us and licensed to our partners. The term of these indemnification obligations is generally perpetual any time after execution of the agreement. There is generally no limitation on the potential amount of future payments we could be required to make under these indemnification obligations.

As part of our pulmonary asset sale to Novartis that was effective as of December 31, 2008, we and Novartis made representations and warranties and entered into certain covenants and ancillary agreements which are supported by an indemnity obligation. In the event it were determined that we breached certain of the representations and warranties or covenants and agreements made by us in the transaction documents, we could incur an indemnification liability depending on the timing, nature, and amount of any such claims.

To date we have not incurred costs to defend lawsuits or settle claims related to these indemnification obligations. If any of our indemnification obligations is triggered, we may incur substantial liabilities. Because the obligated amount under these agreements is not explicitly stated, the overall maximum amount of any such obligations cannot be reasonably estimated. No liabilities have been recorded for these obligations on our Condensed Consolidated Balance Sheets as of March 31, 2011 or December 31, 2010.

Note 5 Stockholders Equity

On January 24, 2011, we completed the issuance and sale of 19,000,000 shares of our common stock for aggregate gross proceeds to the Company of approximately $220.4 million. Additionally, we incurred approximately $0.6 million in legal and accounting fees, filing fees, and other offering expenses.

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Note 6 License and Collaboration Agreements

We have entered into various license and manufacturing agreements and collaborative research and development agreements with pharmaceutical and biotechnology companies. Under these arrangements, we are entitled to receive license fees, upfront payments, milestone payments when and if certain development or regulatory milestones are achieved, royalties, sales milestones, payment for the manufacture and supply of certain drug materials, and/or reimbursement for research and development activities. All of our research and development agreements are generally cancelable by our partners without significant financial penalty to the partner. Our costs of performing these services are included in research and development expense in the accompanying Condensed Consolidated Statements of Operations.

In accordance with these agreements, we recorded license, collaboration and other revenue as follows (in thousands):

		Three months ended March 31,	
Partner	**Agreement**	**2011**	**2010**
F. Hoffmann-LaRoche	PEGASYS®	$ 1,283	$ 1,283
Amgen, Inc.	Neulasta®	1,250	
Bayer Healthcare LLC	BAY41-6651 (Amikacin Inhale)	750	887
AstraZeneca AB	NKTR-118 and NKTR-119	241	25,726
Other		2,982	1,757
License, collaboration, and other revenue		$ 6,506	$ 29,653

F. Hoffmann-LaRoche Ltd and Hoffmann-LaRoche Inc.

PEGASYS®

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 PEGylation materials in the manufacture of PEGASYS. As a result of Roche exercising a license extension option in December 2009, Roche has the right to manufacture all of its requirements for our proprietary PEGylation materials for PEGASYS and we will perform additional manufacturing, if any, only on an as requested basis. In connection with Roche s exercise of the license option extension in December 2009, we received a payment of $31.0 million. As of March 31, 2011, we have deferred revenue of approximately $24.4 million, which we expect to amortize through December 2015, which is the period through which we are required to provide back-up manufacturing and supply services on an as-requested basis.

Amgen, Inc.

Neulasta®

On October 29, 2010, we amended and restated an existing supply and license agreement by entering into a supply, dedicated suite and manufacturing guarantee agreement (the amended and restated agreement) and a license agreement with Amgen Inc. and Amgen Manufacturing, Limited (together referred to as Amgen). Under the terms of the amended and restated 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 (the Manufacturing Suite) in our manufacturing facility in Huntsville, Alabama (Facility). This supply arrangement is on a non-exclusive basis (other than the use of the Manufacturing Suite and certain equipment) whereby Nektar is 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 amended and restated agreement, we received a $50.0 million payment in the fourth quarter of 2010 in return for our guaranteeing the supply of certain quantities of Polymer Materials to Amgen including without limitation the Additional Rights described below and manufacturing fees that are 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, significant additional payments become payable to us in return for our guaranteeing the supply of additional quantities of the Polymer Materials.

The term of the amended and restated agreement ends on October 29, 2020. In the event we become subject to a bankruptcy or insolvency proceeding, we cease to own or control the Facility, we fail to manufacture and supply or certain other events, Amgen or

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its designated third party will have the right to elect, among certain other options, to take title to the dedicated equipment and access the Facility to operate the Manufacturing Suite solely for the purpose of manufacturing the Polymer Materials (the Additional Rights). Amgen may terminate the amended and restated agreement for convenience or due to an uncured material default by us.

As of March 31, 2011, we have deferred revenue of approximately $47.9 million, which we expect to amortize through October 2020, the estimated end of our obligations under amended and restated agreement.

Bayer Healthcare LLC

BAY41-6651 (Amikacin Inhale)

On August 1, 2007, we entered into a co-development, license and co-promotion agreement with Bayer Healthcare LLC (Bayer) to develop a specially-formulated inhaled Amikacin. We are responsible for development of the nebulizer device included in the Amikacin product through the completion of the Phase 3 clinical trial, scale-up for commercialization, and commercial manufacturing and supply. 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 Amikacin Inhale and final product packaging and distribution. We received an upfront payment of $40.0 million in 2007 and performance milestone payments of $20.0 million, of which $10.0 million will be used to reimburse Bayer for Phase 3 clinical trial costs. We are entitled to development milestones and sales milestones upon achievement of certain development milestones and annual sales targets and royalties based on annual worldwide net sales of Amikacin Inhale. As of March 31, 2011, we have deferred revenue of approximately $29.7 million, which we expect to amortize through July 2021, the estimated end of our obligations under this agreement.

AstraZeneca AB

NKTR-118 and NKTR-119

On September 20, 2009, we entered into a License Agreement with AstraZeneca AB, a Swedish corporation (AstraZeneca), under which we granted AstraZeneca a worldwide, exclusive, perpetual, royalty-bearing, and sublicensable license under our patents and other intellectual property to develop, sell and otherwise commercially exploit NKTR-118 and NKTR-119. AstraZeneca is responsible for all costs associated with research, development and commercialization and will control drug development and commercialization decisions for NKTR-118 and NKTR-119. Under the terms of the agreement, AstraZeneca paid us an upfront payment of $125.0 million, which we received in the fourth quarter of 2009. We are also entitled to development milestones, sales milestones and royalties based on annual worldwide net sales of NTKR-118 and NKTR-119 products. As of December 31, 2010, we completed our obligations under the license agreement and related manufacturing technology transfer agreement. The upfront payment was amortized over approximately 15 months beginning in October 2009 in accordance with our performance obligation period and was fully recognized as of December 31, 2010.

Note 7 Stock-Based Compensation

Total stock-based compensation cost was recorded in our Condensed Consolidated Financial Statements as follows (in thousands):

	Three months ended March 31,	
	2011	**2010**
Cost of goods sold	$ 332	$ 207
Research and development expense	1,969	1,566
General and administrative expense	2,501	1,971
Total stock-based compensation cost	$ 4,802	$ 3,744

During the three months ended March 31, 2011 and 2010, we granted 2,128,055 and 3,756,925 stock options, respectively. The weighted average grant-date fair value of options granted during the three-months ended March 31, 2011 and 2010 was $5.74 per share and $5.97 per share, respectively. During the three months ended March 31, 2011

and 2010, we issued 505,700 and 637,664 common shares, respectively, as a result of stock issuances under our equity compensation plans.

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Note 8 Net Loss Per Share

Basic net loss per share is calculated based on the weighted-average number of common shares outstanding during the periods presented. For all periods presented in the accompanying Condensed Consolidated Statements of Operations, the net loss available to common stockholders is equal to the reported net loss. Basic and diluted net loss per share are the same due to our historical net losses and the requirement to exclude potentially dilutive securities which would have an anti-dilutive effect on net loss per share. The weighted average of these potentially dilutive securities has been excluded from the diluted net loss per share calculation and is as follows (in thousands):