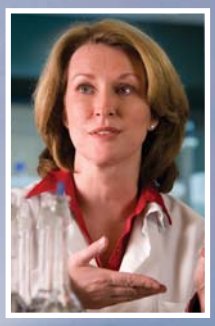
NEKTAR®

Annual Report 2007



Nektar is developing a robust pipeline of high-value therapeutics to address unmet medical needs by leveraging and expanding our technology platforms to improve known molecules.

To Our Shareholders

This past year, we set out to put Nektar on a new course. I am pleased to report that we are well on our way to becoming a proprietary drug development company—one that will allow us to better capitalize on our talents, technology platforms, and resources. We are now more firmly in control of our own destiny and more strategically positioned to succeed in our efforts to build an exciting and valuable company. Clearly, Exubera's departure from the market was a great disappointment to us all, but I believe that our core value lies in our robust pipeline, proprietary drug development programs, and platform technologies.

In 2007, we expanded our research and development efforts and built a pipeline of high-value proprietary therapeutics together with new, more valuable partnered programs. At the same time, we right-sized the company, reduced and refocused our spending, and significantly increased our efficiency and productivity. We are advancing our lead clinical candidates with greater speed and lower risk than competitors by applying our proven technology platforms to well-understood molecules. We continue to expand our early research efforts, building a vast patent estate covering novel applications of PEGylation and polymer chemistry and pulmonary technologies.

The perfect case-in-point is the progress we have made developing proprietary products based on our PEGylation technology platform. We have already advanced two high-value products into Phase 2 clinical trials derived from our robust small molecule PEG platform: NKTR-102 (PEG-irinotecan) for colorectal cancer and NKTR-118 (oral PEG-naloxol) for opioid-induced bowel dysfunction. Later this year, we plan to expand the NKTR-102 Phase 2 trials to include additional solid tumor indications and we plan to file an Investigational New Drug application to advance our next important small molecule oncolytic, NKTR-105 (PEG-docetaxel).

We will continue to work with partners to accelerate the clinical development of our programs, but rest assured, we will secure the most favorable economic terms for our shareholders. A prime example is our new alliance with Bayer HealthCare for NKTR-061 (inhaled amikacin). NKTR-061 is being developed for the treatment of Gram-negative pneumonia, a dangerous infection with a high rate of morbidity and a mortality rate of 15%-40%. All told, the successful development and commercialization of this product in collaboration with Bayer represent substantial milestone and royalty opportunities for Nektar. Bayer plans to initiate Phase 3 clinical trials in 2008. NKTR-061 was granted fast-track status by the FDA and is already generating excitement among key infectious disease opinion leaders in the U.S. and Europe.

By any measure, Nektar is now uniquely positioned in the biotech industry and has the essential ingredients for success. From a financial standpoint, we closed 2007 with $482 million in cash and have significantly reduced our historic spending. We have put in place a highly motivated and skilled management team fully capable of executing on our vision. We will continue to invest our resources on proprietary R&D that offers the greatest value potential for the company. With respect to technology, we have two powerful and patent-protected platforms and the ability to use them as a foundation for growing our unique pipeline. Our partnered programs provide us with an expanding base of product royalties with the potential to produce significant revenues in the coming years.

As a proprietary drug development company, we are now moving forward with a renewed sense of clarity and confidence about our future. I want to thank you for your continued support and look forward to updating you on our progress.

Sincerely,

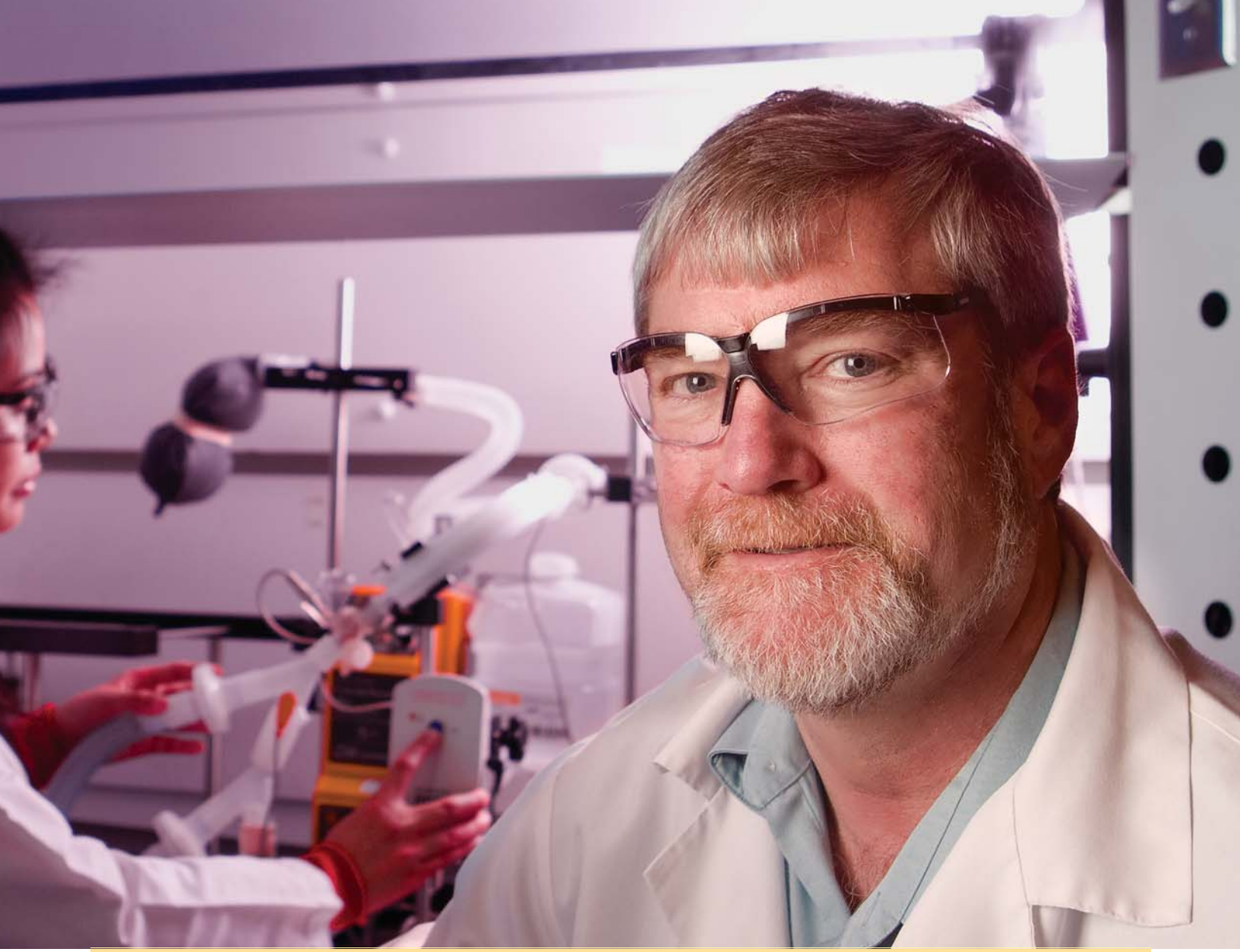
Howard W. Robin
President and Chief Executive Officer

...leading the industry in PEGylation and pulmonary platform technologies

Nektar has created two technology platforms, one based upon PEGylation and polymer chemistry, and the other upon pulmonary formulation and targeted delivery—and Nektar is the driving force and recognized leader in both.

Each of these platforms is robust and broadly applicable as there are a vast number of commercially important molecules that can be optimized by our PEG and pulmonary technologies. Every large molecule PEG product approved over the last decade has been enabled by Nektar, and we are at the forefront of small molecule PEG technology. Likewise, our pulmonary delivery technology is enabling the development of novel and potent antibiotics.

The innovations that Nektar scientists have created using these platform technologies are protected by a highly fortified intellectual property estate, which broadly covers pharmaceutical and biological compositions and methods.



Dominant Patent Estate in Pulmonary Delivery

117 U.S. patents issued; 1600 applications filed worldwide

SPRAY DRYING
Over 20 U.S. Patents

Powders
- Spray drying modalities
- Spray drying techniques
- Spray drying specific active agents

FORMULATIONS
Over 30 U.S. Patents

Powders
- Stabilized powders
- Active-agent specific powders
- Aero-dynamically engineered particles

Liquids
- Antibiotic-containing liquids

DEVICES/MECHANICAL
Over 35 U.S. Patents

Powders
- Inhalers
- Powder fillers

Liquids
- High efficiency nebulizers

PULMONARY DELIVERY
Over 30 U.S. Patents

Powders
- Delivering powders for inhalation
- Treatment methods

Liquids
- Nebulization
- Dispensing droplets

STABILITY-ENHANCED PACKAGING
Over 5 U.S. Patents

Powders
- Convenient dosage forms of pulmonary formulations

Liquids
- Antibiotic-containing dosage units
- Disposable dosage units

...drug development is now the core focus at Nektar

We have departed from the company's past focus on providing drug delivery services and contract research for partners. Today we are developing our own drugs, advancing them in the clinic with the potential to create high-value partnerships.

In fact, proprietary drug development is the very foundation of our corporate mission and serves as the focal point of our R&D and intellectual property strategy. Going forward, we are confident that our vision will provide the basis for creating long-term and sustainable value at Nektar.

We are reducing the development risk and the time horizon necessary to advance our products through the clinic by focusing on the development of novel therapeutics based on known molecules. We believe that by improving the performance profile of these therapeutically important molecules, we can significantly improve the standard of care in a broad range of disease settings.

Dominant Patent Estate in PEGylation

55 U.S. patents issued; 490 applications filed worldwide

POLYMER STRUCTURES

Large Molecule

- Linear
- Branched (two polymers)
- Forked (two functional groups)
- Multi-armed
- Segmented
- Sterically hindered
- Bi-functional polymers

Small Molecule

- Linear
- Multi-armed
- Low molecular weight polymers
- Bi-functional polymers

POLYMER LINKERS

Target Attachment Sites

- Amine
- Hydroxyl
- N-terminus
- C-terminus
- Thiol

Linkages

- Stable
- Releasable

CONJUGATES (INCLUDING)

- Antibiotics
- Anti-Cholinergics
- Anti-HIV agents
- Anti-histamines
- Anti-TNF
- Chemo-Therapeutics
- Neuropeptides
- Opioids
- Factor VIII
- Factor IX
- G-CSF
- GM-CSF
- HgH
- Irinotecan
- Naloxone

MANUFACTURING

- Manufacturing efficiency methods
- Methods of producing reagents
- Methods of making conjugates
- Purification methods
- Purified formulations

MECHANISM AND DELIVERY MODALITIES

- Differential membrane crossing
- First-pass metabolism/ oral bioavailability
- Tissue targeting
- Delivery vehicles
- Gels

...our pipeline is growing with new, high-value products

Nektar's pipeline has evolved—it is no longer dominated by one product and one partner. In fact, the defining features of our preclinical and clinical pipeline are its depth, breadth, and diversity. Nektar has an increasing number of novel, high-value proprietary and partnered programs.

In 2007 we advanced NKTR-102 (PEG-irinotecan) for colorectal cancer and NKTR-118 (oral PEG-naloxol) for opioid-induced bowel dysfunction into Phase 2 clinical trials. We partnered with Bayer and advanced our lead pulmonary product, NKTR-061 (inhaled amikacin) for Gram-negative pneumonias.

Bayer plans to commence Phase 3 clinical trials for NKTR-061 in 2008. Nektar plans to file two Investigational New Drug applications in 2008, one for our next small molecule PEG oncolytic, NKTR-105 (PEG-docetaxel) and the other for our next inhaled antibiotic, NKTR-063 (inhaled vancomycin) for Gram-positive pneumonias.

One of the Most Robust Pipelines in Biotech

10 MARKETED OR FILED PRODUCTS

Filed/Recently Approved

- Cimzia® (UCB)
- Mircera™ (Roche)-US

Marketed

- Neulasta® (Amgen)
- PEG-Intron® (Schering)
- Pegasys® (Roche)
- Mircera™ (Roche)-EU
- Macugen® (OSI)
- Definity® (BMS)
- SprayGel™ (Confluent)
- DuraSeal™ (Confluent)
- Somavert® (Pfizer)

8 PROGRAMS IN THE CLINIC

Proprietary

- NKTR-102 (PEG-irinotecan) – Phase 2
- NKTR-118 (oral PEG-naloxol) – Phase 2

Partnered

- Inhaled Tobramycin (Novartis) – Phase 3
- Hematide™ (Affymax) – Phase 3
- NKTR-061 (inhaled amikacin) (Bayer) – Phase 2b *
- CDP 791 (UCB) – Phase 2
- Inhaled DHE (MAP) – Phase 2
- Inhaled Ciprofloxacin (Bayer) – Phase 1

* Expected to enter Phase 3 clinical trials in 2008

6 PRECLINICAL PROGRAMS

Proprietary

- NKTR-105 (PEG-docetaxel) *
- NKTR-125 (oral PEG-diphenhydramine)
- NKTR-063 (inhaled vancomycin) *
- NKTR-067 (inhaled gentamycin)

Partnered

- PEG-Factor VIII (Baxter)
- PEG-Factor IX (Baxter)

* Expected to enter Phase 1 clinical trials in 2008

Note: This table contains only a partial listing of Nektar's pipeline. Please go to www.nektar.com to view our most up-to-date pipeline.

Nektar Value Proposition

POSITIONED FOR SUCCESS

- Broad, sustainable pipeline
- High-value proprietary products
- Focus on improving known molecules
- Robust technology platform
- Improved development times
- Reduced risk and cost

TWO PROVEN DRUG PLATFORMS

- PEGylation chemistry
- Pulmonary delivery

STRONG AND DIVERSE PRODUCT PIPELINE

- 10 Partnered products approved or filed
- 6 Partnered products in the clinic
- 2 Proprietary products in the clinic
- 6 Preclinical programs *

*4 out of 6 are proprietary

GROWING ROYALTY REVENUE BASE

- Partnerships with leading biotech and pharma companies such as Bayer, Baxter, Novartis, Amgen, Roche, Schering-Plough and others.

DOMINANT IP PORTFOLIO

- Pulmonary – 117 U.S. Patents, 1,600 applications
- PEGylation – 55 U.S. Patents, 490 applications

The preceding discussion contains forward-looking statements that involve risks and uncertainties. Nektar's actual results could differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Part 1 of the Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2007 under the heading "Risk Factors."

NEKTAR®

Financials 2007

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.

	Years ended December 31,				
	2007	2006	2005	2004	2003
Statements of Operations Data:					
Revenue:					
Product sales and royalties (1)	**$ 180,755**	$ 153,556	$ 29,366	$ 25,085	$ 27,295
Contract research	**85,925**	56,303	81,602	89,185	78,962
Exubera commercialization readiness	**6,347**	7,859	15,311	—	—
Total revenue	**273,027**	217, 718	126,279	114,270	106,257
Total operating costs and expenses (2)(3)	**309,175**	376,948	308,912	188,212	171,012
Loss from operations (2)	**(36,148)**	(159,230)	(182,633)	(73,942)	(64,755)
Gain (loss) on debt extinguishment	**—**	—	(303)	(9,258)	12,018
Interest and other income (expense), net	**4,696**	5,297	(2,312)	(18,849)	(12,984)
Provision (benefit) for income taxes	**1,309**	828	(137)	(163)	169
Net loss	**$ (32,761)**	$(154,761)	$(185,111)	$(101,886)	$ (65,890)
Basic and diluted net loss per share (4)	**$ (0.36)**	$ (1.72)	$ (2.15)	$ (1.30)	$ (1.18)
Share used in computing basic and diluted net loss per share (4)	**91,876**	89,789	85,915	78,461	55,821

	As of December 31,				
	2007	2006	2005	2004	2003
Balance Sheet Data:					
Cash, cash equivalents and investments	**$ 482,353**	$ 466,977	$ 566,423	$ 418,740	$ 298,409
Working capital	**$ 425,191**	$ 369,457	$ 450,248	$ 223,880	$ 223,971
Total assets	**$ 725,103**	$ 768,177	$ 858,554	$ 744,921	$ 616,788
Deferred revenue	**$ 80,969**	$ 40,106	$ 23,861	$ 31,021	$ 19,680
Convertible subordinated notes	**$ 315,000**	$ 417,653	$ 417,653	$ 173,949	$ 359,988
Other long-term liabilities	**$ 27,431**	$ 29,189	$ 27,598	$ 36,250	$ 46,742
Accumulated deficit	**$ (1,089,754)**	$(1,056,993)	$(902,232)	$(717,121)	$(615,235)
Total stockholders' equity	**$ 214,439**	$ 227, 060	$ 326,811	$ 467,342	$ 164,191

(1) 2006 and 2007 Product sales and royalties include commercial manufacturing revenue from Exubera bulk dry powder insulin and Exubera inhalers.
(2) We changed our method of accounting for stock based compensation on January 1, 2006 in connection with the adoption of SFAS No. 123R, *Accounting for Share-Based Payment*.
(3) 2007 Operating costs and expenses include the gain on termination of collaborative agreements, net of $79.2 million.
(4) Basic and diluted net loss per share is based upon the weighted average number of common shares outstanding.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this section as well as in Part I (Item 1a) of the Annual Report on Form 10-K filed with the Securities and Exchange Commission under the heading "Risk Factors."

Overview

We are a biopharmaceutical company that develops and enables differentiated therapeutics with our leading PEGylation and pulmonary drug development technology platforms. Our mission is to create differentiated, innovative products by applying our platform technologies to established or novel medicines. By doing so, we aim to raise the standards of current patient care by improving one or more performance parameters, including efficacy, safety or ease of use. Ten products using these technology platforms have received regulatory approval in the U.S. or Europe. Our two technology platforms are the basis of nearly all of our partnered and proprietary product and product candidates.

We create or enable potential breakthrough products in two ways. First, we develop products in collaboration with pharmaceutical and biotechnology companies that seek to improve and differentiate their products. All of the approved products today that use our technology platforms are a result of collaborations with partners. Second, we develop our own product candidates by applying our technologies to already approved drugs to create and develop our own differentiated, proprietary product candidates that are designed to target serious diseases in novel ways. We currently have two proprietary product candidates in mid-stage clinical development and a number of other candidates in preclinical development.

Our two leading technology platforms enable improved performance of a variety of new and existing molecules. Our PEGylation technology is a chemical process designed to enhance the performance of most drug classes with the potential to improve solubility and stability, increase drug half-life, reduce immune responses to an active drug and improve the efficacy or safety of a molecule in certain instances. Our pulmonary technology makes drugs inhaleable to deliver them to and through the lungs for both systemic and local lung applications.

There are two key elements to our business strategy. First, we are developing a portfolio of proprietary product candidates by applying our PEGylation and pulmonary technology platforms and know-how to improving already approved drugs. Our strategy is to identify molecules that would benefit from the application of our technologies and potentially improve one or more performance parameters, including efficacy, safety and ease of use. Our objective is to create value by advancing these product candidates into clinical development and then deciding on a product-by-product basis whether we wish to continue development and commercialize on our own or seek a partner, or pursue a combination of these approaches. Our most advanced proprietary product candidates are NKTR-102 (PEG-irinotecan) for the treatment of solid tumors, including colorectal cancer, and NKTR-118 (oral PEG-naloxol) for the treatment of opioid-induced bowel dysfunction, both of which entered Phase 2 clinical development in late 2007.

Second, we have collaborations or licensing arrangements with a number of pharmaceutical and biotechnology companies. Our partnering strategy enables us to work towards developing a larger and more diversified pipeline of drug products and product candidates using our technologies. As we have shifted our focus away from being a drug delivery service provider and have advanced research and development of our proprietary product pipeline, we expect to engage in selected high value partnerships in order to optimize revenue potential, probability of success and overall return on investment. Our partnering options range from a comprehensive license to a co-promotion and co-development arrangement with the structure of the partnership depending on factors such as the cost and complexity of development, commercialization needs, and therapeutic area focus.

Historically, we have depended on revenue from Pfizer related to Exubera contract research and manufacturing. Our revenue from Pfizer, including Exubera contract research and manufacturing revenue, was approximately $189.1 million and $139.9 million, representing 69% and 64% of revenue, for the years ended December 31, 2007 and 2006, respectively.

On October 18, 2007, Pfizer announced that it was exiting the Exubera business and gave notice of termination under the collaborative development and licensing agreement. On November 9, 2007, we entered into a termination agreement and mutual release with Pfizer. Under the termination agreement and mutual release, 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 our next-generation inhaled insulin product development program, also known as NGI. In addition, Pfizer agreed to continue to perform a number of maintenance activities for Exubera and NGI for a limited time and to transfer all of its rights to Exubera and NGI if we find a new marketing and development partner within a certain time period as described more fully below. All agreements between Pfizer and us related to Exubera and NGI, other than the termination agreement and mutual release, terminated on November 9, 2007.

We are currently seeking a new marketing and development partner for Exubera and/or NGI. Under the termination agreement and mutual release, if we identify a potential new marketing and development partner for Exubera and/or NGI within a certain time period, Pfizer will use commercially reasonable efforts to complete an agreement

with the potential new partner pursuant to which Pfizer will transfer all of its rights in Exubera and/or NGI to the partner without additional consideration (including without any prospective economic value, such as a royalty or profit sharing), other than reimbursement of certain out-of-pocket and incremental costs actually incurred by Pfizer in relation to maintenance and transfer activities performed by Pfizer. In addition, Pfizer has agreed to undertake a number of activities designed to transition all of its rights in Exubera and NGI to a new partner for at least three months following completion of an agreement with the new partner, if any, or such longer transition period as regulatory requirements may require, subject to reimbursement of certain out-of-pocket and incremental costs actually incurred by Pfizer.

In addition, in January 2008, we entered into a letter agreement with Pfizer to maintain a group of key Pfizer manufacturing personnel in Pfizer's Exubera manufacturing facility in Terre Haute, Indiana. The purpose of this arrangement is to provide potential partners for Exubera and/or NGI with the opportunity to have manufacturing performed in Pfizer's Indiana manufacturing facility in the event that a new partner reaches a mutually satisfactory arrangement with Pfizer. We are reimbursing Pfizer for actual monthly incremental personnel costs incurred to maintain such personnel during this interim period.

In response to lower expected revenue levels in 2008 resulting from the termination of the Pfizer agreements related to Exubera and NGI, we have taken steps to reduce ongoing expense related to Exubera and NGI while maintaining our Exubera and NGI manufacturing and development capabilities until such time as a collaboration agreement with a new partner is concluded or we cease our partnering efforts. As discussed below under the caption, "Recent Developments," we have terminated our manufacturing and supply agreement with our contract manufacturers that manufactured and supplied us with the Exubera inhalers and reduced our workforce. We also have a 2008 continuation agreement with one of the contract manufacturers, Tech Group North America, Inc., to preserve manufacturing capacity and expertise to support a new partner for the Exubera inhaler if we secure a new partner for Exubera within a certain time period and such partner desires to enter into a new manufacturing and supply agreement with Tech Group.

We are currently engaged in discussions with third parties regarding a potential partnership for Exubera and/or NGI. If we are able to secure a new partner, utilization of our Exubera-related assets depends on such partner's desire to enter into a manufacture and supply agreement with Tech Group and to utilize our San Carlos facility to manufacture Exubera inhalation powder. We currently expect to conclude whether or not we will have a new partner for Exubera and/or NGI in the first half of 2008. If we are not successful in concluding a new partnership for Exubera and/or NGI, we will eliminate the remaining costs and infrastructure associated with these programs.

The investment required to advance our proprietary product development programs, our ability to manage ongoing expense and the cash generated by new partnerships, if any, will be the key drivers of our results of operations and financial position in 2008. To fund our research and development activities, we have raised significant amounts of capital through the sale of our equity and convertible debt securities. As of December 31, 2007, we had approximately $345.8 million in indebtedness. Our ability to meet the repayment obligations of this debt is dependent upon our and our partners' ability to develop, obtain regulatory approvals for and successfully commercialize products. Even if we are successful in this regard, we may require additional capital to repay our debt obligations as they become due.

Recent Developments

Workforce Reduction

During the year ended December 31, 2007, we reduced our workforce by approximately 180 employees, or approximately 25 percent of our regular full-time employees, as part of an overall effort to reduce our ongoing operating costs and improve our organizational structure, efficiency and productivity. No research and development programs were curtailed due to the workforce reduction. The cost of the workforce reduction was approximately $8.4 million, of which $7.8 million was paid in 2007 and $0.6 million will be paid in 2008. We estimate that the reduced salaries and benefits from the workforce reduction will result in gross annual savings of $20.0 million, a portion of which we began to realize in the fourth quarter of 2007 within research and development and general and administrative expenses.

For the year ended December 31, 2007, workforce reduction charges were recorded in our Consolidated Statements of Operations as follows (in thousands):

	Year ended December 31, 2007
Cost of goods sold, net of change in inventory	$ 974
Research and development expense	5,791
General and administrative expense	1,617
Total workforce reduction charges	$ 8,382

On February 8, 2008, Executive Management approved a plan to reduce our workforce by approximately 110 employees, or approximately 20 percent of our regular full-time employees. The restructuring is designed to streamline our operations, consolidate corporate functions, and strengthen decision-making and execution within the business units. In addition, as part of the plan, we have preserved the necessary technical and manufacturing personnel and capabilities to support our ongoing effort to forge a new partnership for our inhaled insulin programs.

We estimate the 2008 workforce reduction will cost approximately $5.4 million in 2008, comprised of cash payments for severance, medical insurance, and outplacement services. The severance charge associated with this plan will be recorded as a one-time expense in February 2008, except for a few employees with transition dates longer than 60 days. For these employees, the severance expense will be recorded ratably over the estimated transition period. In addition to the full-time employees terminated as part of the 2007 and 2008 workforce reductions, we eliminated open and temporary positions.

Change in Executive Management and the Board of Directors

On February 8, 2008, Hoyoung Huh, M.D./Ph.D, our Chief Operating Officer and Head of the PEGylation Business Unit, resigned from his positions effective as of February 29, 2008.

On February 11, 2008, the Board of Directors met and appointed Dr. Huh as a new director to fill the vacancy created by resolution of the Board of Directors at the same meeting to increase the authorized number of directors from 10 to 11. Dr. Huh will serve until the 2009 annual meeting of stockholders or until his successor is duly elected and qualified.

Termination of Agreement with Contract Manufacturers

We were a party to a Manufacturing and Supply Agreement ("Exubera Inhaler MSA") with Tech Group North America, Inc. and Bespak Europe Ltd. related to the manufacture and supply of Exubera inhalers.

On February 12, 2008, we entered into a Termination and 2008 Continuation Agreement ("TCA") with Tech Group. Under the terms of this agreement, we have agreed to pay Tech Group up to $13.8 million for costs and expenses that were due and payable by us under the terms of the Exubera Inhaler MSA. Additionally, under the terms of the TCA we agreed to compensate Tech Group to retain a limited number of core Exubera inhaler manufacturing personnel and its dedicated Exubera inhaler manufacturing facility for a limited period in 2008.

On February 14, 2008, we entered into a Termination and Mutual Release Agreement with Bespak pursuant to which the Exubera Inhaler MSA was terminated in its entirety and we agreed to pay Bespak £11.0 million, or approximately $21.6 million, in satisfaction of outstanding accounts payable and termination costs and expenses that were due and payable under the terms of the Exubera Inhaler MSA.

Research and Development Activities

Our product pipeline includes both partnered and proprietary development programs. We have ongoing collaborations or licensing arrangements with more than twenty biotechnology and pharmaceutical companies to provide our pulmonary and PEGylation technologies. Our technologies are currently being used in ten products approved in the U.S. or Europe, in three partner programs that have been filed for with the FDA, and twelve development programs in human clinical trials.

The length of time that a development program is in a given phase varies substantially according to factors relating to the development program, such as the type and intended use of the potential product, the clinical trial design, and the ability to enroll suitable patients. Generally, for partnered programs, advancement from one phase to the next and the related costs to do so is dependent upon factors that are primarily controlled by our partners.

In connection with our research and development for partner products and development programs, we earned $85.9 million, $56.3 million, and $81.6 million in contract research revenue for the years ending December 31, 2007, 2006, and 2005, respectively. The estimated completion dates and costs for our programs are not reasonably certain. See Risk Factors for discussion of the risks associated with our partnered and proprietary research and development programs and the timing and risks associated with clinical development.

The costs incurred in connection with our research and development programs, including allocations of facilities, cGMP quality programs and other shared costs, is as follows (in millions):

	Status as of December 31, 2007 [1]	Years ended December 31, **2007**	2006	2005
Pulmonary				
Partnered Products and Development Programs				
Next-generation inhaled insulin (NGI) [2]	Phase 1	**$ 28.4**	$ 17.4	$ 6.5
Tobramycin inhalation powder (TIP) [3]	Phase 3	**16.3**	12.8	11.3
NKTR-061 (inhaled amikacin) [4]	Phase 2	**15.2**	13.6	9.1
Exubera® inhalation powder [2]	Approved	**9.2**	22.1	51.4
Other partnered product candidates	Various	**13.2**	14.3	9.5
Proprietary Development Programs				
NKTR-024 (amphotericin B inhalation powder) [5]	Phase 1	**4.3**	24.3	16.7
Other proprietary product candidates	Various	**11.1**	9.1	8.4
Technology platform	Various	**7.9**	12.2	16.9
Total Pulmonary		**$105.6**	$125.8	$129.8
PEGylation				
Partnered Products and Development Programs	Various	**$ 5.3**	$ 1.8	$ 0.7
Proprietary Development Programs				
NKTR-118 (oral PEG-naloxol)	Phase 2	**12.9**	5.5	5.3
NKTR-102 (PEG-irinotecan)	Phase 2	**12.7**	2.7	2.4
Other proprietary product candidates	Various	**11.3**	10.6	4.7
Total PEGylation		**$ 42.2**	$ 20.6	$ 13.1
Other	Various	**—**	3.0	8.8
Workforce Reduction Charges (6)	n/a	**5.8**	—	—
Research and Development Expense		**$153.6**	$149.4	$151.7

(1) Status definitions are: Approved—regulatory approval to market and sell product obtained in the U.S., EU and other countries.
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—product in clinical trials to establish dosing and efficacy in patients.
Phase 1— product in clinical trials, typically in healthy subjects, to test safety.

(2) Our Collaborative Development and License Agreement and certain related agreements with Pfizer Inc. for Exubera and NGI terminated on November 9, 2007, following Pfizer's announcement on October 18, 2007 that it would exit the Exubera business and NGI development.

(3) Novartis Pharma AG is our partner for the TIP program.

(4) On August 1, 2007, we executed an agreement with Bayer AG for the co-development, license and co-promotion of NKTR-061 (inhaled amikacin).

(5) Future expenditures curtailed pending partner deal for the product.

(6) May 2007 workforce reduction charges include severance for personnel that support our research and development activities, including $1.4 million related to non-commercial operations, manufacturing and quality and $4.4 million related to research and development infrastructure support during the year ended December 31, 2007.

Results of Operations

Years Ended December 31, 2007, 2006, and 2005

Revenue (in thousands except percentages)

	Years ended December 31,			Increase/ (Decrease)	Increase/ (Decrease)	Percentage Increase/ (Decrease)	Percentage Increase/ (Decrease)
	2007	2006	2005	2007 vs. 2006	2006 vs. 2005	2007 vs. 2006	2006 vs. 2005
Product sales and royalties	**$180,755**	$153,556	$ 29,366	$27,199	$ 124,190	18%	>100%
Contract research	**85,925**	56,303	81,602	29,622	(25,299)	53%	(31%)
Exubera commercialization readiness	**6,347**	7,859	15,311	(1,512)	(7,452)	(19%)	(49%)
Total Revenue	**$273,027**	$217,718	$126,279	$55,309	$ 91,439	25%	72%

The increase in total revenue for the year ended December 31, 2007 as compared to the year ended December 31, 2006 is primarily a result of increased Exubera product sales to Pfizer and increased contract research revenue from our collaboration partners. During the year ended December 31, 2007, total revenue from Pfizer through the November 9, 2007 termination of our collaboration agreements includes $146.2 million related to Exubera and $36.3 million related to the next-generation inhaled insulin product development program ("NGI"). Revenue from Pfizer represented 69% of our total revenue for the year ended December 31, 2007; no other single customer represented 10% or more of our total revenues during this period.

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 and certain other related agreements (the "Pfizer agreements"). On November 9, 2007, we entered into a termination agreement and mutual release with Pfizer, in which we received a one-time payment of $135.0 million in satisfaction of all outstanding contractual obligations to and from Pfizer under the Pfizer agreements. We will not receive any revenue from Pfizer related to Exubera or NGI in 2008.

The increase in total revenue for the year ended December 31, 2006 as compared to the year ended December 31, 2005 is primarily attributable to an increase in Exubera product sales to Pfizer, partially offset by a decrease in contract research revenue from Pfizer. Pfizer represented 64% and 64% of our revenue for the years ended December 31, 2006 and 2005, respectively; no other single customer represented 10% or more of our total revenues during these periods.

Product sales and royalties

Product sales and royalties increased 18% to $180.8 million for the year ended December 31, 2007 as compared to the year ended December 31, 2006, primarily due to increased Exubera product sales to Pfizer, as well as certain modifications to the timing of revenue recognition.

Exubera product sales to Pfizer increased by approximately $32.0 million during the year ended December 31, 2007 as compared to the year ended December 31, 2006. Exubera commercial sales began in January 2006. During 2006, we deferred recognition of all Exubera product sales until Pfizer's contractual 60-day right of return period lapsed. As a result, as of December 31, 2006 we deferred $22.9 million in Exubera product sales and we recognized ten months of product shipments in revenue. In January 2007, we began estimating product warranty returns and recognizing Exubera product sales upon shipment. During the year ended December 31, 2007, we recognized product sales through November 9, 2007, when our collaboration agreements with Pfizer terminated, as well as the revenue deferred at December 31, 2006. We will not have any future Exubera product sales to Pfizer in 2008.

During the year ended December 31, 2007, royalty revenue decreased by $5.5 million as compared to the year ended December 31, 2006. This decrease primarily resulted from a decrease in royalties related to Macugen sales by OSI.

The increase in product sales and royalties for the year ended December 31, 2006 as compared to the year ended December 31, 2005 is primarily due to an increase in Exubera product sales to Pfizer after the approval of Exubera in January 2006. Also contributing to the increase was approximately $18.0 million in product sales and royalties from our PEGylation products.

Royalty revenues were $3.7 million, $9.2 million, and $5.4 million for the years ended December 31, 2007, 2006, and 2005, respectively.

Contract research

Contract research revenue includes reimbursed research and development expenses as well as the amortization of deferred up-front signing and milestone payments received from our collaboration partners. Contract research revenue fluctuates from year to year, and therefore future contract research revenue cannot be predicted accurately. The level of contract research revenues depends in part upon the continuation of existing collaborations, signing of new collaborations, the stage of program development, and the achievement of milestones.

The increase in contract research revenue during the year ended December 31, 2007 compared to the year ended December 31, 2006 was attributable to increased revenue from Pfizer of $17.3 million. The increase in contract research revenue from Pfizer includes a net decrease in research revenue of $7.3 million related to Exubera and NGI in 2007 and recognition of $24.6 million in NGI up-front fees upon termination of the Pfizer Agreements. Additionally, contract research revenue from Novartis and Bayer increased by $8.5 million and $4.5 million, respectively, under our collaboration agreements to develop a tobramycin inhalation powder ("TIP") with Novartis and Ciprofloxacin and NKTR-061 (inhaled amikacin) with Bayer. These increases in contract research revenue were partially off-set by decreased revenue from Zelos of $4.2 million under our collaboration agreement to develop Ostabolin-C.

Due to the termination of the Pfizer agreements discussed above, we do not expect to receive any contract research revenue from Pfizer related to Exubera or NGI in 2008.

The decrease in contract research revenue during the year ended December 31, 2006 compared to the year ended December 31, 2005 was primarily due to a $34.8 million decrease in Pfizer contract research revenue after the FDA and EMEA approval of Exubera in January 2006, and the transition from research and clinical trial support to manufacturing of commercial product. The decrease in research revenue from Pfizer was partially offset by a $3.7 million increase in contract research revenues from Novartis for TIP and a $3.4 million increase from Baxter Healthcare, under our agreement to develop a product to extend the half-life of Hemophilia A proteins using our PEGylation technology.

Revenue by geography

Revenue by geographic area is based on the shipping locations of our customers. The following table sets forth revenue by geographic area (in thousands):

	Years ended December 31,		
	2007	2006	2005
United States	**$ 212,990**	$182,959	$109,488
European countries	**60,037**	33,471	14,967
All other countries	**—**	1,288	1,824
Total Revenue	**$ 273,027**	$217,718	$126,279

Cost of goods sold during the year ended December 31, 2007 includes Exubera manufacturing costs through the November 9, 2007 termination of the Pfizer agreements. Costs related to our Exubera manufacturing operations after November 9, 2007 are included in cost of idle Exubera manufacturing capacity. During the years ended December 31, 2007 and 2006, Exubera contributed $29.3 million and $19.5 million, respectively, to our product gross margin.

The increase in cost of goods sold and product gross margin during the year ended December 31, 2007 compared to the year ended December 31, 2006 is consistent with the proportionate increase in Exubera product sales. The decrease in gross margin percentage during the year ended December 31, 2007 compared to the year ended December 31, 2006 is primarily attributable to product mix, our cost plus manufacturing arrangement with Pfizer, and the decline in royalty revenue of $5.5 million during 2007.

Costs of goods sold

(in thousands except percentages)

	Years ended December 31,			Increase/ (Decrease) 2007 vs. 2006	Increase/ (Decrease) 2006 vs. 2005	Percentage Increase/ (Decrease) 2007 vs. 2006	Percentage Increase/ (Decrease) 2006 vs. 2005
	2007	2006	2005				
Cost of goods sold	**$137,696**	$113,921	$ 23,728	$ 23,775	$90,193	21%	>100%
Product gross margin	**43,059**	39,635	5,638	3,424	33,997	9%	>100%
Product gross margin %	**24%**	26%	19%				

The increase in cost of goods sold during the year ended December 31, 2006 as compared to the year ended December 31, 2005 is due to increased Exubera product sales. The increase in gross margin percentages is due to increased gross margin in 2006, which is primarily attributable to increased royalty revenue of $3.8 million and higher margins on PEGylation products and Exubera inhalation powder and inhalers compared to the PEGylation products sold during 2005.

Cost of idle Exubera manufacturing capacity

(in thousands except percentages)

	Years ended December 31,			Increase/ (Decrease)	Increase/ (Decrease)	Percentage Increase/ (Decrease)	Percentage Increase/ (Decrease)
	2007	2006	2005	2007 vs. 2006	2006 vs. 2005	2007 vs. 2006	2006 vs. 2005
Cost of idle Exubera manufacturing capacity	**$6,314**	$ —	$ —	$ 6,314	$ —	100%	n/a

Cost of idle Exubera manufacturing capacity includes the costs of our manufacturing operations after the termination of the Pfizer agreements on November 9, 2007 through December 31, 2007. Cost of idle Exubera manufacturing capacity includes costs payable to our contract manufacturers under our contractual relationships and internal salaries, benefits and stock-based compensation related to Exubera commercial manufacturing employees, overhead at our San Carlos manufacturing facility, including rent, utilities and maintenance and depreciation of property and equipment.

In 2008, we entered into agreements to maintain manufacturing personnel with Pfizer at their Exubera manufacturing facility in Terre Haute, Indiana and with Tech Group at their manufacturing facility in Tempe, Arizona. Additionally, we will preserve the necessary technical and manufacturing personnel to support our ongoing effort to secure a new partner for Exubera and/or NGI. We expect to continue to incur costs of idle Exubera manufacturing capacity until we have a new Exubera commercialization partner or we cease partnering efforts. We expect to conclude whether or not we will have a new Exubera commercialization partner in the first half of 2008.

Exubera commercialization readiness revenue and costs

(in thousands except percentages)

	Years ended December 31,			Increase/ (Decrease)	Increase/ (Decrease)	Percentage Increase/ (Decrease)	Percentage Increase/ (Decrease)
	2007	2006	2005	2007 vs. 2006	2006 vs. 2005	2007 vs. 2006	2006 vs. 2005
Exubera commercialization readiness revenue	**$ 6,347**	$ 7,859	$ 15,311	$ (1,512)	$ (7,452)	(19%)	(49%)
Exubera commercialization readiness cost	**$ 3,507**	$ 4,168	$ 12,268	$ (661)	$ (8,100)	(16%)	(66%)

Exubera commercialization readiness costs are start up manufacturing costs we incurred in our Exubera Inhalation Powder manufacturing facility and our Exubera Inhaler device third party contract manufacturing locations in preparation for commercial scale manufacturing in early 2006. Exubera commercialization readiness revenue represents reimbursement by Pfizer of Exubera commercialization readiness costs plus a contractual mark-up. During the year ended December 31, 2007, we amortized the remaining Exubera commercialization costs through October and did not incur any additional costs.

During the year ended December 31, 2006 compared to the year ended December 31, 2005, the decrease in Exubera commercialization readiness revenue and costs was primarily due to the transition from readiness preparation to commercial production in late 2005 and early 2006.

We will not incur any additional Exubera commercialization readiness costs or recognize any additional Exubera commercialization readiness revenue in 2008 or beyond.

Research and development

(in thousands except percentages)

	Years ended December 31,			Increase/ (Decrease)	Increase/ (Decrease)	Percentage Increase/ (Decrease)	Percentage Increase/ (Decrease)
	2007	2006	2005	2007 vs. 2006	2006 vs. 2005	2007 vs. 2006	2006 vs. 2005
Research & development	**$153,575**	$149,381	$151,659	$ 4,194	$ (2,278)	3%	(2%)
Purchased in-process research and development	**$ —**	$ —	$ 7,859	$ —	$ (7,859)	n/a	n/a

During the year ended December 31, 2007, research and development expense includes workforce reduction charges totaling $5.8 million recorded in connection with our May 2007 plan to reduce ongoing operating costs. This charge primarily includes severance of $4.4 million for research and development infrastructure and support personnel and $1.4 million for non-commercial operations, manufacturing and quality control personnel.

Research and development expense, excluding workforce reduction charges, decreased by approximately $1.6 million during the year ended December 31, 2007, compared to the year ended December 31, 2006. Research and development expense related to our PEGylation technology product candidates increased by approximately $21.6 million as a result of the completion of the Phase 1 clinical trials for NKTR-118 and NKTR-102 and the initiation of Phase 2 clinical trials. We expect research and development expenses for NKTR-118 and NKTR-102 to continue to increase substantially in 2008 as the Phase 2 trials will continue throughout 2008. Pulmonary research and development program expenses decreased by approximately $20.2 million as a result of a $20.0 million decrease related to NKTR-024 and a $12.9 million decrease related to Exubera. These decreases are partially offset by increased spending on NGI of $11.0 million, increased spending on TIP of $3.5 million and increased spending on NKTR-061 of approximately $1.6 million. Additionally, we decreased spending on non-pulmonary and non-PEGylation programs by $3.0 million in connection with the winding down of our Bradford, UK operations in 2006.

The decrease in research and development expense of $2.3 million during the year ended December 31, 2006 compared to the year ended December 31, 2005, is attributable to decreased spending on Exubera and NGI of $18.4 million and in non-pulmonary and non-PEGylation development programs of $5.8 million in connection with the winding down of our Bradford, UK operations in 2006. These decreases were partially offset by increased spending on NKTR-024 and other pulmonary programs by approximately $14.4 million and increased spending on PEGylation programs of approximately $7.5 million.

During the year ended December 31, 2005, we recorded a charge of $7.9 million for purchased in-process research and development costs in connection with our acquisition of Aerogen. The purchased in-process research and development costs were expensed on the acquisition date because the acquired technology had not yet reached technological feasibility and had no future alternative use outside of these development programs. The in-process research and development primarily represents two programs in clinical development, amikacin and surfactant. Amikacin is used in our NKTR-061 development program that we partnered with Bayer AG in 2007. NKTR-061 is being studied in Phase 2 trials for the adjunctive therapy of ventilated patients with hospital-acquired, Gram-negative pneumonias and is currently expected to enter Phase 3 clinical development in 2008.

General and administrative

(in thousands except percentages)

	Years ended December 31,			Increase/ (Decrease) 2007 vs. 2006	Increase/ (Decrease) 2006 vs. 2005	Percentage Increase/ (Decrease) 2007 vs. 2006	Percentage Increase/ (Decrease) 2006 vs. 2005
	2007	2006	2005				
General & administrative	**$ 56,336**	$78,319	$ 43,852	$ (21,983)	$ 34,467	(28%)	79%

General and administrative expenses are associated with administrative staffing, business development and marketing.

The decrease in general and administrative expenses during the year ended December 31, 2007 compared to the year ended December 31, 2006 is primarily attributable to decreased non-cash stock-based compensation expense of $11.9 million, decreased headcount resulting in decreased salaries and benefits of $2.3 million, decreased professional fees of $5.9 million, and a $1.8 million decrease in connection with the winding down of our Bradford, UK operations in 2006.

The increase in general and administrative expenses during the year ended December 31, 2006 compared to the year ended December 31, 2005 is primarily attributable to increased salaries and benefits, stock-based compensation and professional fees incurred during the year ended December 31, 2006. In 2006, we adopted SFAS 123R and recorded a non-cash charge of $17.8 million of stock-based compensation expense, of which $10.9 million was related to executive severance agreements. Salaries and employee benefits increased by approximately $8.6 million, including $3.7 million related to executive severance agreements. Professional legal, accounting and consulting fees increased by $4.9 million during the same period.

In February 2008, Executive Management approved a plan to reduce our workforce by 110 full-time employees or 20%. In 2008, we expect our direct salaries and benefits will decrease due to reduced headcount.

Impairment of long lived assets

(in thousands except percentages)

	Years ended December 31,			Increase/ (Decrease) 2007 vs. 2006	Increase/ (Decrease) 2006 vs. 2005	Percentage Increase/ (Decrease) 2007 vs. 2006	Percentage Increase/ (Decrease) 2006 vs. 2005
	2007	2006	2005				
Impairment of long lived assets	**$ 28,396**	$ 9,410	$ 65,340	$ 18,986	$ (55,930)	>100%	(86%)

On November 9, 2007, we entered into a termination and mutual release agreement with Pfizer in respect of terminating all of our Exubera and NGI related agreements. We are currently engaged in efforts to secure another collaboration partner to continue the commercialization of Exubera and/or the development of NGI. As a result, we performed a SFAS 144 impairment analysis of the property and equipment that support Exubera commercial operations and NGI development activities (referred to as "Exubera-related assets"), including machinery and equipment at our contract manufacturer locations and machinery, equipment, and leasehold improvements at our San Carlos, California headquarters. If we are able to secure a new collaboration partner for Exubera and/or NGI, utilization of our Exubera-related assets will depend on any such partner's desire to utilize our San Carlos facility to manufacture Exubera bulk dry powder insulin and whether such partner enters into a manufacturing and supply agreement with Tech Group to manufacture and supply Exubera inhalers. Given that we have not entered into a collaboration agreement and that uncertainties associated with future supply chain decisions exist, we concluded that the carrying value of the Exubera-related assets exceeds the estimated future cash flows. As a result, we recorded an impairment charge of $28.4 million during the quarter ended December 31, 2007 for the Exubera-related assets.

During the year ended December 31, 2006, impairment of long lived assets includes a write-off of $5.5 million of certain intangible assets relating to our Ireland operations, $1.2 million relating to the remaining laboratory and office equipment at our Bradford, UK location, and $2.7 million relating to an asset being constructed for use in one of our partnered pulmonary programs.

In December 2005, we were apprised of unfavorable results of clinical data related to programs from our super critical fluids technology program in Bradford UK, which provided

an indication that the fair value of the respective business unit's goodwill was below the carrying value. We re-performed the impairment analysis of goodwill and other long lived assets for Bradford UK and determined the fair value of the intangibles and other assets of Nektar UK based on a discounted cash flow model to be less than the carrying value. As a result, we recorded an impairment charge to goodwill and long lived assets of $59.6 million and $5.7 million, respectively, in December 2005.

Litigation settlement

(in thousands except percentages)

	Years ended December 31,			Increase/ (Decrease)	Increase/ (Decrease)	Percentage Increase/ (Decrease)	Percentage Increase/ (Decrease)
	2007	2006	2005	2007 vs. 2006	2006 vs. 2005	2007 vs. 2006	2006 vs. 2005
Litigation settlement	**$1,583**	$17,710	$ —	$(16,127)	$ 17,710	(91%)	100%

During the year ended December 31, 2007, we recorded a litigation settlement charge of $1.6 million related to three employee-related litigation claims settled in 2007.

On June 30, 2006, we entered into a litigation settlement related to an intellectual property dispute with the University of Alabama Huntsville pursuant to which the Company paid $11.0 million and agreed to pay an additional $10.0 million in equal $1.0 million installments over ten years beginning on July 1, 2007. During the year ended December 31, 2006 we recorded a litigation settlement charge of $17.7 million which reflects the net present value of the settlement payments using an 8% annual discount rate.

Amortization of other intangible assets

(in thousands except percentages)

	Years ended December 31,			Increase/ (Decrease)	Increase/ (Decrease)	Percentage Increase/ (Decrease)	Percentage Increase/ (Decrease)
	2007	2006	2005	2007 vs. 2006	2006 vs. 2005	2007 vs. 2006	2006 vs. 2005
Amortization of other intangible assets	**$946**	$4,039	$4,206	$(3,093)	$(167)	(77%)	(4%)

Other intangible assets include proprietary technology, intellectual property, and supplier and customer relationships acquired from third parties or in business combinations.

Amortization of other intangible assets decreased during the year ending December 31, 2007 compared to the year ending December 31, 2006 because certain other intangible assets were fully amortized during the year ended December 31, 2006. As of December 31, 2007 and 2006, the net book value of our other intangible assets was $2.7 million and $3.6 million, respectively, representing the unamortized portion of our customer relationship intangible asset. This will be amortized on a straight-line basis of approximately $0.9 million per year through October 2010. Accordingly, we expect our other intangible assets to decrease to $0.9 million per year in the future, absent additional business combinations.

Gain on termination of collaborative agreements, net

(in thousands except percentages)

	Years ended December 31,			Increase/ (Decrease)	Increase/ (Decrease)	Percentage Increase/ (Decrease)	Percentage Increase/ (Decrease)
	2007	2006	2005	2007 vs. 2006	2006 vs. 2005	2007 vs. 2006	2006 vs. 2005
Gain on termination of collaborative agreements, net	**$(79,178)**	$ —	$ —	$(79,178)	$ —	>(100%)	n/a

On November 9, 2007, we terminated our collaborative development and license agreements with Pfizer related to Exubera and NGI. Under the termination agreement, we received a one-time payment of $135.0 million from Pfizer in satisfaction of all mutual outstanding contractual obligations. The gain on termination of collaborative agreements, net, includes the Pfizer termination payment received of $135.0 million less our contractual liability to Bespak and Tech Group of $32.4 million and less settlement of outstanding receivables and payables with Pfizer of $23.5 million.

We have also recorded a termination settlement obligation to our contract manufacturers of $32.4 million as of December 31, 2007. We were a party to a certain manufacturing and supply agreement, with Tech Group North America, Inc. and Bespak Europe Ltd. related to the manufacture and supply of Exubera inhalers ("Exubera Inhaler MSA"). As of December 31, 2007, due to Pfizer's termination of the Exubera program and our inability to provide Bespak and Tech Group with future Exubera inhaler manufacturing commitments, we had a contractual liability for termination costs and expenses that would be incurred by Bespak and Tech Group.

On February 12, 2008, we entered into a Termination and 2008 Continuation Agreement ("TCA") with Tech Group pursuant to which the Exubera Inhaler MSA was terminated in its entirety. We have recorded $13.8 million as termination liabilities under the terms of the TCA. In the event that we successfully identify a new Exubera commercialization partner and such partner does enter into an Exubera inhaler supply agreement with Tech Group, we would be relieved of our obligation to pay Tech Group up to $8.0 million of this amount. Due to the uncertainty regarding the prospects of securing a new commercialization partner for Exubera and uncertainty over whether such partner will desire to enter into an Exubera inhaler manufacturing agreement with Tech Group, we believe that the potential future reduction in our obligation is a contingent gain to be recorded when and if those events occurs.

On February 14, 2008, we entered into a Termination and Mutual Release Agreement with Bespak pursuant to which the Exubera Inhaler MSA was terminated in its entirety and we agreed to pay Bespak £11.0 million or approximately $21.6 million, including $3.0 million of accrued expenses and $18.6 million in termination costs and expenses that were due and payable under the terms of the Exubera Inhaler MSA.

Interest income

(in thousands except percentages)

	Years ended December 31,			Increase/ (Decrease) 2007 vs. 2006	Increase/ (Decrease) 2006 vs. 2005	Percentage Increase/ (Decrease) 2007 vs. 2006	Percentage Increase/ (Decrease) 2006 vs. 2005
	2007	2006	2005				
Interest income	**$22,201**	$23,646	$13,022	$ (1,445)	$ 10,624	(6%)	82%

The decrease in interest income during the year ended December 31, 2007 compared to the year ended December 31, 2006 is due to a decline in the average balance of cash, cash equivalents, and investments in marketable securities due to repayment of $102.7 million in convertible subordinated notes.

The increase in interest income during the year ended December 31, 2006 as compared to the year ended December 31, 2005 is primarily due to an increase in our balance of cash, cash equivalents, and investments in marketable securities resulting from our $315.0 million subordinated debt offering completed in late September 2005, and higher prevailing interest rates during 2006 compared to 2005.

Interest expense

(in thousands except percentages)

	Years ended December 31,			Increase/ (Decrease) 2007 vs. 2006	Increase/ (Decrease) 2006 vs. 2005	Percentage Increase/ (Decrease) 2007 vs. 2006	Percentage Increase/ (Decrease) 2006 vs. 2005
	2007	2006	2005				
Interest expense	**$18,638**	$ 20,793	$14,085	$ (2,155)	$ 6,708	(10%)	48%

The decrease in interest expense during the year ended December 31, 2007 compared to the year ended December 31, 2006 was primarily due to a lower average balance of convertible subordinated notes outstanding during 2007. We repaid $36.0 million of our 5% notes in February 2007 and we repaid $66.6 million of our 3.5% notes in October 2007.

The increase in interest expense during the year ended December 31, 2006, as compared to the year ended December 31, 2005 was primarily due to a higher average balance of convertible subordinated notes outstanding resulting from our $315.0 million subordinated debt offering completed in September 2005.

Other income (expense), net

(in thousands except percentages)

	Years ended December 31,			Increase/ (Decrease) 2007 vs. 2006	Increase/ (Decrease) 2006 vs. 2005	Percentage Increase/ (Decrease) 2007 vs. 2006	Percentage Increase/ (Decrease) 2006 vs. 2005
	2007	2006	2005				
Other income (expense), net	**$1,133**	$2,444	$(1,249)	$(1,311)	$3,693	(54%)	>100%

During the year ended December 31, 2007, we recognized a $0.9 million gain from the sale of the management buy-out of the nebulizer device business in Ireland, which was completed on November 30, 2007 for a payment of $2.2 million and a net gain of $0.9 million. This management buy-out included a license and a transfer of certain of our non-essential general purpose nebulizer technology under limited terms and conditions designed to prevent future competition with our pulmonary liquid delivery proprietary and partnered programs such as NKTR-061. These terms and conditions included a limited field license to the general purpose nebulizer devices only and excluded any rights to directly or indirectly develop, market or distribute general purpose nebulizers as a component of a drug/device combination. In addition, any efficiency improvements to the general purpose nebulizer developed by the newly formed company are licensed back to us for addition to our pulmonary technology platform for no additional consideration.

Loss on debt extinguishment

(in thousands except percentages)

	Years ended December 31,			Increase/ (Decrease) 2007 vs. 2006	Increase/ (Decrease) 2006 vs. 2005	Percentage Increase/ (Decrease) 2007 vs. 2006	Percentage Increase/ (Decrease) 2006 vs. 2005
	2007	2006	2005				
Loss on debt extinguishment	**$ —**	$ —	$ 303	$ —	$(303)	n/a	n/a

During the year ended December 31, 2006, we recognized a $2.2 million gain from the sale of an equity investment in Confluent Technologies. We do not expect to realize income from such transactions in the future.

During the year ended December 31, 2005, we recognized a loss on debt extinguishment of approximately $0.3 million in connection with the retirement of $25.4 million and $45.9 million aggregate principle amount of our outstanding 5% and 3.5% convertible subordinated notes due February 2007 and October 2007, respectively for total cash payments of $71.0 million, in privately negotiated transactions. As a result these transactions, we wrote off approximately $0.1 million and $0.5 million of capitalized debt issuance costs related to the 5% and 3.5% convertible subordinated notes, respectively.

Liquidity and Capital Resources

We have financed our operations primarily through revenue from product sales and research and development contracts, public and private placements of debt and equity securities and financing of equipment acquisitions and certain tenant leasehold improvements. We do not utilize off-balance sheet financing arrangements as a source of liquidity or financing. Additionally, at December 31, 2007 we had letter of credit arrangements with certain financial institutions and vendors, including our landlord, totaling $2.8 million. These letters of credit are secured by investments in similar amounts.

As of December 31, 2007, we had cash, cash equivalents and investments in marketable securities of $482.4 million and indebtedness of $345.8 million, including $315.0 million of convertible subordinated notes, $24.0 million in capital lease obligations and $6.8 million in other liabilities.

Due to the recent adverse developments in the credit markets, we may experience reduced liquidity with respect to some of our short-term investments. These investments are generally held to maturity, which is less than one year. However, if the need arose to liquidate such securities before maturity, we may experience losses on liquidation. As of December 31, 2007, we held $431.9 million of commercial debt securities, with an average time to maturity of 126 days. To date we have not experienced any liquidity issues with respect to these securities, but should such issues arise, we may be required to hold some, or all, of these securities until maturity. We believe that, even allowing for potential liquidity issues with respect to these securities, our remaining cash and cash equivalents and short-term investments will be sufficient to meet our anticipated cash needs for at least the next twelve months. We have the ability and intent to hold our debt securities to maturity when they will be redeemed at full par value. Accordingly, we consider unrealized losses to be temporary and have not recorded a provision for impairment.

Cashflow activities

During the year ended December 31, 2007, net cash provided by operating activities was $146.3 million. During the year ended December 31, 2007, net cash provided by operating activities increased by $239.0 million compared to the year ended December 31, 2006, in which we used $92.7 million in operating activities. The increase in cash provided by operations includes the following significant items in 2007: collaboration agreement termination payment received from Pfizer of $135.0 million and the up-front payments received from Bayer of $50.0 million and from Pfizer of $24.6 million.

During the year ended December 31, 2007, we purchased $32.8 million of property and equipment and repaid $102.7 million of our convertible subordinated notes and other debt obligations. These uses of cash were partially offset by $3.8 million in cash collected from employees for the purchase of common stock.

During the year ended December 31, 2006, net cash used in operating activities was $92.7 million. Cash used in operating activities included an $11.0 million cash payment made in connection with the UAH litigation settlement. We purchased $22.5 million of property and equipment and repaid $10.5 million in debt obligations. These uses of cash were offset by $22.3 million in proceeds from the issuance of common stock to employees.

During the year ended December 31, 2005, we used $78.0 million in operating cashflows. We purchased $18.0 million of property and equipment and spent $30.7 million for the purchase of Aerogen, Inc. Additionally, we repaid $2.5 million in debt obligations. These uses of cash were offset by $234.7 million in proceeds from the issuance, net of repurchases, of convertible subordinated notes, as well as proceeds from the issuance of common stock to employees and a secondary offering of $10.9 million and $31.6 million, respectively.

Contractual Obligations

The following is a summary of our contractual obligations as of December 31, 2007 (in thousands):

		Payments due by period			
	Total	<=1 yr 2008	2-3yrs 2009-2010	4-5yrs 2011-2012	2013+
Convertible subordinated notes, including interest	$363,629	$10,238	$ 20,475	$ 332,916	$ —
Capital leases, including interest	44,832	6,010	9,468	9,865	19,489
Operating leases	13,825	3,704	5,764	$4,357	—
Purchase commitments [2]	19,349	19,349	—	—	—
Exubera Inhaler MSA contract termination settlement	32,363	32,363	—	—	—
Litigation settlement and other long-term liabilities including interest	9,000	1,000	2,000	2,000	4,000
	$482,998	$72,664	$37,707	$ 349,138	$ 23,489

(1) The above table does not include certain commitments and contingencies which are discussed in Note 9 of Notes to Consolidated Financial Statements.
(2) Substantially all of this amount had been ordered pursuant to open purchase orders as of December 31, 2007 under our existing contracts. This amount does not represent minimum contract termination liability.

Given our current cash requirements, we forecast that we will have sufficient cash to meet our net operating expense requirements and contractual obligations through December 31, 2009. We plan to continue to invest in our growth and our future cash requirements will depend upon the timing and results of these investments. Our capital needs will depend on many factors, including continued progress in our research and development programs, progress with preclinical and clinical trials of our proprietary and partnered product candidates, the time and costs involved in obtaining regulatory approvals, the costs of developing and scaling our clinical and commercial manufacturing operations, the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims, the need to acquire licenses to new technologies and the status of competitive products. Included in our purchase commitments above is approximately $4.3 million of capital purchase commitments.

To date we have been primarily dependent upon equity and convertible debt financings for capital and have incurred substantial debt as a result of our issuances of subordinated notes that are convertible into our common stock. Our substantial debt, the market price of our securities, and the general economic climate, among other factors, could have material consequences for our financial position and could affect our sources of short-term and long-term funding. There can be no assurance that additional funds, if and when required, will be available to us on favorable terms, if at all.

Off Balance Sheet Arrangements

We do not utilize off-balance sheet financing arrangements as a source of liquidity or financing.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (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 revenues and expenses during the reporting period.

We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources, and evaluate our estimates on an ongoing basis. Actual results may differ from those estimates under different assumptions or conditions. We have determined that for the periods reported in this report, the following accounting policies and estimates are critical in understanding our financial condition and results of our operations.

Revenue Recognition

Contract research revenue includes amortization of up-front fees. Up-front fees should be recognized ratably over the expected benefit period under the arrangement. Given the uncertainties of research and development collaborations, significant judgment is required to determine the duration of the arrangement. We have $63.6 million of deferred up-front fees related to six research and collaboration agreements that are being amortized over an average of 10 years. We considered shorter and longer amortization periods. The shortest reasonable period is the end of the development period (estimated to be 4 to 6 years). Given the statistical probability of drug development success in the bio-pharma industry, development programs have only a 5%-10% probability of reaching commercial success. The longest period is either the contractual life of the agreement, which is generally 10 years from the first commercial sale, or the end of the patent life, which is frequently 15-17 years. If we had determined a longer or shorter amortization period was appropriate, our annual up-front fee amortization could be as low as $4.0 million or as high as $16.0 million.

Milestone payments received are deferred and recorded as revenue ratably over the next period of continued development. Management makes its best estimate of the period of time until the next milestone is reached. This estimate affects the recognition of revenue for completion of the previous milestone. The original estimate is periodically evaluated to determine if circumstances have caused the estimate to change and if so, amortization of revenue is adjusted prospectively.

Impairment of Long Lived Assets and Contract Termination Costs

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, we perform a test for recoverability of our long lived assets whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. An impairment loss would be recognized only if the carrying amount of an intangible or long lived asset exceeds the sum of the discounted cash flows expected to result from the use and eventual disposal of the asset.

On November 9, 2007, we terminated our Collaborative Development and License Agreements with Pfizer related to Exubera and NGI. We are currently engaged in discussions to regarding a collaboration for Exubera and/or NGI. If we are able to secure a new collaboration partner, utilization of our Exubera-related assets depends on such partner's desire to enter into a manufacture and supply agreement with one of our contract manufacturers and to utilize our San Carlos facility to manufacture Exubera inhalation powder. We expect to conclude whether or not we will have a new partner for Exubera and/or NGI in the first half of 2008.

As a result of the termination of the Pfizer agreements, we evaluated the realizability of our Exubera-related property and equipment at our San Carlos, California manufacturing facility and at our contract manufacturer locations. Given that we have not entered into a collaboration agreement and that uncertainties associated with future supply chain decisions exist, we conclude that the carrying value of the Exubera-related assets exceeds the estimated future cash flows. As a result, we recorded an impairment charge of $28.4 million for the Exubera-related assets during the three-month period ended December 31, 2007. Our estimate of the future cash flows from Exubera-related assets and our assessment of the probability of securing a commercialization partner for Exubera and/or NGI are highly judgmental and actual results may differ. However, we believe it is probable the carrying value of Exubera-related assets exceeds the estimated future cash flows, which represents management's best estimate.

On February 12, 2008, we entered into a Termination and 2008 Continuation Agreement ("TCA") with Tech Group pursuant to which our manufacturing and supply agreement related to the manufacture and supply of Exubera inhalers ("Exubera Inhaler MSA") was terminated in its entirety. We recorded $13.8 million as termination liabilities under the terms of the TCA. In the event that we successfully identify a new Exubera collaboration partner and such partner enters into an Exubera inhaler supply agreement with Tech Group, we would be relieved of our obligation to pay Tech Group up to $8.0 million of the termination liability (subject to downward adjustment depending on the timing of any such agreement). Due to the uncertainty regarding the prospects in securing a new commercialization partner and uncertainty over whether such partner will enter into an agreement with Tech Group, we believe that this amount represents a contingent gain to be recorded when and if the event occurs. This determination was also based on management's estimate that securing a new Exubera and/or NGI collaboration partner is uncertain.

Stock-Based Compensation

We use the Black-Scholes option valuation model adjusted for the estimated historical forfeiture rate for the respective grant to determine the estimated fair value of our stock-based compensation arrangements on the date of grant ("grant date fair value") and expense this value ratably over the service period of the option or performance period of the Restricted Stock Unit award ("RSU"). The Black-Scholes option pricing model requires the input of highly subjective assumptions. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models may not provide a reliable single measure of the fair value of our employee stock options or common stock purchased under our employee stock purchase plan. In addition, management continually assesses these assumptions and methodologies used to calculate the estimated fair value of stock-based compensation. Circumstances may change and additional data may become available over time, which could result in changes to the assumptions and methodologies, and which could materially impact our fair value determination.

Further, we have issued performance-based RSU awards totaling approximately 1,010,000 shares of our common stock to certain employees. These awards vest based upon achieving three pre-determined performance milestones. We are expensing the grant date fair value of the awards ratably over the expected performance period for the RSU awards in which the performance milestones are probable of achievement under a Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* definition. The total grant date fair value of the RSU awards was $19.8 million, including $4.0 million for the first milestone, $7.9 million for the second milestone, and $7.9 million for the third milestone.

The first performance milestone was achieved and approximately 174,035 shares were fully vested and released during the year ended December 31, 2007. The second performance milestone shall vest when upon achievement of $30.0 million of Exubera royalty revenue from Pfizer in one quarter. During the year ended December 31, 2007, we determined that it is not probable that future Exubera product sales will be sufficient to meet the second performance milestone and we reversed $2.8 million of previously recognized expense. The third performance milestone shall vest based on the first filing (whether by us or a third party licensee or partner of ours) and acceptance of a New Drug Application ("NDA") or Biologics License Application ("BLA") by the FDA or an equivalent filing and acceptance with the European Medicines Agency for a proprietary product. Based on our current product pipeline development efforts, we determined that the third performance milestone is currently probable of achievement by the end of the fourth quarter in 2010.

Evaluating and estimating the probability of achieving the remaining performance milestone and the appropriate timing related to the achievement is highly subjective and requires periodic reassessment. Actual achievement of these performance milestones or changes in facts and circumstances may cause significant fluctuations in expense recognition between reporting periods and would result in changes in the timing and amount of expense recognition related to these RSU's.

Income Taxes

We account for income taxes under the liability method in accordance with FASB Statement No. 109, *Accounting for Income Taxes*, and FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109*. Under this method, deferred tax assets and liabilities are determined based on differences between 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. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon tax authority examination, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

Adoption of FIN 48, which occurred on January 1, 2007, had no impact on our consolidated financial position, results of operations, cash flows or our effective tax rate. However, revisions to the estimated net realizable value of the deferred tax asset in the future could cause our provision for income taxes to vary significantly from period to period. At December 31, 2007, we had significant federal and state net operating loss and research credit carry forwards which were offset by a full valuation allowance, due to our inability to estimate long-term future taxable income with a high level of certainty. Upon adoption of FIN 48, we did not recognize an increase or a decrease in the liability for net unrecognized tax benefits, which would be accounted for through retained earnings. We historically accrued for uncertain tax positions in deferred tax assets as we have been in a net operating loss position since inception and any adjustments to our tax positions would result in an adjustment of our net operating loss or tax credit carry forwards rather than resulting in a cash outlay. If we are eventually able to recognize these uncertain positions, our effective tax rate would be reduced. We currently have a full valuation allowance against our net deferred tax asset which would impact the timing of the effective tax rate benefit should any of these uncertain tax positions be favorably settled in the future.

On a periodic basis, we will continue to evaluate the realizability of our deferred tax assets and liabilities and adjust such amounts in light of changing facts and circumstances, including but not limited to the level of past and future taxable income, the utilization of the carry forwards, tax legislation, rulings by relevant tax authorities, tax planning strategies and if applicable, the progress of ongoing tax audits. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible or the net operating loss and research credit carry forwards can be utilized.

Recent Accounting Pronouncements

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarch used to classify the source of the information. This statement is effective beginning in October 2008. We are evaluating whether adoption of this statement will result in a change to our fair value measurements.

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, The Fair *Value Option for Financial Assets and Financial Liabilities- Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits companies to choose to measure certain financial instruments and other items at fair value. The standard requires that unrealized gains and losses are reported in earnings for items measured using the fair value option. This statement is effective beginning in January 2008. We are evaluating whether adoption of this statement will result in a change to our fair value measurements.

EITF 07-03

In June 2007, the Emerging Issues Task Force ("EITF") issued EITF 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services for Use in Future Research and Development Activities*, which provides guidance on the accounting for certain nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities. This issue is effective prospectively for fiscal years beginning after December 15, 2007. We do not expect that the adoption of EITF 07-03 will have a material impact on our financial position or results of operations.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate and Market Risk

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, 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.

A hypothetical 50 basis point increase in interest rates would result in an approximate $0.7 million decrease, less than 1%, in the fair value of our available-for-sale securities at December 31, 2007. This potential change is based on sensitivity analyses performed on our investment securities at December 31, 2007. Actual results may differ materially. The same hypothetical 50 basis point increase in interest rates would have resulted in an approximate $0.7 million decrease, less than 1%, in the fair value of our available-for-sale securities at December 31, 2006.

Due to the recent adverse developments in the credit markets, we may experience reduced liquidity with respect to some of our short-term investments. These investments are generally held to maturity, which is less than one year. However, if the need arose to liquidate such securities before maturity, we may experience losses on liquidation. As of December 31, 2007, we held $431.9 million of commercial debt securities, with an average time to maturity of 126 days. To date we have not experienced any liquidity issues with respect to these securities, but should such issues arise, we may be required to hold some, or all, of these securities until maturity. We believe that, even allowing for potential liquidity issues with respect to these securities, our remaining cash and cash equivalents and short-term investments will be sufficient to meet our anticipated cash needs for at least the next twelve months. We have the ability and intent to hold our debt securities to maturity when they will be redeemed at full par value. Accordingly, we consider unrealized losses to be temporary and have not recorded a provision for impairment.

Foreign Currency Risk

The majority of our revenue, expense, and capital purchasing activities are transacted in U.S. dollars. However, since a portion of our operations consist of research and development activities outside the United States, we have entered into transactions in other currencies, primarily the Indian Rupee, and therefore are subject to foreign exchange risk.

Our international operations are subject to risks typical of international operations, including, but not limited to, differing economic conditions, changes in political climate, differing tax structures, other regulations and restrictions, and foreign exchange rate volatility. We do not utilize derivative financial instruments to manage our exchange rate risks.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Nektar Therapeutics

We have audited the accompanying consolidated balance sheets of Nektar Therapeutics as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nektar Therapeutics at December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, Nektar Therapeutics changed its method of accounting for stock-based compensation as of January 1, 2006 and its method of accounting for uncertain tax positions as of January 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Nektar Therapeutics' internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Palo Alto, California
February 25, 2008

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Nektar Therapeutics

We have audited Nektar Therapeutics' internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Nektar Therapeutics' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Nektar Therapeutics maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Nektar Therapeutics as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007 of Nektar Therapeutics and our report dated February 25, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Palo Alto, California
February 25, 2008

Consolidated Balance Sheets

(In thousands, except per share information)

	December 31, 2007	2006
Assets		
Current assets:		
Cash and cash equivalents	**$ 76,293**	$ 63,760
Short-term investments	**406,060**	394,880
Accounts receivable, net of allowance of $33 and $357 at December 31, 2007 and 2006, respectively	**21,637**	47,148
Inventory	**12,187**	14,656
Other current assets	**7,106**	14,595
Total current assets	**$ 523,283**	$ 535,039
Long-term investments	**—**	8,337
Property and equipment, net	**114,420**	133,812
Goodwill	**78,431**	78,431
Other intangible assets, net	**2,680**	3,626
Other assets	**6,289**	8,932
Total assets	**$ 725,103**	$ 768,177
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 3,589**	$ 7,205
Accrued compensation	**14,680**	12,994
Accrued expenses to contract manufacturers	**40,444**	—
Accrued expenses	**12,446**	17,942
Interest payable	**2,638**	3,814
Capital lease obligations, current portion	**2,335**	711
Deferred revenue, current portion	**19,620**	16,409
Convertible subordinated notes, current portion	**—**	102,653
Other current liabilities	**2,340**	3,854
Total current liabilities	**$ 98,092**	$ 165,582
Convertible subordinated notes	**315,000**	315,000
Capital lease obligations	**21,632**	19,759
Deferred revenue	**61,349**	23,697
Other long-term liabilities	**14,591**	17,079
Total liabilities	**$ 510,664**	$ 541,117
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 December 31, 2007 and 2006	**—**	—
Series B, $0.0001 par value: 20 shares designated; no shares issued or outstanding at December 31, 2007 and 2006	**—**	—
Common stock, $0.0001 par value; 300,000 authorized; 92,301 shares and 91,280 shares issued and outstanding at December 31, 2007 and 2006, respectively	**9**	9
Capital in excess of par value	**1,302,541**	1,283,982
Accumulated other comprehensive income	**1,643**	62
Accumulated deficit	**(1,089,754)**	(1,056,993)
Total stockholders' equity	**214,439**	227,060
Total liabilities and stockholders' equity	**$ 725,103**	$ 768,177

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

Consolidated Statements of Operations

(in thousands, except per share information)

	Years ended December 31,		
	2007	2006	2005
Revenue:			
Product sales and royalties	**$ 180,755**	$ 153,556	$ 29,366
Contract research	**85,925**	56,303	81,602
Exubera commercialization readiness	**6,347**	7,859	15,311
Total revenue	**$ 273,027**	$ 217,718	$ 126,279
Operating costs and expenses:			
Cost of goods sold	**137,696**	113,921	23,728
Cost of idle Exubera manufacturing capacity	**6,314**	—	—
Exubera commercialization readiness costs	**3,507**	4,168	12,268
Research and development	**153,575**	149,381	151,659
General and administrative	**56,336**	78,319	43,852
Impairment of long lived assets	**28,396**	9,410	65,340
Litigation settlement	**1,583**	17,710	—
Amortization of intangible assets	**946**	4,039	4,206
Gain on termination of collaborative agreements, net	**(79,178)**	—	—
Purchased in-process research and development	**—**	—	7,859
Total operating costs and expenses	**$ 309,175**	$ 376,948	$ 308,912
Loss from operations	**(36,148)**	(159,230)	(182,633)
Interest income	**22,201**	23,646	13,022
Interest expense	**(18,638)**	(20,793)	(14,085)
Other income (expense), net	**1,133**	2,444	(1,249)
Loss on extinguishment of debt	**—**	—	(303)
Loss before provision (benefit) for income taxes	**$ (31,452)**	$(153,933)	$(185,248)
Provision (benefit) for income taxes	**1,309**	828	(137)
Net loss	**$ (32,761)**	$(154,761)	$(185,111)
Basic and diluted net loss per share	**$ (0.36)**	$ (1.72)	$ (2.15)
Shares used in computing basic and diluted net loss per share	**91,876**	89,789	85,915

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

Consolidated Statements of Stockholders' Equity

(In thousands)

	Preferred Shares		Common Shares				Accumulated Other		
	Shares	Amount Paid In	Shares	Par Value	Capital In Excess of Par Value	Deferred Compensation	Comprehensive Income/(Loss)	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2004	20	—	84,572	$ 8	$ 1,187,575	$ (2,764)	$ (356)	$ (717,121)	$ 467,342
Common stock issued upon exercise of stock options	—	—	1,015	—	9,621	—	—	—	9,621
Common stock issued in secondary offering, net of insurance costs of $427	—	—	1,891	1	31,563	—	—	—	31,564
Compensation in connection with stock options granted to consultants	—	—	—	—	208	—	—	—	208
Amortization of deferred compensation	—	—	34	—	2,039	(185)	—	—	1,854
Shares issued for ESPP	—	—	108	—	1,239	—	—	—	1,239
Shares issued for retirement plans	—	—	87	—	1,445	—	—	—	1,445
Other comprehensive loss	—	—	—	—	—	—	(1,351)	—	(1,351)
Net loss	—	—	—	—	—	—	—	(185,111)	(185,111)
Comprehensive loss									(186,462)
Balance at December 31, 2005	20	—	87,707	$ 9	$ 1,233,690	$ (2,949)	$ (1,707)	$ (902,232)	$ 326,811
Common stock issued upon exercise of stock options	—	—	2,326	—	20,642	—	—	—	20,642
Stock based compensation	—	—	—	—	29,143	—	—	—	29,143
Compensation in connection with stock options granted to consultants	—	—	—	—	31	—	—	—	31
Conversion of Preferred Stock	(20)	—	1,023	—	—	—	—	—	—
Exercise of warrants	—	—	12	—	—	—	—	—	—
Transition adjustment upon adoption of SFAS No 123R	—	—	—	—	(2,949)	2,949	—	—	—
Shares issued for ESPP	—	—	109	—	1,617	—	—	—	1,617
Shares issued for retirement plans	—	—	103	—	1,808	—	—	—	1,808
Other comprehensive income	—	—	—	—	—	—	1,769	—	1,769
Net loss	—	—	—	—	—	—	—	(154,761)	(154,761)
Comprehensive loss									(152,992)
Balance at December 31, 2006	—	—	91,280	$ 9	$ 1,283,982	$ —	$ 62	$(1,056,993)	$ 227,060
Common stock issued upon exercise of stock options	—	—	427	—	2,913	—	—	—	2,913
Stock based compensation	—	—	—	—	13,193	—	—	—	13,193
Shares issued for ESPP	—	—	99	—	867	—	—	—	867
Shares issued for retirement plans	—	—	161	—	1,584	—	—	—	1,584
Shares issued upon release of Restricted Share Units	—	—	334	—	2	—	—	—	2
Other comprehensive income	—	—	—	—	–	—	1,581	—	1,581
Net loss	—	—	—	—	—	—	—	(32,761)	(32,761)
Comprehensive loss									(31,180)
Balance at December 31, 2007	—	—	92,301	$ 9	$ 1,302,541	$ —	$ 1,643	$(1,089,754)	$ 214,439

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

Consolidated Statements of Cash Flows

(in thousands)

	Years ended December 31,		
	2007	2006	2005
Cash flows provided by (used in) operating activities:			
Net loss	**$ (32,761)**	$ (154,761)	$ (185,111)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	**29,028**	33,509	25,311
Stock-based compensation	**14,779**	30,982	3,507
Impairment of long lived assets	**28,396**	9,410	65,340
Amortization of gain related to sale of building	**(874)**	(874)	(934)
Gain on disposal of investment	**(860)**	(2,252)	—
Loss on sale or disposal of assets	**1,843**	123	—
In process research and development	**—**	—	7,859
Loss on termination of capital lease	**—**	—	1,136
Loss on extinguishment of debt	**—**	—	303
Changes in assets and liabilities:			
Decrease (increase) in trade accounts receivable	***24,318***	(34,654)	2,468
Decrease (increase) in inventories	**1,503**	3,971	(7,420)
Decrease (increase) in other assets	**7,443**	1,095	(3,542)
Increase (decrease) in accounts payable	**(3,147)**	(8,926)	9,009
Increase (decrease) in accrued compensation	**986**	3,581	1,756
Increase (decrease) in accrued expenses	**36,151**	5,503	4,823
Increase (decrease) in interest payable	**(1,176)**	23	1,781
Increase (decrease) in deferred revenue	**40,863**	16,245	(7,174)
Increase (decrease) in other liabilities	**(190)**	4,310	2,890
Net cash provided by (used in) operating activities	**$ 146,302**	$ (92,715)	$ (77,998)
Cash flows from investing activities:			
Purchases of property and equipment	**(32,796)**	(22,524)	(17,955)
Purchases of investments	**(593,118)**	(502,230)	(234,991)
Sales of investments	**2,057**	2,252	88,950
Maturities of investments	**591,202**	405,622	227,113
Business acquisition, net of cash acquired	**—**	—	(30,714)
Net cash provided by (used in) investing activities	**$ (32,655)**	$ (116,880)	$ 32,403
Cash flows from financing activities:			
Issuance of common stock, net of issuance costs	**3,780**	22,259	42,424
Payments of loan and capital lease obligations	**(2,895)**	(10,488)	(2,517)
Repayments of convertible subordinated notes	**(102,653)**	—	(70,964)
Proceeds from convertible subordinated notes	**—**	—	305,645
Proceeds from capital lease financing	**—**	—	261
Net cash provided by (used in) financing activities	**$ (101,768)**	$ 11,771	$ 274,849
Effect of exchange rates on cash and cash equivalents	**654**	311	(45)
Net increase (decrease) in cash and cash equivalents	**$ 12,533**	$ (197,513)	$ 229,209
Cash and cash equivalents at beginning of year	**63,760**	261,273	32,064
Cash and cash equivalents at end of year	**$ 76,293**	$ 63,760	$ 261,273
Supplemental disclosure of cash flows information:			
Cash paid for interest	**$ 17,389**	$ 17,751	$ 15,892
Cash paid for income taxes	**$ 801**	$ —	$ 27
Supplemental schedule of non-cash investing and financing activities:			
Property acquired through capital leases	**$ 4,445**	$ —	$ —
Deferred compensation related to the issuance of stock options	**$ —**	$ —	$ 2,039

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

Note 1 Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

We are a biopharmaceutical company headquartered in San Carlos, California and incorporated in Delaware. Our mission is to develop breakthrough products that make a difference in patients' lives. We create differentiated, innovative products by applying our platform technologies to established or novel medicines. Our two leading technology platforms are pulmonary technology and PEGylation technology. Our two technology platforms are the basis of substantially all of the partnered and proprietary programs. In June 2006, we terminated the research and development activity related to the Nektar super critical fluids technology, which was conducted at our Bradford, UK facility.

Principles of Consolidation and Use of Estimates

Our consolidated financial statements include the financial position and results of operations and cash flows of our wholly-owned subsidiaries: Nektar Therapeutics AL, Corporation ("Nektar AL"); Nektar Therapeutics UK, Ltd. ("Bradford"), Nektar Therapeutics (India) Private Limited, and Aerogen Inc. All intercompany accounts and transactions have been eliminated in consolidation.

Our 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 loss in the stockholders' equity section of the balance sheet. To date, such cumulative translation adjustments have not been material to our consolidated financial position. Transaction gains and losses arising from activities in other than applicable functional currency are calculated using the average exchange rate for the applicable period and reported in net income as a non-operating item in each period. Aggregate gross foreign currency transaction gain (loss) recorded in net income for the years ended December 31, 2007, 2006, and 2005 were not material.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain items previously reported in specific financial statement captions have been reclassified to conform to the current period presentation. Such reclassifications have not impacted previously reported revenues, operating loss or net loss.

Fair Value of Financial Instruments

The carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued compensation and other accrued liabilities, approximate fair value because of their short term maturities.

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 and royalties and collaborative research 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 perform a regular review of our customers' payment histories and associated credit risk. We have not experienced significant credit losses from our accounts receivable or collaborative research agreements and none are expected. At December 31, 2007, three different customers represented 28%, 24%, and 22%, respectively, of our accounts receivable. At December 31, 2006, three different customers represented 56%, 15% and 14%, respectively, of our accounts receivable.

We are dependent on our partners and vendors to provide raw materials, drugs and devices of appropriate quality and reliability and to meet applicable regulatory requirements. 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 operation.

Cash, Cash Equivalents and Investments

We consider all investments in marketable securities with an original maturity of three months or less to be cash equivalents. Investments are designated as available-for-sale and are carried at fair value, with unrealized gains and losses reported in stockholders' equity as accumulated other comprehensive income (loss). 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. Investments with maturities greater than one year from the balance sheet date are classified as long-term.

Interest and dividends on securities classified as available-for-sale, as well as amortization of premiums and accretion of discounts to maturity, are included in interest income. Realized gains and losses and declines in value of available-for-sale securities judged to be other-than-temporary, if any, are included in other income (expense). The cost of securities sold is based on the specific identification method.

Inventories

Inventories are computed on a first-in, first-out basis and stated net of reserves at the lower of cost or market. Supplies inventory related to research and development activities are expensed when purchased.

Property and Equipment

Property and equipment are stated at cost. Major improvements are capitalized, while maintenance and repairs are expensed when incurred. Manufacturing, laboratory and other equipment are depreciated using the straight-line method generally over estimated useful lives of three to seven years. Leasehold improvements and buildings are depreciated using the straight-line method over the shorter of the estimated useful life or the remaining term of the lease.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, we periodically review our property and equipment for recoverability whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Generally, an impairment loss would be recognized if the carrying amount of an asset exceeds the sum of the discounted cash flows expected to result from the use and eventual disposal of the asset. During the years ended December 31, 2007 and 2006, we recorded impairment losses for our Pfizer-related fixed assets and our Nektar UK fixed assets. Please refer to Note 14 of Notes to Consolidated Financial Statements for additional information on the impairment analysis performed.

Goodwill

Goodwill represents the excess of the price paid for another entity over the fair value of the assets acquired and liabilities assumed in a business combination. We account for our goodwill asset in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, and test for impairment as of October 1 each year, as well as at other times when impairment indicators exists or when events occur or circumstances change that would indicate the carrying amount may not be fully recoverable. For purposes of our annual impairment test, we have identified and assigned goodwill to two reporting units (as defined in SFAS No. 142) pulmonary technology and PEGylation technology. Goodwill is tested for impairment at the reporting unit level using a two-step approach. The first step is to compare the fair value of a reporting unit's net assets, including assigned goodwill, to the book value of its net assets, including assigned goodwill. If the fair value of the reporting unit is greater than its net book value, the assigned goodwill is not considered impaired. If the fair value is less than the reporting unit's net book value, we perform a second step to measure the amount of the impairment, if any. The second step would be to compare the book value of the reporting unit's assigned goodwill to the implied fair value of the reporting unit's goodwill. There were no indications of impairment at December 31, 2007 or December 31, 2006.

Other Intangible Assets

Other intangible assets include proprietary technology, intellectual property, and supplier and customer relationships acquired from third parties or in business combinations. In accordance with SFAS No. 142, Other intangible assets with a finite useful life are amortized ratably over their estimated useful lives, which we currently estimate to be a period of five years. Once an intangible asset is fully amortized, we remove the gross costs and accumulated amortization from our Consolidated Balance Sheets.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, we periodically review our intangible assets for recoverability whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Generally, an impairment loss would be recognized if the carrying amount of an intangible asset exceeds the sum of the discounted cash flows expected to result from the use and eventual disposal of the assets.

Revenue Recognition

We recognize revenue in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements* ("SAB 104") and Emerging Issues Task Force, Issue No. 00-21 ("EITF 00-21"), *Revenue Arrangements with Multiple Deliverables*.

Revenue is recognized when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed and determinable, and collection is reasonably assured. Allowances are established for estimated sales returns and uncollectible amounts.

Product Sales and Royalty Revenue

Product revenues from Exubera Inhalation Powder and Inhalers are primarily derived from the cost-plus manufacturing and supply agreement with Pfizer, which terminated on November 9, 2007. Prior to January 1, 2007, Exubera product revenues were recognized at the earlier of acceptance of products by Pfizer or sixty days from shipment and the related cost of goods sold were recorded as deferred revenue, net of the deferred costs. As of December 31, 2006, we deferred $5.2 million of Exubera gross margin, comprised of $23.1 million in deferred product revenue and $17.9 million of deferred costs. On January 1, 2007, we began recognizing Exubera revenue upon shipment of product and estimating product warranty returns. During the year ended December 31, 2007, we recognized the Exubera product revenue and costs deferred at December 31, 2006, as well as product revenues through the termination of our agreement with Pfizer on November 9, 2007.

Product revenues from our PEGylation technology platform are primarily derived from cost-plus manufacturing and supply agreements with customers in our industry, and are recognized in accordance with the terms of the related contract. We have not experienced any significant returns from our customers.

Generally, we are entitled to royalties from our customers based on their net sales. We recognize royalty revenue when the cash is received or when the royalty amount to be received is estimable and collection is reasonably assured. Royalties from the sale of Exubera inhalation powder and Exubera Inhalers were insignificant during the years ended December 31, 2007 and 2006.

Contract Research Revenue

We enter into collaborative research and development arrangements with pharmaceutical and biotechnology partners that may involve multiple deliverables. Our arrangements may contain the following elements: upfront fees, collaborative research, milestone payments, manufacturing and supply, royalties and license fees. The principles and guidance outlined in EITF No. 00-21 provide a framework to (a) determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, and (b) determine how the arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. Significant judgment is required when determining the separate units of accounting and the fair value of individual deliverables. For each separate unit of accounting we have objective and reliable evidence of fair value using available internal evidence for the undelivered item(s) and our arrangements generally do not contain a general right of return relative to the delivered item. We use the residual method to allocate the arrangement consideration when it does not have fair value of a delivered item(s). Under the residual method, the amount of consideration allocated to the delivered item equals the total arrangement consideration less the aggregate fair value of the undelivered items.

Contract research revenue from collaborative research and development agreements is recorded when earned based on the performance requirements of the contract. Advance payments for research and development revenue received in excess of amounts earned are classified as deferred revenue until earned. Amounts received under these arrangements are generally non-refundable even if the research effort is unsuccessful.

Payments received for milestones achieved are deferred and recorded as revenue ratably over the next period of continued development. Management makes its best estimate of the period of time until the next milestone is reached. This estimate affects the recognition of revenue for completion of the previous milestone. The original estimate is periodically evaluated to determine if circumstances have caused the estimate to change and if so, amortization of revenue is adjusted prospectively. Final milestone payments are recorded and recognized upon achieving the respective milestone, provided that collection is reasonably assured.

Exubera Commercialization Readiness Revenue

Exubera commercialization readiness revenue represents reimbursements from Pfizer, of certain agreed upon operating costs relating to our Exubera inhalation powder manufacturing facilities and our device contract manufacturing locations in preparation for commercial production, plus a markup on such costs. Exubera commercialization readiness costs are start up manufacturing costs we have incurred in our Exubera Inhalation Powder manufacturing facility and our Exubera Inhaler device contract manufacturing locations in preparation for commercial production.

Shipping and Handling Costs

We record costs related to shipping and handling of product to customers in cost of goods sold.

Stock-Based Compensation

Stock-based compensation arrangements covered by SFAS No. 123R, *Share-Based Payment* ("SFAS No. 123R") currently include stock option grants and restricted stock unit ("RSU") awards under our option plans and purchases of common stock by our employees at a discount to the market price under our Employee Stock Purchase Plan ("ESPP"). Under SFAS No. 123R, the value of the portion of the option or award that is ultimately expected to vest is recognized as expense on a straight line basis over the requisite service periods in our Consolidated Statements of Operations. Stock-based compensation expense for purchases under the ESPP are recognized based on the estimated fair value of the common stock during each offering period and the percentage of the purchase discount.

Prior to January 1, 2006, we accounted for stock-based employee compensation plans using the intrinsic value method of accounting in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25"), and related interpretations. Under the provisions of APB No. 25, no compensation expense was recognized with respect to employee purchases of our common stock under the ESPP or when stock options were granted with exercise prices equal to or greater than market value on the date of grant. However, for stock-based awards issued below the market price of our common stock on the grant date, we were required to record deferred compensation for this intrinsic value and expense this value ratably over the underlying vesting period.

Effective January 1, 2006, we adopted the fair value method of accounting for stock-based compensation arrangements in accordance with SFAS No. 123R using the modified prospective method of transition. Under the modified prospective method of transition, we are not required to

restate our prior period financial statements to reflect expensing of stock-based compensation under SFAS No. 123R. Therefore, the results for the years ended December 31, 2007 and 2006 are not directly comparable to the year ended December 31, 2005.

We use the Black-Scholes option valuation model adjusted for the estimated historical forfeiture rate for the respective grant to determine the estimated fair value of our stock-based compensation arrangements on the date of grant ("grant date fair value") and expense this value ratably over the service period of the option or performance period of the RSU award. We have separated the employee population into two groups for valuation purposes, including forfeiture rates: (1) executive management and board members (executives) and (2) all other employees. Expense amounts are allocated among inventory, cost of revenue, research and development expenses, and general and administrative expenses based on the function of the applicable employee. The Black-Scholes option pricing model requires the input of highly subjective assumptions. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models may not provide a reliable single measure of the fair value of our employee stock options or common stock purchased under the ESPP. In addition, management will continue to assess the assumptions and methodologies used to calculate estimated fair value of stock-based compensation. Circumstances may change and additional data may become available over time, which could result in changes to these assumptions and methodologies, and which could materially impact our fair value determination.

Research and Development Expense

Research and development costs are expensed as incurred and include salaries, benefits and other operating costs such as outside services, supplies and allocated overhead costs. We perform research and development for our proprietary products and technology development and for others pursuant to collaboration agreements. For our proprietary products and our internal technology development programs, we invest our own funds without reimbursement from a third party. Costs associated with treatment phase of clinical trials are accrued based on the total estimated cost of the clinical trials and are expensed ratably based on patient enrollment in the trials. Costs associated with the start-up and reporting phases of the clinical trials are expensed as incurred.

Collaboration agreements typically include the development and licensing of our technology. Under these agreements, we may be reimbursed for development costs, entitled to milestone payments when and if certain development or regulatory milestones are achieved, compensated for the manufacture and supply of clinical and commercial product and entitled to royalties on sales of commercial product. All of our collaboration agreements are generally cancelable by the partner without significant financial penalty. Certain collaboration agreements may involve feasibility research which is designed to evaluate the applicability of our technologies to a particular molecule. Due to the nature of this research, we are reimbursed for the cost of work performed and our commitment is generally completed in less than one year.

From time to time we acquire in-process research and development programs as part of strategic business acquisitions. Generally, in-process research and development purchased in a business combination is expensed on the acquisition date primarily because the acquired technology has not yet reached technological feasibility and has no future alternative use. During the year ended December 31, 2005, we recorded a charge of $7.9 million for in-process research and development costs in connection with our acquisition of Aerogen.

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 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):

	Years ended December 31,		
	2007	2006	2005
Convertible subordinated notes	**15,781**	16,896	5,989
Stock options and restricted stock units	**11,529**	9,138	8,351
Warrants	**—**	13	20
Convertible preferred stock	**—**	—	1,023
Total	**27,310**	26,047	15,383

Income Taxes

We account for income taxes under the liability method in accordance with SFAS No. 109, *Accounting for Income Taxes* ("SFAS 109"), and FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109*. Under this method, deferred tax assets and liabilities are determined based on differences between 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.

FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon tax authority examination, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement.

We adopted FIN 48 on January 1, 2007. Upon adoption, we did not recognize an increase or a decrease in the liability for net unrecognized tax benefits, which would be accounted for through retained earnings.

We have incurred net operating losses since inception and we do not have any significant unrecognized tax benefits. Our policy is to include interest and penalties related to unrecognized tax benefits, if any, within the provision for taxes in the consolidated statements of operations. If we are eventually able to recognize our uncertain positions, our effective tax rate would be reduced. We currently have a full valuation allowance against our net deferred tax asset which would impact the timing of the effective tax rate benefit should any of these uncertain tax positions be favorably settled in the future. Any adjustments to our uncertain tax positions would result in an adjustment of our net operating loss or tax credit carry forwards rather than resulting in a cash outlay.

We file income tax returns in the U.S., California and other states, and various foreign jurisdictions. We are currently not the subject of any income tax examinations. In general, the earliest open year subject to examination is 2002, although depending upon jurisdiction, tax years may remain open, subject to certain limitations.

Recent Accounting Pronouncements

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarch used to classify the source of the information. This statement is effective beginning in October 2008. We are evaluating whether adoption of this statement will result in a change to our fair value measurements.

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits companies to choose to measure certain financial instruments and other items at fair value. The standard requires that unrealized gains and losses are reported in earnings for items measured using the fair value option. This statement is effective beginning in January 2008. We are evaluating whether adoption of this statement will result in a change to our fair value measurements.

EITF 07-03

In June 2007, the Emerging Issues Task Force ("EITF") issued EITF 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services for Use in Future Research and Development Activities*, which provides guidance on the accounting for certain nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities. This issue is effective prospectively for fiscal years beginning after December 15, 2007. We do not expect that the adoption of EITF 07-03 will have a material impact on our financial position or results of operations.

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 December 31,	
	2007	2006
Cash and cash equivalents	**$ 76,293**	$ 63,760
Short-term investments (less than one year to maturity)	**406,060**	394,880
Long-term investments (one to two years to maturity)	**—**	8,337
Total cash and available-for-sale investments	**$ 482,353**	$ 466,977

Our portfolio of cash and available-for-sale investments consists of the following (in thousands):

	Estimated Fair Value at December 31,	
	2007	2006
U.S. corporate commercial paper	**$ 293,866**	$ 234,512
Obligations of U.S. corporations	**100,727**	151,288
Obligations of U.S. government agencies	**37,333**	27,372
Repurchase agreements	**—**	33,948
Cash and other debt securities	**50,427**	19,857
Total cash and available-for-sale investments	**$ 482,353**	$ 466,977

At December 31, 2007, the average portfolio duration was approximately four months and the contractual maturity of any single investment did not exceed twelve months. At December 31, 2006, the average portfolio duration was approximately four months and the contractual maturity of any single investment did not exceed twenty-four months.

Gross unrealized gains on the portfolio were $0.5 million and nil as of December 31, 2007 and 2006, respectively. Gross unrealized losses on the portfolio were $0.1 million and $0.5 million as of December 31, 2007 and 2006, respectively. We have a history of holding our investments to maturity. The gross unrealized losses were primarily due to changes in interest rates on fixed income securities. Additionally, we have the ability and intent to hold our debt securities to maturity when they will be redeemed at full par value. Accordingly, management considers these unrealized losses to be temporary and has not recorded a provision for impairment.

At December 31, 2007 and 2006, we had letter of credit arrangements with certain financial institutions and vendors, including our landlord, totaling $2.8 million and $2.6 million, respectively. These letters of credit are secured by investments in similar amounts.

Note 3 Inventory

Inventory consists of the following (in thousands):

	December 31,	
	2007	2006
Raw materials	**$ 9,522**	$ 8,609
Work-in-process	**1,749**	4,736
Finished goods	**916**	1,211
Total	**$ 12,187**	$ 14,656

Inventory consists of raw materials, work-in-process and finished goods for our commercial PEGylation business. At December 31, 2007, we did not hold any Exubera-related inventory.

Reserves are determined using specific identification plus an estimated reserve for potential defective or excess inventory based on historical experience or projected usage. Inventories are reflected net of reserves of $5.8 million and $4.2 million as of December 31, 2007 and 2006, respectively.

Note 4 Property and Equipment

Property and equipment consist of the following (in thousands):

	December 31, 2007	December 31, 2006
Building and leasehold improvements	**$ 114,210**	$ 118,574
Laboratory equipment	**48,425**	43,066
Manufacturing equipment	**18,493**	23,406
Assets at contract manufacturer locations	**—**	25,886
Furniture, fixtures and other equipment	**21,169**	20,970
Construction-in-progress	**18,374**	8,508
Property and equipment at cost	**$ 220,671**	$ 240,410
Less: accumulated depreciation	**(106,251)**	(106,598)
Property and equipment, net	**$ 114,420**	$ 133,812

Building and leasehold improvements include our commercial manufacturing, clinical manufacturing, research and development and administrative facilities and the related improvements to these facilities. Laboratory and manufacturing equipment includes assets that support both our manufacturing and research and development efforts. Assets at contract manufacturer locations included automated assembly line equipment used in the manufacture of the Exubera inhaler device at December 31, 2006. Construction-in-progress includes assets being built to enhance our manufacturing and research and development programs.

Depreciation expense, including depreciation of assets acquired through capital leases, for the years ended December 31, 2007, 2006, and 2005 was $25.9 million, $26.8 million, and $19.2 million, respectively.

In accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long Lived Assets*, we periodically review our Property and equipment for recoverability whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In December 2007, we evaluated our Exubera-related assets for impairment after the termination of our collaborative development and license agreements with Pfizer on November 9, 2007 and recorded an impairment charge of $28.4 million in December 2007. During the year ended December 31, 2006, we commenced with plans to wind-down our Bradford, UK operations and accelerated $1.2 million of remaining depreciation in June 2006. Additionally, we determined that one of our construction-in-progress assets would not be completed and recorded an impairment charge of $2.8 million in December 2006. In December 2005, we determined the fair value of our Bradford, UK operations' was below the carrying value and recorded an impairment charge of $5.7 million related to the property and equipment at Bradford. Please refer to Note 14 of Notes to Consolidated Financial Statements for additional information related to Impairment of Long Lived Assets.

Note 5 Goodwill and Other Intangible Assets

Goodwill

As of December 31, 2007 and 2006, the carrying value of our goodwill is $78.4 million, of which $69.0 million is assigned to our PEGylation technology reporting unit and $9.4 million is assigned to our pulmonary technology reporting unit.

In the fourth quarters of 2007 and 2006, we performed our annual impairment tests of goodwill and determined that goodwill is not impaired because the fair value, based on the estimated future discounted cash flows, exceeds the carrying value of the reporting units' assets, including assigned goodwill.

In December 2005, we recorded an impairment charge of $59.6 million related to the goodwill assigned to the super critical fluids reporting unit in Bradford, UK. Please refer to Note 14 of Notes to the Consolidated Financial Statements for additional information.

Other Intangible Assets

The customer relationship intangible asset obtained from the acquisition of Aerogen, Inc. in October 2005 is as follows (in thousands):

	December 31, 2007	December 31, 2006
Gross carrying amount	**$ 4,730**	$ 4,730
Accumulated amortization	**(2,050)**	(1,104)
Other intangible asset, net	**$ 2,680**	$ 3,626

Amortization expense related to other intangible assets totaled $0.9 million, $4.3 million, and $4.9 million for the years ended December 31, 2007, 2006, and 2005, respectively. The estimated useful life is 5 years and future amortization expense is approximately $0.9 million per year until October 2010, when it will be fully amortized.

During the year ended December 31, 2006, we recorded an impairment charge of $5.5 million related to core technology intangible assets obtained as part of the Aerogen, Inc. acquisition in October 2005. Please refer to Note 14 of Notes to the Consolidated Financial Statements for additional information.

Note 6 Convertible Subordinated Notes

The outstanding balance of our convertible subordinated notes is as follows (in thousands):

	Semi-Annual Interest Payment Dates	December 31, 2007	December 31, 2006
5% Notes due February 2007	August 8, February 8	**$ —**	$ 36,026
3.5% Notes due October 2007	April 17, October 17	**—**	66,627
3.25% Notes due September 2012	March 28, September 28	**315,000**	315,000
Total outstanding convertible subordinated notes		**$315,000**	$ 417,653
Less: current portion		**—**	(102,653)
Convertible subordinated notes		**$315,000**	$ 315,000

Our convertible subordinated notes are unsecured and subordinated in right of payment to any future senior debt. The carrying value approximates fair value for both periods presented. Costs related to the issuance of these convertible notes are recorded in other assets in our Consolidated Balance Sheets and are generally amortized to interest expense on a straight-line basis over the contractual life of the notes. The unamortized deferred financing costs were $5.1 million and $7.3 million as of December 31, 2007 and 2006, respectively.

Conversion and Redemption

The notes are convertible at the option of the holder at any time on or prior to maturity into shares of our common stock. The 3.25% Notes have a conversion rate of 46.4727 shares per $1,000 principal amount, which is equal to a conversion price of approximately $21.52. Additionally, at any time prior to maturity, if a fundamental change as defined in the 3.25% subordinated debt indenture occurs, we may be required to pay a make-whole premium on notes converted in connection therewith by increasing the conversion rate applicable to the notes.

Beginning on September 28, 2008, we may redeem the 3.25% Notes in whole or in part for cash at a redemption price equal to 100% of the principal amount of the Notes plus any accrued but unpaid interest if the closing price of the common stock has exceeded 150% of the conversion price for at least 20 days in any consecutive 30 day trading period.

The 3.5% and 5% Notes were repaid in full in 2007 and are, therefore, no longer subject to conversion or redemption.

Loss on Early Extinguishment of Convertible Subordinated Notes

In September 2005, we retired $25.4 million and $45.9 million aggregate principal amount of our outstanding 5% Notes and 3.5% Notes, respectively, in cash, in privately negotiated transactions. As a result of the transactions, we recognized losses related to the early extinguishment of approximately $0.3 million.

Note 7 Capital Leases

We lease office space and office equipment under capital lease arrangements. The gross carrying value by major asset class and accumulated depreciation as of December 31, 2007 and 2006 are as follows (in thousands):

	December 31,	
	2007	2006
Building and leasehold improvements	**$ 23,962**	$21,449
Furniture, fixtures and other equipment	**591**	261
Construction in progress	**1,602**	—
Total assets recorded under capital leases	**$ 26,155**	$21,710
Less: accumulated depreciation	**(6,124)**	(4,173)
Net assets recorded under capital leases	**$ 20,031**	$17,537

Building Lease

We lease office space at 201 Industrial Road in San Carlos, California under capital lease arrangements. During the year ended December 31, 2007, we modified our existing lease agreement to increase our office space by 20,123 square feet of additional premises. We re-evaluated the lease as amended and continue to classify it as a capital lease.

Under the terms of the lease, the rent will escalate 2% in October of each year for the original leased premises and the rent will escalate 3% in November of each year for the additional leased premises. The lease termination date for the original and additional premises is October 5, 2016.

Office Equipment

In November 2007, we entered into a twelve-month lease with Cisco Systems Capital Corporation related to communication equipment. The lease agreement includes a $1 buy-out option at the end of the twelve-month term.

Future Minimum Lease Payments

Future minimum payments for our capital leases at December 31, 2007 are as follows (in thousands):

Years ending December 31,	
2008	$ 6,010
2009	4,717
2010	4,752
2011	4,907
2012	4,958
2013 and thereafter	19,489
Total minimum payments required	$ 44,833
Less: amount representing interest	(20,866)
Present value of future payments	$ 23,967
Less: current portion	(2,335)
Non-current portion	$ 21,632

Note 8 Litigation Settlement

On June 30, 2006, we, our subsidiary Nektar AL, and a former officer, Milton Harris, entered into a settlement agreement and general release with the University of Alabama Huntsville (UAH) related to an intellectual property dispute. Under the terms of the settlement agreement, we, Nektar AL, Mr. Harris and UAH agreed to full and complete satisfaction of all claims asserted in the litigation in exchange for $25.0 million in cash payments. We and Mr. Harris made an initial payment of $15.0 million on June 30, 2006, of which we paid $11.0 million and Mr. Harris paid $4.0 million. In June 2007, we made the first of ten annual $1.0 million installment payments. During the year ended December 31, 2006, we recorded a litigation settlement charge of $17.7 million, which reflects the net present value of the settlement payments using an 8% annual discount rate. As of December 31, 2007 and 2006, our accrued liability related to the UAH settlement was $6.5 million and $7.0 million, respectively.

Note 9 Commitments and Contingencies

Unconditional Purchase Obligations

As of December 31, 2007, we had approximately $19.3 million of unconditional purchase obligations for purchases of goods and services in 2008 that have not been recognized on our Consolidated Balance Sheet. These obligations include approximately $10.7 million for research and development activities pertaining to our ongoing Phase 2 clinical trials of NKTR-102 and NKTR-118, $4.3 million for capital projects to enhance our manufacturing capabilities, research and development programs, and facilities, $2.2 million for PEGylation inventory purchases, and $2.1 million for partnered contract research programs.

Operating Leases

We lease certain facilities under arrangements expiring through June 2012. Certain of these lease arrangements contain escalation clauses. We recognize rent expense on a straight-line basis over the lease period. Rent expense for operating leases was approximately $4.3 million, $4.1 million, and $3.1 million for the years ended December 31, 2007, 2006, and 2005, respectively.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2007, are as follows (in thousands):

Years ending December 31,	
2008	$ 3,704
2009	2,928
2010	2,836
2011	2,905
2012	1,452
Total minimum payments required	$ 13,825

We have several leases for our facilities in multiple locations. In the event that we do not exercise our option to extend the term of the lease of our San Carlos manufacturing facility, we are required to restore the property to certain conditions in place at the time of lease. We believe these costs would not be material to our operations. As a result of terminating our research and development efforts in the UK, we recorded a $1.0 million expense in the year December 31, 2006, related to the lease restoration of our Bradford facilities.

In June 2007, we entered in a sub-lease of our Mountain View, California facility. During the year ending December 31, 2007, we recognized $0.5 million in sub-lease rental income. The sub-lease expires in February 2009, concurrent with the expiration of our lease agreement. As of December 31, 2007, future minimum rentals to be received under the sub-lease are $1.4 million in 2008 and $0.2 million in 2009.

Legal Matters

From time to time, we may be involved in lawsuits, claims, investigations and proceedings, consisting of intellectual property, commercial, employment and other matters, which arise in the ordinary course of business. In accordance with the SFAS No. 5, *Accounting for Contingencies*, we make a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least

quarterly and adjusted to reflect the impact of negotiations, settlements, ruling, 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.

Workers Compensation

We renewed our workers compensation insurance policy for the coverage period beginning November 1, 2006 as a fully funded policy under which all claims will be paid by the insurance carrier. In the prior policy period from November 1, 2005 through October 31, 2006 we were covered by a self funded policy under which the company was liable for all claims up to $250,000 per occurrence and to a maximum of $950,000. Historically, we have not incurred significant obligations under the self funded portion of our workers compensation policy and no significant liabilities have been recorded for workers compensation claims filed under the self funded policy on our Consolidated Balance Sheets as of December 31, 2007 or 2006.

Royalties

We have certain royalty commitments associated with the shipment and licensing of certain products. Royalty expense, which is reflected in cost of goods sold in our Consolidated Statements of Operations, was approximately $3.9 million, $5.5 million, and $3.5 million for the years ended December 31, 2007, 2006, and 2005, respectively. The overall maximum amount of the obligations is based upon sales of the applicable product and cannot be reasonably estimated.

Collaboration Agreements for Pulmonary and PEGylation Technology

As part of our collaboration agreements with our partners for the license, development, manufacture and supply of products based on our pulmonary or PEGylation technology, 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 or licensed to our partners. The term of these indemnification obligations is generally perpetual any time after execution of the agreement. There is no limitation on the potential amount of future payments we could be required to make under these indemnification obligations.

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 the obligations cannot be reasonably estimated. No liabilities have been recorded for these obligations on our Consolidated Balance Sheets as of December 31, 2007 or 2006.

Indemnification Underwriters and Initial purchasers of our Securities

In connection with our sale of equity and convertible debt securities, we have agreed to defend, indemnify and hold harmless our underwriters or initial purchasers, as applicable, as well as certain related parties from and against certain liabilities, including liabilities under the Securities Act of 1933, as amended. The term of these indemnification obligations is generally perpetual. There is no limitation on the potential amount of future payments we could be required to make under these indemnification obligations. We have never incurred costs to defend lawsuits or settle claims related to these indemnification obligations. If any of our indemnification obligations are triggered, however, we may incur substantial liabilities. Because the obligated amount of this agreement is not explicitly stated, the overall maximum amount of the obligations cannot be reasonably estimated. Historically, we have not been obligated to make significant payments for these obligations, and no liabilities have been recorded for these obligations in our Consolidated Balance Sheets as of December 31, 2007 or 2006.

Director and Officer Indemnifications

As permitted under Delaware law, and as set forth in our Certificate of Incorporation and our Bylaws, we indemnify our directors, executive officers, other officers, employees, and other agents for certain events or occurrences that arose while in such capacity. The maximum potential amount of future payments we could be required to make under this indemnification is unlimited; however, we have insurance policies that may limit our exposure and may enable us to recover a portion of any future amounts paid. Assuming the applicability of coverage, the willingness of the insurer to assume coverage, and subject to certain retention, loss limits and other policy provisions, we believe any obligations under this indemnification are not material, other than an initial $500,000 per incident for SEC related claims and $250,000 per incident for non-SEC related claims retention deductible per our insurance policy. However, no assurances can be given that the covering insurers will not attempt to dispute the validity, applicability, or amount of coverage without expensive litigation against these insurers, in which case we may incur substantial liabilities as a result of these indemnification obligations. Because the obligated amount of this agreement is not explicitly stated, the overall maximum amount of the obligations cannot be reasonably estimated. Historically, we have not been obligated to make significant payments for these obligations, and no liabilities have been recorded for these obligations in our Consolidated Balance Sheets as of December 31, 2007 or 2006.

Note 10 Stockholders' Equity

Preferred Stock

We have authorized 10,000,000 shares of Preferred Stock, each share having a par value of $0.0001. 3,100,000 shares of Preferred Stock are designated Series A Junior Participating Preferred Stock (the "Series A Preferred Stock"). We had designated 40,000 shares of Preferred Stock as Series B Convertible Preferred Stock, however, on January 7, 2006 the remaining outstanding shares automatically converted to common stock. We have no preferred shares issued and outstanding as of December 31, 2007 or 2006.

Series A Preferred Stock

On June 1, 2001, the Board of Directors approved the adoption of a Share Purchase Rights Plan. Terms of the Rights Plan provide for a dividend distribution of one preferred share purchase right for each outstanding share of our Common Stock. The Rights have certain anti-takeover effects and will cause substantial dilution to a person or group that attempts to acquire us on terms not approved by our Board of Directors. The dividend distribution was payable on June 22, 2001, to the stockholders of record on that date. Each Right entitles the registered holder to purchase from us one one-hundredth of a share of Series A Preferred Stock at a price of $225.00 per one one-hundredth of a share of Series A Preferred Stock, subject to adjustment. Each one one-hundredth of a share of Series A Preferred Stock has designations and powers, preferences and rights, and the qualifications, limitations and restrictions which make its value approximately equal to the value of a share of Common Share.

The Rights are not exercisable until the Distribution Date (as defined in the Certificate of Designation for the Series A Preferred Stock). The Rights will expire on June 1, 2011, unless the Rights are earlier redeemed or exchanged by us.

Each share of Series A Preferred Stock will be entitled to a minimum preferential quarterly dividend payment of $1.00, or if greater than $1.00, will be entitled to an aggregate dividend of 100 times the dividend declared per share of Common Stock. In the event of liquidation, the holders of the Series A Preferred Stock would be entitled to $100 per share or, if greater than $100, an aggregate payment equal to 100 times the payment made per share of Common Stock. Each share of Series A Preferred Stock will have 100 votes, voting together with the Common Stock. Finally, in the event of any merger, consolidation or other transaction in which our Common Stock is exchanged, each share of Series A Preferred Stock will be entitled to receive 100 times the amount of consideration received per share of Common Stock. Because of the nature of the Series A Preferred Stock dividend and liquidation rights, the value of one one-hundredth of a share of Series A Preferred Stock should approximate the value of one share of Common Stock. The Series A Preferred Stock would rank junior to any other future series of preferred stock. Until a Right is exercised, the holder thereof, as such, will have no rights as a stockholder, including, without limitation, the right to vote or to receive dividends.

Issuance of Common Stock

On August 15, 2005, we entered into a Common Stock Purchase Agreement with Mainfield Enterprises Inc. pursuant to which we sold approximately 1,900,000 shares of our common stock at an average price of $16.93 per common share for proceeds of approximately $31.6 million, net of issuance costs.

Stock Option Plans

The following table summarizes information with respect to shares of our common stock that may be issued under our existing equity compensation plans as of December 31, 2007 (share number in thousands):

Stock Option Plans

Plan Category	Number of securities to be issued upon exercise of outstanding options (a) (1)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column(a)) (c)
Equity compensation plans approved by security holders (2)	6,014	$ 15.37	5,340
Equity compensation plans not approved by security holders	6,894	$ 15.67	1,923
Total	12,908	$ 15.63	7,263

(1) Does not include options to purchase 3,200 shares assumed in connection with the acquisition of Bradford Particle Design Ltd (with a weighted-average exercise price of $7.00 per share) and options to purchase 36,324 shares we assumed in connection with the acquisition of Shearwater Corporation (with a weighted-average exercise price of $0.03 per share).

(2) Includes 217,838 shares of common stock available for future issuance under our ESPP as of December 31, 2007.

2000 Equity Incentive Plan

Our 1994 Equity Incentive Plan was adopted by the Board of Directors on February 10, 1994, and was amended and restated in its entirety and renamed the "2000 Equity Incentive Plan" on April 19, 2000. The purpose of the 2000 Equity Incentive Plan is to attract and retain qualified personnel, to provide additional incentives to our employees, officers, consultants and employee directors and to promote the success of our business. Pursuant to the 2000 Equity Incentive Plan, we may grant or issue incentive stock options to employees and officers and non-qualified stock options, rights to acquire restricted stock, restricted stock units, and stock bonuses to consultants, employees, officers and non-employee directors.

The maximum term of a stock option under the 2000 Equity Incentive Plan is eight years, but if the optionee at the time of grant has voting power of more than 10% of our outstanding capital stock, the maximum term of an incentive stock option is five years. The exercise price of incentive stock options granted under the 2000 Equity Incentive Plan must be at least equal to 100% (or 110% with respect to holders of more than 10% of the voting power of our outstanding capital stock) of the fair market value of the stock subject to the option on the date of the grant. The exercise price of non-qualified stock options and the purchase price of rights to acquire restricted stock and restricted stock units granted under the 2000 Equity Incentive Plan are determined by the Board of Directors.

The Board may amend the 2000 Equity Incentive Plan at any time, although certain amendments would require stockholder approval. The 2000 Equity Incentive Plan will terminate on February 9, 2010, unless earlier terminated by the Board. On June 1, 2006, our stockholders approved an amendment to the 2000 Equity Incentive Plan to increase the number of shares of Common Stock authorized for issuance under the Purchase Plan to a total of 18,250,000 shares.

2000 Non-Officer Equity Incentive Plan

Our 1998 Non-Officer Equity Incentive Plan was adopted by the Board of Directors on August 18, 1998, and was amended and restated in its entirety and renamed the "2000 Non-officer Equity Incentive Plan" on June 6, 2000 (the "2000 Plan"). The purpose of the 2000 Plan is to attract and retain qualified personnel, to provide additional incentives to employees and consultants and to promote the success of our business. Pursuant to the 2000 plan, we may grant or issue non-qualified stock options, rights to acquire restricted stock and stock bonuses to employees and consultants who are neither Officers nor Directors of Nektar. The maximum term of a stock option under the 2000 Plan is eight years. The exercise price of stock options and the purchase price of restricted stock granted under the 2000 Plan are determined by the Board of Directors.

Non-Employee Directors' Stock Option Plan

On February 10, 1994, our Board of Directors adopted the Non-Employee Directors' Stock Option Plan under which options to purchase up to 400,000 shares of our Common Stock at the then fair market value may be granted to our non-employee directors. There are no remaining options available for grant under this plan as of December 31, 2007.

Restricted Stock Units

During the years ended December 31, 2007, 2006, and 2005, we issued Restricted Stock Units ("RSUs") to certain officers, non-employees, directors, employees and consultants. RSUs are similar to restricted stock in that they are issued for no consideration; however, the holder generally is not entitled to the underlying shares of common stock until the RSU vests. Also, because the RSUs are issued for $0.01, the grant-date fair value of the award is equal to its intrinsic value on the date of grant. The RSUs were issued under both the 2000 Equity Incentive Plan and the 2000 Non-Officer Equity Incentive Plan and are settled by delivery of shares of our common stock on or shortly after the date the awards vest.

We issued approximately 345,000, 1,089,000, and 112,000 RSUs during the years ended December 31, 2007, 2006, and 2005. Approximately 1,010,000 of the RSUs issued in 2006 vest upon the achievement of three performance-based milestones. During the year ended December 31, 2007, one of the performance based milestones was achieved and 174,035 shares vested and were released. The RSUs issued in 2007 and 2005 are service based awards and vest based on the passage of time. Beginning with shares granted in the year ended December 31, 2005, each RSU depletes the pool of options available for grant by a ratio of 1:1.5.

Warrants

In November 1996, we issued warrants to purchase a total of 40,000 shares of common stock in connection with a tenant improvement loan for one of our facilities. The warrants had an exercise price of $6.56 per share and expired after ten years. The warrants allowed for net share settlement at the option of the warrant holder and were accounted for as equity in accordance with EITF Issue No. 96-18 ("EITF 96-18") *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. The warrants were valued using a Black-Scholes option valuation model with the following weighted-average assumptions: risk free interest rate of 6.4%; dividend yield of 0.0%; volatility factor of 62%; and a weighted average expected life of ten years. In November 2004, one of the warrants representing 20,000 shares of common stock was exercised in the form of a net share settlement for 11,775 shares of common stock. In August 2006, the remaining warrant representing 20,000 shares of common stock was exercised in the form of a net share settlement for 12,087 shares of common stock. Expense related to these warrants was insignificant for the years ended December 31, 2007, 2006, and 2005.

In September 2000, we issued warrants to purchase 10,000 shares of common stock to the landlord of one of our facilities in connection with the signing of a capital lease on that facility. In November 2000, we issued warrants to certain consultants to purchase an additional 6,000 shares of common stock. These warrants were accounted for as equity in accordance with EITF 96-18 and were valued using a Black-Scholes option valuation model with the following weighted-average assumptions: a risk free interest rate of 6.4%; a dividend yield of 0.0%; a volatility factor of 68.8%; and a weighted average expected life of ten years. Both warrants had an exercise price of $45.88 per share with a six year life, and both expired unexercised in September and November 2006, respectively. No warrants to purchase common shares were outstanding at December 31, 2007 or 2006. Expense related to these warrants was insignificant for the years ended December 31, 2007, 2006, and 2005.

Employee Stock Purchase Plan

In February 1994, our Board of Directors adopted the Employee Stock Purchase Plan ("ESPP"), pursuant to section 423(b) of the Internal Revenue Code of 1986. Under the ESPP, 800,000 shares of common stock have been authorized for issuance. The terms of the ESPP provide eligible employees with the opportunity to acquire an ownership interest in Nektar through participation in a program of periodic payroll deductions for the purchase of our common stock. Employees may elect to enroll or re-enroll in the plan on a semi-annual basis. Stock is purchased at 85% of the lower of the closing price on the first day of the enrollment period or the last day of the enrollment period.

401(k) Retirement Plan

We sponsor a 401(k) retirement plan whereby eligible employees may elect to contribute up to the lesser of 60% of their annual compensation or the statutorily prescribed annual limit allowable under Internal Revenue Service regulations. The 401(k) plan permits us to make matching contributions on behalf of all participants. Currently, we match the lesser of 75% of year to date participant contributions or 3% of eligible wages. The match vests ratably over the first three years of employment, such that after three years of employment, all matching is fully vested. The matching contribution is in the form of shares of our common stock. We issued approximately 161,000 shares, 103,000 shares, and 87,000 shares of our common stock valued at approximately $1.6 million, $1.8 million, and $1.4 million in connection with the match in 2007, 2006, and 2005, respectively. During part of 2007, shares reserved for issuance related to matching contributions that had been previously been approved by our Board of Directors became fully depleted. During the year ended December 31, 2007, our Board of Directors approved an additional 300,000 shares to be reserved for issuance related to matching contributions.

An amendment was made to the current 401(k) plan, effective January 1, 2008, to provide each eligible participant with a base matching contribution of $1,000 and up to an additional $2,000 in matching cash contributions (for a maximum aggregate of $3,000). The additional matching contribution accrues to the participant on a $1 for $1 basis based upon each participant's annual contribution to the 401(k) plan. If the participant commences employment during the calendar year, the base matching contribution will be pro-rated based on the number of calendar quarters the participant is employed.

Change in Control Severance Plan

On December 6, 2006, the Board of Directors approved a Change of Control Severance Benefit Plan (the "CIC Plan") and on February 14, 2007 the Board of Directors amended and restated the CIC Plan. The CIC Plan is designed to make certain benefits available to eligible employees of the Company in the event of a change of control of the Company and, following such change of control, an employee's employment with the Company or successor company is terminated in certain specified circumstances. The Company adopted the CIC Plan to support the continuity of the business in the context of a change of control transaction. The CIC Plan was not adopted in contemplation of any specific change of control transaction. A brief description of the material terms and conditions of the CIC Plan is provided below.

Under the CIC Plan, in the event of a change of control of the Company and a subsequent termination of employment initiated by the Company or a successor company other than for Cause or initiated by the employee for a Good Reason Resignation (as hereinafter defined) in each case within twelve months following a change of control transaction, (i) the Chief Executive Officer would be entitled to receive cash severance pay equal to 24 months base salary plus annual target incentive pay, the extension of employee benefits over this severance period and the full acceleration of unvested outstanding equity awards, and (ii) the Chief Scientific Officer, Senior Vice Presidents and Vice Presidents (including Principal Fellows) would each be entitled to receive cash severance pay equal to twelve months base salary plus annual target incentive pay, the extension of employee benefits over this severance period and the full acceleration of unvested outstanding equity awards. In the event of a change of control of the Company and a subsequent termination of employment initiated by the Company or a successor company other than for Cause (as hereinafter defined) within twelve months following a change of control transaction, all other employees would each be entitled to receive cash severance pay equal to 6 months base salary plus annual target incentive pay, the extension of employee benefits over this severance period and the full acceleration of each such employee's unvested outstanding equity awards.

On December 6, 2006, the Board of Directors approved an amendment to all outstanding stock awards held by non-employee directors to provide for full acceleration of vesting in the event of a change of control transaction.

Reserved Shares

At December 31, 2007, we have reserved shares of common stock for issuance as follows (in thousands):

Convertible subordinated notes	14,639
Stock options and Restricted Stock Units	15,575
ESPP	218
401(k) retirement plans	220
Total	30,652

Note 11 Comprehensive Loss

Comprehensive loss is comprised of net loss and other comprehensive income (loss) and includes the following components (in thousands):

	Years ended December 31,		
	2007	2006	2005
Net loss, as reported	**$(32,761)**	$ (154,761)	$ (185,111)
Change in net unrealized gains (losses) on available-for-sale investments	**927**	1,458	(101)
Translation adjustment	**654**	311	(1,250)
Total comprehensive loss	**$(31,180)**	$ (152,992)	$ (186,462)

The components of accumulated other comprehensive income are as follows (in thousands):

	December 31,	
	2007	2006
Unrealized gain (loss) on available-for-sale investments	**$ 428**	$ (499)
Translation adjustment	**1,215**	561
Total accumulated other comprehensive income	**$1,643**	$ 62

Note 12 Significant Collaborative Research and Development Agreements

We perform research and development for our biotechnology and pharmaceutical partners pursuant to collaboration agreements. Revenues generated from our collaboration efforts are recorded as contract research revenue and our costs of performing these services are included in research and development expense. In accordance with these agreements, we recorded contract research revenue as follows (in thousands):

Partner	Molecule	Years ended December 31, 2007	2006	2005
Pfizer Inc.	Exubera®(insulin human [rDNA origin]) Inhalation Powder, next-generation inhaled insulin	**$ 43,714**	$ 25,815	$ 64,091
Novartis Pharma AG	Tobramycin inhalation powder (TIP)	**17,036**	8,516	4,831
Bayer AG	NKTR-061, Ciprofloxacin Inhalation Powder (CIP)	**9,422**	4,885	4,074
Baxter Healthcare SA	Poly(ethylene) glycol reagent	**3,127**	3,965	310
Solvay Pharmaceuticals, Inc.	Pulmonary dronabinol (Dronabinol metered dose inhaler)	**2,022**	1,002	2,756
Zelos Therapeutics Inc.	Pulmonary Ostabolin-C	**1,748**	5,962	3,487
Other		**8,856**	6,158	2,053
Contract research revenue		**$ 85,925**	$ 56,303	$ 81,602

Under these collaborative research and development agreements, we are reimbursed for the cost of work performed on a revenue per annual full-time employee equivalent (FTE) basis, plus out of pocket third party costs. The initial annual FTE rate is established when the contract is executed and generally increases each year based on the consumer price index. Revenue recognized approximates the costs associated with these billable services.

We also are typically entitled to receive milestone payments when and if certain development or regulatory milestones are achieved. All of our research and development agreements are generally cancelable by our partners without significant financial penalty to the partner.

Pfizer Inc.

We were a party to collaboration agreements with Pfizer related to the development of Exubera and the next-generation inhaled insulin ("NGI") that terminated on November 9, 2007. Under the terms of the collaboration agreements, we received contract research and development revenue as well as milestone and up-front fees related to the Exubera Inhalation Powder, Exubera Inhalers and NGI. In the first half of 2007, we received $24.7 million in non-refundable payments from Pfizer in connection with NGI, which was accounted for as deferred up-front fees and began amortization over 8 years, the expected life of the agreement. The unamortized balance of the deferred up-front fees as of September 30, 2007, approximately $23.2 million, was recognized as revenue during the fourth quarter of 2007 as a result of the termination of the Pfizer Agreements as no further delivery obligations exist under the arrangement.

Please refer to Note 13 of Notes to Consolidated Financials for further information on the termination of our collaborative agreements with Pfizer Inc.

Novartis Pharma AG

We are party to a collaboration agreement with Novartis Pharma AG to develop a dry powder inhaled formulation of tobramycin for the treatment of *Pseudomonas aeruginosa* in cystic fibrosis patients and to explore the development of other inhaled antibiotics using our pulmonary technology. We will receive research and development funding and may receive milestone payments as the program progresses through further clinical testing, and may receive royalty payments on product sales and manufacturing revenues if the product is commercialized.

Bayer AG

On August 1, 2007, we entered into a co-development, license and co-promotion agreement with Bayer AG with regard to the further development and commercialization of NKTR-061, a product candidate based on our pulmonary technology with the potential to deliver a specially-formulated amikacin, an aminoglycoside antibiotic, for inhalation deep into the lung for the adjunctive treatment of Gram-negative pneumonias. Under the collaboration, we are entitled to receive research and development milestone payments, royalty payments and/or profit-sharing on

product sales, and sales milestones if the product candidate is approved and successfully commercialized.

We are also a party to a collaboration agreement with Bayer AG to develop an inhaleable powder formulation of a novel form of Ciprofloxacin (Cipro) to treat chronic lung infections caused by *Pseudomonas aeruginosa* in cystic fibrosis patients. Under the terms of the collaboration, Nektar is responsible for formulation of the dry powder drug and development of the inhalation system, as well as clinical and commercial manufacturing of the drug formulation and device combination. Bayer is responsible for the clinical development and worldwide commercialization of the system. We will receive research and development funding and may receive milestone payments as the program progresses through further clinical testing, and may receive royalty payments on product sales and manufacturing revenues if the product is commercialized.

Baxter Healthcare SA and Baxter Healthcare Corp.

We are party to a collaboration agreement with Baxter Healthcare SA and Baxter Healthcare Corp., to develop product candidates to extend the half-life of Hemophilia A and B proteins using our PEGylation technology. On December 17, 2007, we expanded our agreement with Baxter to include the license of our PEGylation intellectual technology and proprietary PEGylation methods with the potential to improve the half-life of Baxter's proprietary treatments for Hemophilia B. These PEGylated hemophilia product candidates are in pre-clinical development. We are entitled to receive research and development funding, milestone payments, as well as royalty payments on product sales if the product candidate is successfully approved and commercialized. Nektar will supply, and will receive manufacturing revenues for, the PEG reagents used in the products for preclinical, clinical and commercial purposes.

Solvay Pharmaceuticals, Inc.

We are party to a collaboration agreement with Unimed Pharmaceuticals, Inc., a wholly owned subsidiary of Solvay Pharmaceuticals, Inc., to develop a formulation of dronabinol (synthetic delta-9-tetrahydrocannabinol) to be delivered using a metered dose inhaler. The product is under development for multiple indications. Dronabinol is the active ingredient in Unimed's MARINOL® capsules, which are approved in the U.S. for multiple indications. Solvay initiated Phase 2 trials for pulmonary dronabinol in 2005 for the treatment of migraines with and without aura. We may receive research and development funding, milestone payments as the program progresses through further clinical testing, and may receive royalty payments on product sales and manufacturing revenues if the product is commercialized.

Zelos Therapeutics Inc.

We are party to a collaboration to develop an inhaleable powder form of Zelos Therapeutics' parathyroid hormone (PTH) analogue, called Ostabolin-C™. Under the terms of the agreement, Nektar is responsible for development of the formulated dry powder drug and inhalation system, as well as clinical and commercial manufacturing of the drug formulation and device combination. Zelos is responsible for supply of the active pharmaceutical ingredient or API, clinical development and commercialization. We receive research and development funding, milestone payments as the program progresses through further clinical testing, and may receive royalty payments on product sales and manufacturing revenues if the product is commercialized. In December 2007, Zelos provided notification of termination of our collaborative development and license agreement. The agreement will terminate 180 days following the date of the notification or on June 28, 2008.

Note 13 Gain on Termination of Collaborative Agreements, net

During the year ended December 31, 2007, our gain on termination of collaborative agreements, net line of our Consolidated Statements of Operations is comprised of the following (in thousands):

	Year ended December 31, 2007
Pfizer termination settlement payment received	$ 135,000
Exubera Inhaler Manufacturing and Supply Agreement Termination	
Tech Group	(13,765)
Bespak	(18,598)
	102,637
Settlement of assets and liabilities related to Pfizer	(23,459)
Gains on termination of collaborative agreements, net	$ 79,178

Refer to Note 14 of Notes to Consolidated Financial Statements for related impairment of long lived assets associated with manufacturing and development of Exubera and NGI in 2007.

Pfizer Termination Agreement and Settlement

On October 18, 2007, Pfizer announced that it was exiting the Exubera business and gave notice of termination under our collaborative development and license agreements with Pfizer (the "Pfizer agreements"). On November 9, 2007, we entered into a termination agreement and mutual release with Pfizer. Under the termination 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 existing agreements relating to Exubera and NGI. Contractual obligations include unbilled product sales and contract research revenue through November 9, 2007, outstanding accounts receivable as of November 9, 2007, unrecovered capital costs at November 9, 2007, and contract termination costs.

We recognized Exubera and NGI related revenue from Pfizer for product sales, contract research, and upfront fees through the contract termination on November 9, 2007 totaling $182.4 million and $41.7 million during the year and quarter ended December 31, 2007, respectively. We will not receive any revenue from Pfizer related to Exubera or NGI in 2008.

We are currently seeking a new marketing and development partner for Exubera and NGI. Under the termination agreement, if a new partner for Exubera and/or NGI is identified subject to certain terms, conditions, and limitations, Pfizer has agreed to transfer all of its remaining rights in Exubera and NGI to the new partner without additional consideration except for reimbursement of incremental costs actually incurred by Pfizer.

Termination of Exubera Inhaler Manufacturing and Supply Agreement

We were a party to the manufacturing and supply agreement (the "Exubera Inhaler MSA") with Tech Group North America, Inc. and Bespak Europe Ltd. related to the manufacture and supply of Exubera inhalers. As a result of the Pfizer termination described above, management concluded no further orders for supply of Exubera inhalers were required from Tech Group or Bespak in the foreseeable future. Under the Exubera Inhaler MSA, we were required to provide 2008 production forecasts to Tech Group and Bespak in November 2007. Due to Pfizer's termination of the Exubera program, we were unable to provide Exubera and Tech Group with future Exubera inhaler manufacturing commitments. In December 2007, we began discussions with Tech Group and Bespak to terminate the Exubera Inhaler MSA. As of December 31, 2007, due to Pfizer's termination of the Exubera program and our inability to provide Bespak and Tech Group with future Exubera inhaler manufacturing commitments, we had a contractual liability for termination costs and expenses that would be incurred by Bespak and Tech Group.

On February 12, 2008, we entered into a Termination and 2008 Continuation Agreement ("TCA") with Tech Group pursuant to which the Exubera Inhaler MSA was terminated in its entirety. We have recorded $13.8 million as termination liabilities under the terms of the TCA. These expenses were due and payable under the termination provision of the Exubera Inhaler MSA, which included reimbursement of inventory, inventory purchase commitments, unamortized depreciation on property and equipment, severance costs and operating lease commitments. In the event that we successfully identify a new Exubera commercialization partner and such partner does enter into an Exubera inhaler supply agreement with Tech Group, we would be relieved of our obligation to pay Tech Group up to $8.0 million of the recorded termination liability (subject to downward adjustment depending on the timing of any such agreement). Due to the uncertainty regarding the prospects of securing a new commercialization partner for Exubera and uncertainty over whether such partner will desire to enter into an Exubera inhaler manufacturing agreement with Tech Group, we believe that this amount is a contingent gain to be recorded when and if those events occur. Additionally, we agreed to compensate Tech Group to retain a limited number of core Exubera inhaler manufacturing personnel and its dedicated Exubera inhaler manufacturing facility for a limited period in 2008 as part of the TCA. These contractual fees are not included in the termination liability recorded during 2007 and will be expensed as incurred in 2008. This maintenance arrangement is designed to preserve Tech Group's capability to provide future Exubera inhaler manufacturing in the event that we identify a commercialization partner for Exubera and such partner elects to enter into a manufacturing and supply agreement with Tech Group.

On February 14, 2008, we entered into a Termination and Mutual Release Agreement with Bespak pursuant to which the Exubera Inhaler MSA was terminated in its entirety and we agreed to pay Bespak £11.0 million or approximately $21.6 million, including $3.0 million in satisfaction of outstanding accounts payable and $18.6 million in termination costs and expenses that were due and payable under the termination provisions of the Exubera Inhaler MSA, which included reimbursement of inventory, inventory purchase commitments, unamortized depreciation on property and equipment, severance costs and operating lease commitments.

Within our Consolidated Balance Sheets, accrued expenses to contract manufacturers include the aggregate termination settlement obligation and amounts payable related to 2007 services provided.

Note 14 Impairment of Long Lived Assets

During the years ended December 31, 2007, 2006, and 2005, we recorded the following charges in the Impairment of long lived assets line item of our Consolidated Statements of Operations (in thousands):

	Years ended December 31,		
	2007	2006	2005
Exubera-related property and equipment:			
Contract manufacturer locations	**$ 16,297**	$ —	$ —
Nektar location	**12,099**	—	—
Exubera-related property and equipment	**28,396**	—	—
Bradford, UK Operations:			
Property and equipment	**—**	1,156	5,703
Goodwill	**—**	—	59,637
Bradford, UK Operations	**—**	1,156	65,340
Aerogen core-technology intangible assets	**—**	5,497	—
Construction in progress	**—**	2,757	—
Impairment of long lived assets	**$ 28,396**	$ 9,410	$ 65,340

Exubera-related property and equipment

On November 9, 2007, we entered into a termination agreement and mutual release with Pfizer related to Exubera and NGI. We are currently engaged in discussions with potential partners regarding a collaboration for Exubera and/or NGI. However, there is still uncertainty regarding our ability to successfully conclude a new commercialization and development partnership for Exubera and/or NGI. There are challenges to establishing a new Exubera collaboration including, among others, supply chain continuity for the portions of the Exubera supply chain owned and operated by Pfizer, including raw insulin supply, blister filling, packaging, warehousing and distribution, and the ability of a potential new partner to obtain regulatory approval to market and sell Exubera and required regulatory qualification of certain segments of the Exubera supply chain. As a result, we performed an impairment analysis of the property and equipment that support Exubera commercial operations and NGI ("Exubera-related assets"), including machinery and equipment at our contract manufacturer locations and machinery, equipment, and leasehold improvements in San Carlos and determined the fair value based on a discounted cash flow model. Given that we have not finalized a collaboration agreement and uncertainties associated with future supply chain decisions exist, we concluded that the carrying value exceeded the estimated future cash flow. As a result, we recorded an impairment charge of $28.4 million for the Exubera-related assets during the three-month period ended December 31, 2007.

Bradford, UK operations

In December 2005, we were apprised of unfavorable results of clinical data related to programs from our super critical fluids business unit, located in Bradford, UK ("Bradford"), which provided an indication that the fair value of the respective business unit's goodwill was below the carrying value. We performed an impairment analysis of goodwill and other long lived assets for Bradford and determined the fair value based on a discounted cash flow model was less than the carrying value. As a result, we recorded an impairment charge of $65.3 million related to Goodwill and Property and equipment.

In June 2006, we involuntarily terminated the majority of the personnel located in Bradford, commenced with plans to wind-down the location and its related operations, and reassessed the useful life of the remaining laboratory and office equipment. We determined that these assets could not be redeployed and had no future use. Due to our revised estimate of the useful life of these assets, we accelerated approximately $1.2 million of remaining depreciation in June 2006.

Construction in progress

In December 2006, we determined that one of our construction-in-progress assets would no longer be completed based on the contract renegotiation with one of our collaboration partners and we recorded an impairment loss for the costs incurred to date of $2.8 million.

Other Intangible Assets

As part of the October 2005 Aerogen acquisition, we also acquired $7.2 million in core technology intangible assets. In late December 2006, we entered into a non-binding letter of intent to sell our general purpose nebulizer device business. During the year ended December 31, 2006, we determined that the non-binding letter of intent to sell the nebulizer device business, the anticipated proceeds of such potential sale, and the historical losses of the nebulizer device business were indicators that this intangible asset did not have future value and recorded a $5.5 million charge. The management buy-out of the nebulizer device business was completed on November 30, 2007 for an upfront payment of $2.2 million and a net gain of $0.9 million. This management buy-out included a license and a transfer of certain of our non-essential general purpose nebulizer technology under limited terms of use and conditions designed to prevent future competition with our pulmonary liquid delivery programs such as NKTR-061 (inhaled amikacin). These terms and conditions included a limited field license to the general purpose nebulizer devices only and excluded any rights to directly or indirectly develop, market or distribute general purpose nebulizers as a component of a drug/device combination. In addition, any efficiency improvements to the general purpose nebulizer developed by the newly formed company are licensed back to us for addition to our pulmonary technology platform for no additional consideration.

Note 15 Workforce Reduction

As part of an overall effort to reduce ongoing operating costs and improve the organizational structure, efficiency and productivity of Nektar, on May 18, 2007, the Board of Directors approved a plan (the "2007 Plan") to reduce our workforce by approximately 180 employees, or approximately 25 percent of our regular full-time employees. The total cost of implementing the 2007 Plan was approximately $8.4 million, comprised of cash payments for severance, medical insurance and outplacement services.

We notified the affected employees impacted by the 2007 Plan on May 23, 2007. The majority of the affected employees were terminated in May 2007, but certain employees were given termination dates longer than two months from the date of notification. As of December 31, 2007, the Plan has been completed and the remaining liabilities are related to post-employment medical insurance for employees impacted by the Plan.

For the year ended December 31, 2007, workforce reduction charges were recorded in our Consolidated Statements of Operations as follows (in thousands):

	Year ended December 31, 2007
Cost of goods sold, net of change in inventory	$ 974
Research and development expense (1)	5,791
General and administrative expense	1,617
Total workforce reduction charges	$ 8,382

(1) During the year ended December 31, 2007, workforce reduction charges recorded to research and development expense included $1.4 million of non-commercial operations, manufacturing, and quality and $4.4 million of research and development infrastructure support. No research and development programs were curtailed due to the workforce reduction.

The following table summarizes the liabilities included in accrued compensation in our Consolidated Balance Sheet in connection with the 2007 Plan during the year ended December 31, 2007(in thousands):

Balance at December 31, 2006	$ —
Workforce reduction charges recorded	8,382
Workforce reduction payments	(7,802)
Balance at December 31, 2007	$ 580

Note 16 Stock-Based Compensation

We issue stock-based awards from three compensation plans, which are more fully described in Note 10-Stockholder's Equity. Stock-based compensation costs are recorded in the following lines of our Consolidated Financial Statements (in thousands):

	Year ended December 31,	
	2007	2006
Cost of goods sold, net of change in inventory	**$ 1,003**	$ 1,614
Research and development expense	**6,275**	9,692
General and administrative expense	**5,915**	17,837
Total stock based compensation costs	**$13,193**	$29,143

For the periods ended December 31, 2007 and 2006, we recorded approximately $0.5 million and $11.8 million, respectively, of stock-based compensation expense related to modifications of certain stock grants in connection with employment separation agreements. Generally, the modifications extended the optionee's exercise period beyond the 90 day period after termination and accelerated a portion of the optionee's unvested grants. In addition, during the year ended December 31, 2005, we recorded approximately $1.9 million of stock compensation expense pursuant to APB No. 25 related to RSUs that were granted at prices below the fair market value at the date of grant. Stock-based compensation charges are non-cash charges and as such have no impact on our financial position or reported cash flows.

Aggregate Unrecognized Stock-based Compensation Expense

As of December 31, 2007, total unrecognized compensation expense related to unvested stock-based compensation arrangements under the Options Plans is expected to be recognized over a weighted-average period of 2.2 years as follows (in thousands):

Years ending December 31,	
2008	$ 10,254
2009	8,980
2010	7,422
2011	3,859
2012 and thereafter	51
	$ 30,566

Black-Scholes Assumptions

Upon adoption of SFAS No. 123R, we applied the guidance in Staff Accounting Bulletin No. 107 that permits the initial application of a "simplified" method based on the average of the vesting term and the term of the option. Previously, we calculated the estimated life based on the expectation that options would be exercised within five years on average. We based our estimate of expected volatility for options granted in 2007 and 2006 on the daily historical trading data of our common stock over the period equivalent to the expected term of the respective stock-based grant. Generally the stock-based grants have expected terms ranging from 30 months to 61 months. For the period ended December 31, 2007 and 2006, the annual forfeiture rate for executives and staff was estimated to be 4.7% and 7.4%, respectively, based on our qualitative and quantitative analysis of our historical forfeitures.

The following tables list the Black-Scholes assumptions used to calculate the fair value of employee stock options and ESPP purchases.

	Year ended December 31, 2007		Year ended December 31, 2006	
	Employee Stock Options	**ESPP**	Employee Stock Options	ESPP
Average risk-free interest rate	**4.2%**	**4.8%**	4.8%	5.2%
Dividend yield	**0.0%**	**0.0%**	0.0%	0.0%
Volatility factor	**53.3%**	**38.4%**	63.1%	33.3%
Weighted average expected life	**5.09 years**	**0.5 years**	5.20 years	0.5 years

The grant date fair value of RSU awards is always equal to the intrinsic value of the award on the date of grant since the awards were issued for no consideration. The weighted average life of the 2007 and 2006 RSUs is estimated to be 1.2 years and 3.0 years, respectively.

Summary of Stock Option Activity

The table below presents a summary of stock option activity under the 2000 Equity Incentive Plan, the Non-Employee Directors' Stock Option Plan and the 2000 Non-Officer Equity Incentive Plan (in thousands, except for price per share and contractual life information):

	Options Outstanding		Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (1)
	Number of Shares	Exercise Price Per Share			
Balance at December 31, 2004	13,590	$ 0.01-61.63	$ 17.57	6.03	$ 79,055
Options granted	1,791	13.46-19.76	17.44		
Options exercised	(1,014)	0.01-18.47	9.47		8,198
Options forfeited & canceled	(1,114)	3.88-56.38	21.34		
Balance at December 31, 2005	13,253	$ 0.01-61.63	$ 17.85	5.38	$ 37,678
Options granted	1,115	14.36-21.51	17.88		
Options exercised	(2,160)	0.05-20.41	9.51		18,651
Options forfeited & canceled	(1,501)	4.62-52.16	21.86		
Balance at December 31, 2006	10,707	$ 0.01-61.63	$ 18.97	4.78	$ 15,348
Options granted	5,257	5.98-15.24	9.87		
Options exercised	(429)	0.01-14.25	6.80		1,770
Options forfeited & canceled	(3,323)	4.50-55.19	18.47		
Balance at December 31, 2007	12,212		15.62	5.20	$ 643
Exercisable at December 31, 2007	7,023		19.15	3.64	584
Exercisable at December 31, 2006	8,185		19.88	4.09	12,229
Exercisable at December 31, 2005	9,468		19.08	4.69	25,967

(1) Aggregate Intrinsic Value represents the difference between the exercise price of the option and the closing market price of our common stock on the exercise date or December 31, as applicable.

The weighted-average grant-date fair value of options granted during the years ended December 31, 2007, 2006, and 2005 was $5.11, $10,54, and $10,26, respectively. The estimated fair value of options that vested during the years ended December 31, 2007 and 2006 was $8.7 million and $12.0 million, respectively.

The following table provides information regarding our outstanding stock options as of December 31, 2007

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (in years)	Number	Weighted-Average Exercise Price Per Share
$ 0.01-6.42	426,908	$ 5.21	5.58	307,952	$ 4.82
6.43-6.98	1,737,765	6.97	7.92	27,870	6.66
6.99-10.83	1,303,510	8.49	6.45	593,580	8.13
10.84-12.37	1,307,776	11.44	7.04	291,346	11.40
12.50-14.25	1,368,281	13.60	3.22	1,142,468	13.71
14.28-15.25	1,287,555	14.65	5.38	547,577	14.73
15.26-18.29	1,312,400	16.83	4.47	996,841	16.86
18.34-23.00	1,257,974	19.68	5.31	905,339	19.90
23.05-27.88	1,674,873	27.74	2.59	1,674,873	27.74
27.96-61.63	534,675	36.75	2.80	534,675	36.75
$ 0.01-61.63	12,211,717	$ 15.62	5.20	7,022,521	$ 19.15

Summary of RSU Award Activity

During 2007, we issued 344,811 RSU awards, respectively to certain officers and employees on a time-based vesting schedule. Expense for these awards is recognized ratably over the underlying time-based vesting period and will settle by delivery of shares of our common stock on or shortly after the date the awards vest. The RSU awards become fully vested over a period of 12 to 48 months. We are expensing the grant date fair value of the awards ratably over the service period.

During 2006, we issued RSU awards totaling 1,088,300 shares of our common stock to certain employees and directors. The RSU awards are settled by delivery of shares of our common stock on or shortly after the date the awards vest. A significant portion of these awards vest based upon achieving three pre-determined performance milestones which were initially expected to occur over a period of 40 months. We are expensing the grant date fair value of the awards ratably over the expected performance period.

One of the three milestones was achieved during the three-month period ended June 30, 2007 and approximately 174,000 shares were vested and released. During 2007, we determined that the second milestone would not be met. As a result, we reversed all previously recorded compensation expense related to this performance milestone, approximately $2.8 million, in the third quarter of 2007.

Based on our current product pipeline development efforts, we currently estimate that the achievement of the third performance milestone is probable by the end of the last quarter in 2010. If our actual experience in future periods differs from these current estimates, we may change our determination of the probability of achieving the performance milestone or the estimate of the period in which the milestone will be achieved.

In March 2005, we issued 112,000 RSU awards, respectively to certain officers and employees on a time-based vesting schedule. Expense for these awards is recognized ratably over the underlying time-based vesting period and will settle by delivery of shares of our common stock on or shortly after the date the awards vest. These RSU awards become fully vested over a period of 48 months. The intrinsic value of these awards was recorded as deferred compensation in the Statement of Stockholders' Equity and totaled approximately $2.0 million for the year ended December 31, 2005. Upon adoption of SFAS No. 123R, we reversed this unamortized value from stockholders' equity, but continue to expense the remaining intrinsic value, which approximated the awards' fair value on the original grant date, ratably over the underlying vesting period. In connection with these RSU awards, we recorded compensation expense of nil, $1.3 million, and $1.9 million for the years ended December 31, 2007, 2006, and 2005 respectively.

The following table presents a summary of RSU activity (in thousands except grant date fair value and contractual life information):

	Units Issued	Weighted-Average Remaining contractual Life (in years)	Weighted-Average Grant-Date Fair value(1)	Aggregate Intrinsic Value
Balance at December 31, 2004	206	1.52		$ 4,214
Granted	112		$ 18.30	
Released	(34)			518
Balance at December 31, 2005	284	1.14		$ 4,676
Granted	1,088		$ 19.55	
Released	(178)			3,184
Forfeited & Canceled	(110)			
Balance at December 31, 2006	1,084	1.52		$ 16,479
Granted	345		$ 11.01	
Released	(334)			3,808
Forfeited & Canceled	(360)			
Balance at December 31, 2007	735	2.03		$ 4,925

(1) Fair value represents the difference between the exercise price of the award and the closing market price of our common stock on the release date or the year ended December 31, 2007 as applicable.

Proforma Effects of Applying SFAS No. 123 to Prior Periods

Prior to adoption SFAS No. 123R on January 1, 2006, we accounted for stock-based compensation under APB No. 25 and elected the disclosure only method of presenting fair value stock-based compensation expense. The disclosure only method required the presentation of net income (loss) as if SFAS No. 123 had been adopted for all periods presented in the Statements of Operations.

Under the modified prospective transition method outlined in SFAS No. 123R, we are not required to restate prior period financial statements to reflect expensing of stock-based compensation as if we had adopted SFAS No. 123R in prior periods. Therefore, the results for the year ended December 31, 2007 and 2006 are not directly comparable to the year ended December 31, 2005.

For purposes of the proforma net loss disclosure related to our employee stock options and ESPP purchases, we computed the estimated grant date fair values of the stock-based compensation using the Black-Scholes option valuation model based on the following assumptions:

	December 31, 2005
Risk-free interest rate	4.0%
Dividend yield	0.0%
Volatility factor	0.710
Weighted average expected life	4.5 years

In the table below, we have presented proforma disclosures of our net loss and net loss per share for 2005 assuming the estimated fair value of the options granted prior to January 1, 2006 is amortized to expense over the option-vesting period.

	Year ended December 31, 2005
Net loss, as reported	$ (185,111)
Add: Stock-based employee compensation expense included in reported net loss	1,854
Less: Total stock-based employee compensation expense determined under fair value based method for all options and RSUs granted	(21,986)
Pro forma net loss	$ (205,243)
Net loss per share:	
Basic and diluted—as reported	$ (2.15)
Basic and diluted—proforma	$ (2.39)

Note 17 Income Taxes

For financial reporting purposes, "Loss before provision for income taxes," includes the following components (in thousands):

	Years ended December 31,		
	2007	2006	2005
Domestic	**$ (30,143)**	$(147,059)	$(172,232)
Foreign	**(1,309)**	(6,874)	(13,016)
Total	**$ (31,452)**	$(153,933)	$(185,248)

As of December 31, 2007, we had a net operating loss carryforward for federal income tax purposes of approximately $617.1 million, portions of which began to expire in 2007. We had a total state net operating loss carryforward of approximately $306.7 million, which will begin to expire in 2010. We had a foreign net operating loss carryforward of approximately $37.6 million. A substantial portion of the foreign net operating losses are UK losses which can be carried forward indefinitely.

Utilization of the federal and state net operating loss and credit carryforwards may be subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

The provision (benefit) for income taxes consists of the following (in thousands):

	Years ended December 31,		
	2007	2006	2005
Current:			
Federal	**$ 194**	$ —	$ —
State	**782**	6	(137)
Foreign	**333**	—	—
Total Current	**$ 1,309**	$ 6	$ (137)
Deferred:			
Federal	**$ —**	—	—
State	**—**	822	—
Foreign	**—**	—	—
Total Deferred	**$ —**	$ 822	$ —
Provision (Benefit) for income taxes	**$ 1,309**	$ 828	$ (137)

Income tax provision (benefit) related to continuing operations differs from the amounts computed by applying the statutory income tax rate of 35% to pretax loss as follows (in thousands):

	Years ended December 31,		
	2007	2006	2005
U.S. federal provision (benefit)			
At statutory rate	**$ (10,998)**	$ (52,337)	$ (62,984)
State taxes	**782**	6	(137)
Net operating losses not benefited	**27,829**	50,385	58,645
Previously unrecognized tax credits	**(13,109)**	—	—
Non-deductable employee compensation	**210**	2,138	—
Investment impairment and non-deductable amortization	**—**	636	1,667
Non-deductable in process research charge	**—**	—	2,672
Sale of Irish subsidiary	**(3,604)**	—	—
Other	**199**	—	—
Total	**$ 1,309**	$ 828	$ (137)

Deferred income taxes reflect the net tax effects of loss and credit carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets for federal and state income taxes are as follows (in thousands):

	December 31,	
	2007	2006
Deferred tax assets:		
Net operating loss carryforwards	**$ 254,419**	$ 246,812
Research and other credits	**47,274**	24,046
Capitalized research expenses	**6,670**	5,991
Deferred revenue	**11,050**	7,762
Depreciation	**7,423**	—
Reserve and accruals	**24,495**	25,543
Stock based compensation	**16,375**	11,901
Capital loss carryforward	**3,918**	—
Other	**6,170**	4,563
Deferred tax assets before valuation allowance	**377,794**	326,618
Valuation allowance for deferred tax assets	**(375,318)**	(322,508)
Total deferred tax assets	**$ 2,476**	$ 4,110
Deferred tax liabilities:		
Depreciation	**—**	(2,715)
Acquisition related intangibles	**$ (2,476)**	$ (1,395)
Total deferred tax liabilities	**$ (2,476)**	$ (4,110)
Net deferred tax assets	**$ —**	$ —

Realization of our deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Because of our lack of earnings history, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by $52.8 million and $71.9 million during the years ended December 31, 2007 and 2006, respectively. The valuation allowance includes approximately $38.0 million and $35.1 million of benefit as of December 31, 2007 and 2006, respectively, related to employee stock option exercises that will be credited to additional paid in capital when realized. We have federal research credits of approximately $19.3 million, which will begin to expire in 2008 and state research credits of approximately $14.9 million which have no expiration date. We have federal orphan drug credits of $12.8 million which will expire in 2024.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. This interpretation, among other things, creates a two-step approach for evaluating uncertain tax positions. Recognition occurs when an enterprise concludes that a tax position, based on its technical merits, is more-likely-than-not to be sustained upon examination. Measurement determines the amount of benefit that more-likely-than-not will be realized. De-recognition of a tax position that was previously recognized would occur when a company subsequently determines that a tax position no longer meets the more-likely-than-not threshold of being sustained. FIN 48 specifically prohibits the use of a valuation allowance as a substitute for de-recognition of tax positions, and it has expanded disclosure requirements.

As of December 31, 2007, we have $9.2 million of unrecognized tax benefits. We historically accrued for uncertain tax positions in deferred tax assets as we have been in a net operating loss position since inception and any adjustments to our tax positions would result in an adjustment of our net operating loss or tax credit carry forwards rather than resulting in a cash outlay. If we are eventually able to recognize these uncertain positions, our effective tax rate would be reduced. We currently have a full

valuation allowance against our net deferred tax asset which would impact the timing of the effective tax rate benefit should any of these uncertain tax positions be favorably settled in the future.

It is reasonably possible that certain unrecognized tax benefits may increase or decrease within the next twelve months due to tax examination changes, settlement activities, expirations of statute of limitations, or the impact on recognition and measurement considerations related to the results of published tax cases or other similar activities. We do not anticipate any significant changes to unrecognized tax benefits over the next 12 months.

Our policy is to include interest and penalties related to unrecognized tax benefits, if any, within the provision for taxes in the consolidated condensed statements of operations under the provisions of FIN 48. We have not accrued any amounts for the payment of interest and penalties relating to unrecognized tax benefits.

We file income tax returns in the U.S., as well as California, Alabama and various other foreign jurisdictions. We are currently not the subject of any income tax examinations. In general, the earliest open year subject to examination is 2004 for U.S. and Alabama and 2003 for California, although depending upon jurisdiction, tax years may remain open subject to limitations. We have evaluated the need for additional tax reserves for any audits as part of our FIN 48 adoption process.

We have the following activity relating to unrecognized tax benefits during the year-ended December 31, 2007: (in thousands)

	2007
Balance at January 1, 2007	$ 7,176
Tax positions related to current year	
Additions	2,046
Reductions	—
Settlements	—
Lapses in statute of limitations	—
Balance at December 31, 2007	$ 9,222

Note 18 Segment Reporting

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 production 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. Within our one business segment we have two components, pulmonary technology and PEGylation technology.

Our revenue is derived primarily from clients in the pharmaceutical and biotechnology industries. Revenue from Pfizer Inc. represented 69%, 64%, and 64% of our revenue for the years ended December 31, 2007, 2006, and 2005, respectively. Due to the termination of our collaborative agreements with Pfizer, we do not expect to receive any revenue from Pfizer in 2008 related to Exubera or NGI. Please refer to Note 13 of Notes to Consolidated Financial Statements for additional information on the termination of our collaborative agreements.

Revenue by geographic area is based on the shipping locations of the customers. The following table sets forth revenue by geographic area (in thousands):

	Years ended December 31,		
	2007	2006	2005
United States	**$ 212,990**	$182,959	$109,488
European countries	**60,037**	33,471	14,967
All other countries	**—**	1,288	1,824
Total revenue	**$ 273,027**	$217,718	$126,279

At December 31, 2007, the net book value of property and equipment was $114.4 million. Approximately 98% of such assets were located in the United States. At December 31, 2006, the net book value of our property, plant and equipment was $133.8 million, and approximately 88% of such assets were located in the United States.

Note 19 Selected Quarterly Financial Data (Unaudited)

The following table sets forth certain unaudited quarterly financial data. In our opinion, the unaudited information set forth below has been prepared on the same basis as the audited information and includes all adjustments necessary to present fairly the information set forth herein. We have experienced fluctuations in our quarterly results. We expect these fluctuations to continue in the future. Due to these and other factors, we believe that quarter-to-quarter comparisons of our operating results will not be meaningful, and you should not rely on our results for one quarter as an indication of our future performance. Certain items previously reported in specific financial statement captions have been reclassified to conform to the current period presentation. Such reclassifications have not impacted previously reported revenues, operating loss or net loss. All data is in thousands except per share information.

	Fiscal Year 2007				Fiscal Year 2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Product sales and royalty revenue	**$ 71,355**	**$ 47,001**	**$ 35,697**	**$ 26,702**	$ 11,151	$ 45,403	$ 41,451	$ 55,551
Contract research revenue	**$ 11,997**	**$ 16,615**	**$ 18,824**	**$ 38,489**	$ 16,063	$ 13,076	$ 15,111	$ 12,053
Exubera commercialization readiness revenue	**$ 1,664**	**$ 2,301**	**$ 1,800**	**$ 582**	$ 1,745	$ 1,744	$ 2,070	$ 2,300
Gross margin on product sales	**$ 15,727**	**$ 8,626**	**$ 9,391**	**$ 9,315**	$ 3,651	$ 9,219	$ 11,314	$ 15,451
Research and development expenses	**$ 37,492**	**$ 41,000**	**$ 35,773**	**$ 39,310**	$ 31,401	$ 39,454	$ 36,005	$ 42,521
General and administrative expenses	**$ 16,735**	**$ 13,178**	**$ 12,426**	**$ 13,997**	$ 20,373	$ 27,083	$ 13,422	$ 17,441
Litigation settlement	**$ —**	**$ —**	**$ —**	**$ 1,583**	$ —	$ 17,710	$ —	$ —
Impairment of long lived assets	**$ —**	**$ —**	**$ —**	**$ 28,396**	$ —	$ 1,156	$ —	$ 8,254
Gain on termination of collaborative agreements, net	**$ —**	**$ —**	**$ —**	**$ (79,178)**	$ —	$ —	$ —	$ —
Operating income (loss)	**$ (25,969)**	**$ (27,988)**	**$ (19,572)**	**$ 37,381**	$ (33,174)	$ (63,212)	$ (22,682)	$ (40,162)
Interest expense	**$ 4,933**	**$ 4,702**	**$ 4,773**	**$ 4,230**	$ 5,142	$ 4,938	$ 5,255	$ 5,458
Net income (loss)	**$ (25,673)**	**$ (27,510)**	**$ (18,620)**	**$ 39,042**	$ (33,471)	$ (62,831)	$ (19,604)	$ (38,855)
Basic and diluted net income (loss) per share (1)(2)	**$ (0.28)**	**$ (0.30)**	**$ (0.20)**	**$ 0.42**	$ (0.38)	$ (0.70)	$ (0.22)	$ (0.43)

(1) Quarterly loss per share amounts may not total the year-to-date loss per share due to rounding.
(2) During the fourth quarter of 2007, there were approximately 578 dilutive shares outstanding which did not change earnings per share.

Note 20 Subsequent Events (Unaudited)

Terre Haute, Indiana Manufacturing Facility

On January 30, 2008, we entered into a letter agreement with Pfizer to maintain a group of key Pfizer manufacturing personnel in Pfizer's Terre Haute, Indiana Exubera manufacturing facility. We are reimbursing Pfizer for actual monthly incremental personnel costs incurred to maintain such personnel during this interim period.

Workforce Reduction

On February 8, 2008, Executive Management approved a plan to reduce our workforce by approximately 110 employees, or approximately 20 percent of our regular full-time employees. The plan is designed to streamline our operations, consolidate corporate functions, and strengthen decision-making and execution within the business units. In addition, as part of the plan, we have preserved the necessary technical and manufacturing personnel and capabilities to support our ongoing effort to forge a new partnership for our inhaled insulin programs.

We expect the total cost of the workforce reduction will total approximately $5.4 million, comprised of cash payments for severance, medical insurance, and outplacement services. The severance charge associated with this plan will be recorded as a one-time benefit arrangement in February 2008, except for certain employees with transition dates longer than 60 days. For these employees, the severance expense will be recorded ratably over the estimated transition period.

Corporate Headquarters
Nektar Therapeutics
201 Industrial Road
San Carlos, CA 94070-6256
Telephone (650) 631-3100
Facsimile (650) 631-3150

Annual Report on Form 10-K
Copies of Nektar's Annual Report on Form 10-K, exclusive of exhibits, are available without charge upon written request to:

Investor Relations
Nektar Therapeutics
201 Industrial Road
San Carlos, CA 94070-6256

Or via email to:
investors@nektar.com; online copies can also be obtained at www.nektar.com under "Investor Relations."

Annual Meeting
The Annual Meeting of Stockholders will be held on
June 6, 2008
2:00 — 3:30 p.m. (PDT)
The Sandpebble Room
Hyatt Regency San Francisco Airport
1333 Bayshore Highway
Burlingame, CA 94010
Telephone (650) 347-1234

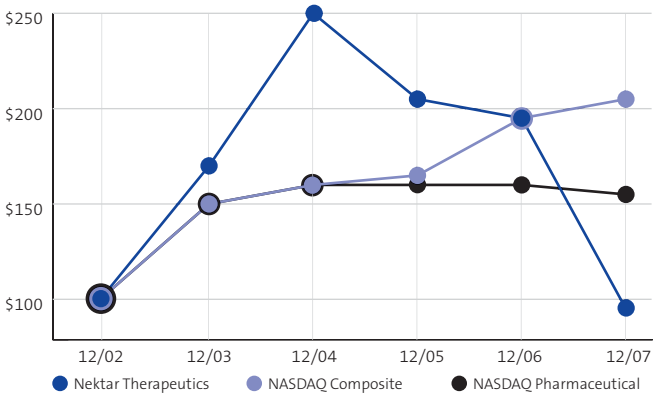
Corporate Counsel
O'Melveny & Myers LLP
Menlo Park, CA

Independent Autitors
Ernst & Young LLP
Palo Alto, CA

Transfer Agent and Stockholder Services
Mellon Investor Services, LLC
525 Market Street, Suite 3500
San Francisco, CA 94105
Telephone (800) 522-6645

The following graph compares, for the five-year period ended December 31, 2007, the cumulative total stockholder return (change in stock price plus reinvested dividends) of our common stock with (i) the NASDAQ Composite Index and (ii) the NASDAQ Pharmaceutical Index. Measurement points are the last trading day of each of our fiscal years ended December 31, 2002, December 31, 2003, December 31, 2004, December 31, 2005, December 31, 2006 and December 31, 2007. The graph assumes that $100 was invested on December 31, 2002 in the common stock of the Company, the NASDAQ Composite Index and the NASDAQ Pharmaceutical 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.

Comparison of 5-Year Cumulative Total Return
Among Nektar Threapeutics, the NASDAQ Composite Index and the NASDAQ Pharmaceutical Index



Securities

	Year Ended December 31, 2006			Year Ended December 31, 2007	
	High	Low		High	Low
1st Quarter	$ 21.76	$ 16.44	1st Quarter	**$ 15.24**	**$ 11.20**
2nd Quarter	22.75	16.99	2nd Quarter	**13.58**	**9.32**
3rd Quarter	18.53	13.10	3rd Quarter	**9.75**	**7.63**
4th Quarter	17.20	13.96	4th Quarter	**8.98**	**5.22**

NEKTAR MANAGEMENT TEAM

Howard W. Robin
President and Chief Executive Officer

Nevan Elam
Senior Vice President, Head of the Pulmonary Business Unit

Gil M. Labrucherie
Senior Vice President, General Counsel and Secretary

John Nicholson
Senior Vice President and Chief Financial Officer

John S. Patton, Ph.D.
Co-Founder and Chief Research Fellow

Dorian Rinella
Senior Vice President, Human Resources and Facilities

Tim Warner
Senior Vice President, Investor Relations and Corporate Affairs

NEKTAR BOARD OF DIRECTORS

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Michael A. Brown
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Hoyoung Huh, M.D., Ph.D.
President and CEO, BiPar Sciences

Joseph J. Krivulka
Founder and President, Triax Pharmaceuticals

Christopher A. Kuebler
Chairman, Covance Inc.

Irwin Lerner
Former Chairman, F. Hoffman-LaRoche, Inc.

Lutz Lingnau
Former Executive Board Member, Schering AG

John S. Patton, Ph.D.
Co-Founder and Chief Research Fellow, Nektar Therapeutics

Howard W. Robin
President and Chief Executive Officer, Nektar Therapeutics

Susan Wang
Former CFO, Solectron

Roy A. Whitfield
Former Chairman, Incyte Genomics, Inc.

Design: MGT Design, Inc. Printing: The Hammer Company

NEKTAR

Nektar Therapeutics
201 Industrial Road
San Carlos, CA 94070
USA
+1 650.631.3100 Global Headquarters
www.nektar.com
NASDAQ: NKTR