HALOZYME THERAPEUTICS INC
Form 10-Q
August 09, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-32335

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HALOZYME THERAPEUTICS, INC.
(Exact name of registrant as specified in its charter)

_____

Delaware	88-0488686
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11388 Sorrento Valley Road, San Diego, CA	92121
(Address of principal executive offices)	(Zip Code)

(858) 794-8889
(Registrant's telephone number, including area code)

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

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

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

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

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

The number of outstanding shares of the registrant's common stock, par value $0.001 per share, was 129,414,080 as of August 2, 2016.

HALOZYME THERAPEUTICS, INC.
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PART I — FINANCIAL INFORMATION
Item 1. Financial Statements
HALOZYME THERAPEUTICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except per share amounts)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$61,233	$ 43,292
Marketable securities, available-for-sale	168,757	65,047
Accounts receivable, net	23,227	32,410
Inventories	10,755	9,489
Prepaid manufacturing costs	16,740	16,155
Prepaid expenses and other assets	3,632	5,379
Total current assets	284,344	171,772
Property and equipment, net	4,682	3,943
Prepaid expenses and other assets	6,601	5,574
Restricted cash	500	500
Total assets	$296,127	$ 181,789
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$3,650	$ 4,499
Accrued expenses	23,851	26,792
Deferred revenue, current portion	8,096	9,304
Current portion of long-term debt	3,288	21,862
Total current liabilities	38,885	62,457
Deferred revenue, net of current portion	41,872	43,919
Long-term debt, net	204,850	27,971
Other long-term liabilities	600	4,443
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock - $0.001 par value; 20,000 shares authorized; no shares issued and outstanding	—	—
Common stock - $0.001 par value; 200,000 shares authorized; 129,411 and 128,152 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	129	128
Additional paid-in capital	538,585	525,628
Accumulated other comprehensive income (loss)	216	(99)
Accumulated deficit	(529,010)	(482,658)
Total stockholders' equity	9,920	42,999
Total liabilities and stockholders' equity	$296,127	$ 181,789

See accompanying notes to condensed consolidated financial statements.

HALOZYME THERAPEUTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Product sales, net	$13,699	$12,342	$26,639	$22,202
Royalties	12,272	6,382	23,659	13,157
Revenues under collaborative agreements	7,365	24,660	25,537	26,691
Total revenues	33,336	43,384	75,835	62,050
Operating expenses:				
Cost of product sales	8,308	8,144	16,070	14,638
Research and development	35,530	21,195	75,630	37,879
Selling, general and administrative	11,221	9,814	22,027	19,213
Total operating expenses	55,059	39,153	113,727	71,730
Operating (loss) income	(21,723)	4,231	(37,892)	(9,680)
Other income (expense):				
Investment and other income, net	397	87	626	189
Interest expense	(5,249)	(1,299)	(9,125)	(2,598)
Net (loss) income before income taxes	(26,575)	3,019	(46,391)	(12,089)
Income tax expense	300	—	300	—
Net (loss) income	$(26,875)	$3,019	$(46,691)	$(12,089)
Net (loss) income per share:				
Basic	$(0.21)	$0.02	$(0.37)	$(0.10)
Diluted	$(0.21)	$0.02	$(0.37)	$(0.10)
Shares used in computing net (loss) income per share:				
Basic	127,958	126,144	127,787	125,723
Diluted	127,958	134,507	127,787	125,723

See accompanying notes to condensed consolidated financial statements.

HALOZYME THERAPEUTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net (loss) income	$(26,875)	$3,019	$(46,691)	$(12,089)
Other comprehensive (loss) income:				
Unrealized gain (loss) on marketable securities	128	(13)	315	1
Total comprehensive (loss) income	$(26,747)	$3,006	$(46,376)	$(12,088)

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2016	2015
Operating activities:		
Net loss	$(46,691)	$(12,089)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	12,188	10,035
Depreciation and amortization	1,112	816
Non-cash interest expense	1,843	528
Payment-in-kind interest expense on long-term debt	5,478	—
Amortization of premiums on marketable securities, net	397	548
Changes in operating assets and liabilities:		
Accounts receivable, net	9,183	(589)
Inventories	(1,266)	(1,317)
Prepaid expenses and other assets	120	(1,436)
Accounts payable and accrued expenses	(4,811)	1,691
Deferred revenue	(3,254)	(2,957)
Other liabilities	(167)	(131)
Net cash used in operating activities	(25,868)	(4,901)
Investing activities:		
Purchases of marketable securities	(138,399)	(33,184)
Proceeds from maturities of marketable securities	34,608	33,925
Purchases of property and equipment	(2,266)	(390)
Net cash (used in) provided by investing activities	(106,057)	351
Financing activities:		
Proceeds from issuance of long-term debt, net	203,005	—
Repayment of long-term debt	(54,250)	—
Proceeds from issuance of common stock under equity incentive plans, net	1,111	10,930
Net cash provided by financing activities	149,866	10,930
Net increase in cash and cash equivalents	17,941	6,380
Cash and cash equivalents at beginning of period	43,292	61,389
Cash and cash equivalents at end of period	$61,233	$67,769

See accompanying notes to condensed consolidated financial statements.

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

1. Organization and Business

Halozyme Therapeutics, Inc. is a biotechnology company focused on developing and commercializing novel oncology therapies. We are seeking to translate our unique knowledge of the tumor microenvironment to create therapies that have the potential to improve cancer patient survival. Our research primarily focuses on human enzymes that alter the extracellular matrix and tumor microenvironment. The extracellular matrix is a complex matrix of proteins and carbohydrates surrounding the cell that provides structural support in tissues and orchestrates many important biological activities, including cell migration, signaling and survival. Over many years, we have developed unique technology and scientific expertise enabling us to pursue this target-rich environment for the development of therapies.

Our proprietary enzymes are used to facilitate the delivery of injected drugs and fluids, potentially enhancing the efficacy and the convenience of other drugs or can be used to alter tissue structures for potential clinical benefit. We exploit our technology and expertise using a two pillar strategy that we believe enables us to manage risk and cost by: (1) developing our own proprietary products in therapeutic areas with significant unmet medical needs, with a focus on oncology, and (2) licensing our technology to biopharmaceutical companies to collaboratively develop products that combine our technology with the collaborators' proprietary compounds.

The majority of our approved product and product candidates are based on rHuPH20, our patented recombinant human hyaluronidase enzyme. rHuPH20 is the active ingredient in our first commercially approved product, Hylenex® recombinant, and it works by temporarily breaking down hyaluronan (or "HA"), a naturally occurring complex carbohydrate that is a major component of the extracellular matrix in tissues throughout the body such as skin and cartilage. We believe this temporary degradation creates an opportunistic window for the improved subcutaneous delivery of injectable biologics, such as monoclonal antibodies and other large therapeutic molecules, as well as small molecules and fluids. We refer to the application of rHuPH20 to facilitate the delivery of other drugs or fluids as our ENHANZE™ Technology. We license the ENHANZE Technology to form collaborations with biopharmaceutical companies that develop or market drugs requiring or benefiting from injection via the subcutaneous route of administration.

We currently have ENHANZE collaborations with F. Hoffmann-La Roche, Ltd. and Hoffmann-La Roche, Inc. ("Roche"), Baxalta US Inc. and Baxalta GmbH (Baxalta Incorporated was acquired by Shire plc in June 2016) ("Baxalta"), Pfizer Inc. ("Pfizer"), Janssen Biotech, Inc. ("Janssen"), AbbVie, Inc. ("AbbVie"), and Eli Lilly and Company ("Lilly"). We receive royalties from two of these collaborations, including royalties from sales of one product approved in both the United States and outside the United States from the Baxalta collaboration and from sales of two products approved for marketing outside the United States from the Roche collaboration. Future potential revenues from the sales and/or royalties of our approved products, product candidates, and ENHANZE collaborations will depend on the ability of Halozyme and our collaborators to develop, manufacture, secure and maintain regulatory approvals for approved products and product candidates and commercialize product candidates.

Our proprietary development pipeline consists primarily of clinical stage product candidates in oncology. Our lead oncology program is PEGPH20 (PEGylated recombinant human hyaluronidase), a molecular entity we are developing in combination with currently approved cancer therapies as a candidate for the systemic treatment of tumors that accumulate HA. We have demonstrated that when HA accumulates in a tumor, it can cause higher pressure in the tumor, reducing blood flow into the tumor and with that, reduced access of cancer therapies to the tumor. PEGPH20 has been demonstrated in animal models to work by temporarily degrading HA surrounding cancer cells resulting in reduced pressure and increased blood flow to the tumor thereby enabling increased amounts of anticancer treatments administered concomitantly gaining access to the tumor. We are currently in Phase 2 and Phase 3 clinical testing for PEGPH20 with gemcitabine and nab-paclitaxel (ABRAXANE®) in stage IV pancreatic ductal adenocarcinoma ("PDA") (Studies 109-202 and 109-301), in Phase 1b clinical testing for PEGPH20 with docetaxel (Taxotere®) in non-small cell lung cancer (Study 107-201), in Phase 1b clinical testing for PEGPH20 with KEYTRUDA® in non-small cell

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lung cancer and gastric cancer (Study 107-101) and in Phase 1b/2 clinical testing for PEGPH20 with eribulin (HALAVEN®) in first line and second line HER2-negative high-HA metastatic breast cancer.

Except where specifically noted or the context otherwise requires, references to "Halozyme," "the Company," "we," "our," and "us" in these notes to condensed consolidated financial statements refer to Halozyme Therapeutics, Inc. and its wholly owned subsidiary, Halozyme, Inc., and Halozyme, Inc.'s wholly owned subsidiaries, Halozyme Holdings Ltd. and Halozyme Royalty LLC.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") and with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") related to a quarterly report on Form 10-Q. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for a complete set of financial statements. These interim unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 29, 2016. The unaudited financial information for the interim periods presented herein reflects all adjustments which, in the opinion of management, are necessary for a fair presentation of the financial condition and results of operations for the periods presented, with such adjustments consisting only of normal recurring adjustments. Operating results for interim periods are not necessarily indicative of the operating results for an entire fiscal year.

The accompanying condensed consolidated financial statements include the accounts of Halozyme Therapeutics, Inc. and our wholly owned subsidiary, Halozyme, Inc., and Halozyme, Inc.'s wholly owned subsidiaries, Halozyme Holdings Ltd. and Halozyme Royalty LLC. All intercompany accounts and transactions have been eliminated.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. On an ongoing basis, we evaluate our estimates and judgments, which are based on historical and anticipated results and trends and on various other assumptions that management believes to be reasonable under the circumstances. By their nature, estimates are subject to an inherent degree of uncertainty and, as such, actual results may differ from management's estimates.

Adoption and Pending Adoption of Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-09, Compensation - Stock Compensation (Topic 718) ("ASU 2016-09"). ASU 2016-09 changes certain aspects of accounting for share-based payments to employees and involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Specifically, ASU 2016-09 requires that all income tax effects of share-based awards be recognized as income tax expense or benefit in the reporting period in which they occur. Additionally, ASU 2016-09 amends existing guidance to allow forfeitures of share-based awards to be recognized as they occur. Previous guidance required that share-based compensation expense include an estimate of forfeitures. We have elected to early adopt ASU 2016-09 as of January 1, 2016 and made a policy election to account for forfeitures as they occur. The cumulative effect of adoption was a decrease of $0.3 million to both additional paid-in capital and accumulated deficit.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases, ("ASU 2016-02"). ASU 2016-02 requires lessees to recognize assets and liabilities for most leases and provide enhanced disclosures. The guidance is effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption is permitted for all companies in any interim or annual period. We are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Financial Instruments - Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). ASU 2016-01 supersedes the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and requires equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. An entity's equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of ASU 2016-01. ASU 2016-01 requires public business entities that are required to disclose fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using the exit price notion consistent with Topic 820, Fair Value Measurement. ASU 2016-01 is effective for interim and annual reporting periods beginning on January 1, 2018. Entities should apply the amendments by means of a cumulative effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of ASU 2016-01. We currently do not hold equity securities, and we are evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In November 2015, the FASB issued Accounting Standards Update 2015-17, Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"). ASU 2015-17 requires companies to classify all deferred tax assets and liabilities as non-current on the balance sheet instead of separating deferred taxes into current and non-current amounts. For public business entities, the guidance is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for all companies in any interim or annual period. The guidance may be adopted on either a prospective or retrospective basis. We elected to early adopt ASU 2015-17 on January 1, 2016. There was no impact on our consolidated financial statements and related disclosures.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory ("ASU 2015-11"). ASU 2015-11 requires that for entities that measure inventory using the first-in, first-out method, inventory should be measured at the lower of cost or net realizable value. Topic 330, Inventory, currently requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The adoption of ASU 2015-11 is not expected to have a material impact on our consolidated financial position or results of operations.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from that debt liability, consistent with the presentation of a debt discount. The recognition and measurement guidance for debt issuance costs is not affected by ASU 2015-03. We adopted ASU 2015-03 on January 1, 2016. There was no material impact on our consolidated financial statements and related disclosures.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements — Going Concern ("ASU 2014-15"). The provisions of ASU 2014-15 provide that, in connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). ASU 2014-15 is effective for the annual reporting period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. We are currently evaluating the effect that the adoption of ASU 2014-15 will have on our financial statement disclosures.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 will eliminate transaction-specific and industry-specific revenue recognition guidance under current U.S. GAAP and replace it with a principle-based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. ASU 2014-09 also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for our interim and annual reporting periods beginning on January 1, 2018. Entities can transition to the standard either retrospectively or as a cumulative effect adjustment as of the date of adoption. We have not yet selected a transition method, and we are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

Cash Equivalents and Marketable Securities

Cash equivalents consist of highly liquid investments, readily convertible to cash, that mature within ninety days or less from the date of purchase. Our cash equivalents consist of money market funds.

Marketable securities are investments with original maturities of more than ninety days from the date of purchase that are specifically identified to fund current operations. Marketable securities are considered available-for-sale. These investments are classified as current assets, even though the stated maturity date may be one year or more beyond the current balance sheet date which reflects management's intention to use the proceeds from the sale of these investments to fund our operations, as necessary. Such available-for-sale investments are carried at fair value with unrealized gains and losses recorded in other comprehensive gain (loss) and included as a separate component of stockholders' equity. The cost of marketable securities is adjusted for amortization of premiums or accretion of discounts to maturity, and such amortization or accretion is included in investment and other income, net in the condensed consolidated statements of operations. We use the specific identification method for calculating realized gains and losses on marketable securities sold. Realized gains and losses and declines in value judged to be other-than-temporary on marketable securities, if any, are included in investment and other income, net in the condensed consolidated statements of operations.

Restricted Cash

Under the terms of the leases of our facilities, we are required to maintain letters of credit as security deposits during the terms of such leases. At June 30, 2016 and December 31, 2015, restricted cash of $0.5 million was pledged as collateral for the letters of credit.

Fair Value of Financial Instruments

The authoritative guidance for fair value measurements establishes a three tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Our financial instruments include cash equivalents, available-for-sale marketable securities, accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses and long-term debt. Fair value estimates of these instruments are made at a specific point in time, based on relevant market information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. The carrying amount of cash equivalents, accounts receivable, prepaid expenses and other assets, accounts payable and accrued expenses are generally considered to be representative of their respective fair values because of the short-term nature of those instruments. Further, based on the borrowing rates currently available for loans with similar terms, we believe the fair value of long-term debt approximates its carrying value.

Available-for-sale marketable securities consist of corporate debt securities, U.S. Treasury securities and commercial paper, and are measured at fair value using Level 2 inputs. Level 2 financial instruments are valued using market prices on less active markets and proprietary pricing valuation models with observable inputs, including interest rates, yield curves, maturity dates, issue dates, settlement dates, reported trades, broker-dealer quotes, issue spreads, benchmark securities or other market related data. We obtain the fair value of Level 2 investments from our investment manager, who obtains these fair values from a third-party pricing source. We validate the fair values of Level 2 financial instruments provided by our investment manager by comparing these fair values to a third-party pricing source.

The following table summarizes, by major financial instrument type, our cash equivalents and marketable securities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy (in thousands):

	June 30, 2016			December 31, 2015		
	Level 1	Level 2	Total estimated fair value	Level 1	Level 2	Total estimated fair value
Cash equivalents:						
Money market funds	$41,783	$—	$41,783	$38,595	$—	$38,595
Available-for-sale marketable securities:						
Corporate debt securities	—	72,630	72,630	—	62,052	62,052
U.S. Treasury securities	88,165	—	88,165	—	—	—
Commercial paper	—	7,962	7,962	—	2,995	2,995
	$129,948	$80,592	$210,540	$38,595	$65,047	$103,642

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the six months ended June 30, 2016. We had no financial instruments that were classified within Level 3 as of June 30, 2016 and December 31, 2015.

Inventories

Inventories are stated at lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories are reviewed periodically for potential excess, dated or obsolete status. We evaluate the carrying value of inventories on a regular basis, taking into account such factors as historical and anticipated future sales compared to quantities on hand, the price we expect to obtain for products in their respective markets compared with historical cost and the remaining shelf life of goods on hand.

Prior to receiving marketing approval from the U.S. Food and Drug Administration ("FDA") or comparable regulatory agencies in foreign countries, costs related to purchases of bulk rHuPH20 and raw materials and the manufacturing of the product candidates are recorded as research and development expense. All direct manufacturing costs incurred after receiving marketing approval are capitalized as inventory. Inventories used in clinical trials are expensed at the time the inventories are packaged for the clinical trials.

As of June 30, 2016 and December 31, 2015, inventories consisted of $2.8 million and $1.4 million of Hylenex recombinant inventory, respectively, and $8.0 million and $8.1 million of bulk rHuPH20, respectively, for use in the manufacture of Balxalta's and Roche's collaboration products.

Revenue Recognition

We generate revenues from product sales and payments received under collaborative agreements. Collaborative agreement payments may include nonrefundable fees at the inception of the agreements, license fees, milestone and event-based payments for specific achievements designated in the collaborative agreements, reimbursements of research and development services and supply of bulk rHuPH20, and/or royalties on sales of products resulting from collaborative arrangements.

We recognize revenues in accordance with the authoritative guidance for revenue recognition. We recognize revenue when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price to the buyer is fixed or determinable; and (4) collectibility is reasonably assured.

Product Sales, Net

Hylenex Recombinant

We sell Hylenex recombinant in the U.S. to wholesale pharmaceutical distributors, who sell the product to hospitals and other end-user customers. Sales to wholesalers provide for selling prices that are fixed on the date of sale, although we offer discounts to certain group purchasing organizations ("GPOs"), hospitals and government programs. The wholesalers take title to the product, bear the risk of loss of ownership and have economic substance to the inventory. Further, we have no significant obligations for future performance to generate pull-through sales.

We have developed sufficient historical experience and data to reasonably estimate future returns and chargebacks of Hylenex recombinant. As a result, we recognize Hylenex recombinant product sales and related cost of product sales at the time title transfers to the wholesalers.

Upon recognition of revenue from product sales of Hylenex recombinant, we record certain sales reserves and allowances as a reduction to gross revenue. These reserves and allowances include:

- Product Returns. We allow the wholesalers to return product that is damaged or received in error. In addition, we accept unused product to be returned beginning six months prior to and ending twelve months following product expiration. Our estimates for expected returns of expired products are based primarily on an ongoing analysis of historical return patterns.

- Distribution Fees. The distribution fees, based on contractually determined rates, arise from contractual agreements we have with certain wholesalers for distribution services they provide with respect to Hylenex recombinant. These fees are generally a fixed percentage of the price of the product purchased by the wholesalers.
- Prompt Payment Discounts. We offer cash discounts to certain wholesalers as an incentive to meet certain payment terms. We estimate prompt payment discounts based on contractual terms, historical utilization rates, as available, and our expectations regarding future utilization rates.
- Other Discounts and Fees. We provide discounts to end-user members of certain GPOs under collective purchasing contracts between us and the GPOs. We also provide discounts to certain hospitals, who are members of the GPOs, with which we do not have contracts. The end-user members purchase products from the wholesalers at a contracted discounted price, and the wholesalers then charge back to us the difference between the current retail price and the price the end-users paid for the product. We also incur GPO administrative service fees for these transactions. In addition, we provide predetermined discounts under certain government programs. Our estimate for these chargebacks and fees takes into consideration contractual terms, historical utilization rates, as available, and our expectations regarding future utilization rates.

Allowances for product returns and chargebacks are based on amounts owed or to be claimed on the related sales. We believe that our estimated product returns for Hylenex recombinant requires a high degree of judgment and is subject to change based on our experience and certain quantitative and qualitative factors. In order to develop a methodology to reliably estimate future returns and provide a basis for recognizing revenue on sales to wholesale distributors, we analyze many factors, including, without limitation: (1) actual Hylenex recombinant product return history, taking into account product expiration dating at the time of shipment, (2) re-order activities of the wholesalers as well as their customers and (3) levels of inventory in the wholesale channel. We have monitored actual return history on an individual product lot basis since product launch. We consider the dating of product at the time of shipment into the distribution channel and changes in the estimated levels of inventory within the distribution channel to estimate our exposure to returned product. We also consider historical chargebacks activity and current contract prices to estimate our exposure to returned product. Based on such data, we believe we have the information needed to reasonably estimate product returns and chargebacks.

We recognize product sales allowances as a reduction of product sales in the same period the related revenue is recognized. Because of the shelf life of Hylenex recombinant and our lengthy return period, there may be a significant period of time between when the product is shipped and when we issue credits on returned product. If actual product return results differ from our estimates, we will be required to make adjustments to these allowances in the future, which could have an effect on product sales revenue and earnings in the period of adjustments.

Bulk rHuPH20

Subsequent to receiving marketing approval from the FDA or comparable regulatory agencies in foreign countries, sales of bulk rHuPH20 for use in collaboration commercial products are recognized as product sales when the materials have met all the specifications required for the customer’s acceptance and title and risk of loss have transferred to the customer. Following the receipt of European marketing approvals of Roche’s Herceptin SC product in August 2013 and MabThera® SC product in March 2014 and Baxalta’s HYQVIA product in May 2013, revenue from the sales of bulk rHuPH20 for these collaboration products has been recognized as product sales.

Revenues under Collaborative Agreements

We have entered into license and collaboration agreements under which our collaborators obtained worldwide rights for the use of our proprietary rHuPH20 enzyme in the development and commercialization of their biologic compounds identified as targets. These agreements may also contain other elements. Pursuant to the terms of these agreements, collaborators could be required to make various payments to us for each target, including nonrefundable upfront license fees, exclusivity fees, payments

based on achievement of specified milestones designated in the collaborative agreements, annual maintenance fees, reimbursements of research and development services, payments for supply of bulk rHuPH20 used by the collaborator and/or royalties on sales of products resulting from collaborative agreements.

In order to account for the multiple-element arrangements, we identify the deliverables included within the collaborative agreement and evaluate which deliverables represent units of accounting. We then determine the appropriate method of revenue recognition for each unit based on the nature and timing of the delivery process. Analyzing the arrangement to identify deliverables requires the use of judgment, and each deliverable may be an obligation to deliver services, a right or license to use an asset, or another performance obligation. The deliverables under our collaborative agreements include (i) the license to our rHuPH20 technology, (ii) at the collaborator's request, research and development services which are reimbursed at contractually determined rates, and (iii) at the collaborator's request, supply of bulk rHuPH20 which is reimbursed at our cost plus a margin. A delivered item is considered a separate unit of accounting when the delivered item has value to the collaborator on a standalone basis based on the consideration of the relevant facts and circumstances for each arrangement. We base this determination on the collaborators' ability to use the delivered items on their own without us supplying undelivered items, which we determine taking into consideration factors such as the research capabilities of the collaborator, the availability of research expertise in this field in the general marketplace, and the ability to procure the supply of bulk rHuPH20 from the market place.

Arrangement consideration is allocated at the inception of the agreement to all identified units of accounting based on their relative selling price. The relative selling price for each deliverable is determined using vendor specific objective evidence ("VSOE") of selling price or third-party evidence of selling price if VSOE does not exist. If neither VSOE nor third-party evidence of selling price exists, we use our best estimate of the selling price for the deliverable. The amount of allocable arrangement consideration is limited to amounts that are not contingent upon the delivery of additional items or meeting other specified performance conditions. The consideration received is allocated among the separate units of accounting and the applicable revenue recognition criteria are applied to each of the separate units. Changes in the allocation of the sales price between delivered and undelivered elements can impact revenue recognition but do not change the total revenue recognized under any agreement.

Nonrefundable upfront license fees are recognized upon delivery of the license if facts and circumstances dictate that the license has standalone value from the undelivered items, which generally include research and development services and the manufacture of bulk rHuPH20, the relative selling price allocation of the license is equal to or exceeds the upfront license fee, persuasive evidence of an arrangement exists, our price to the collaborator is fixed or determinable and collectibility is reasonably assured. Upfront license fees are deferred if facts and circumstances dictate that the license does not have standalone value. The determination of the length of the period over which to defer revenue is subject to judgment and estimation and can have an impact on the amount of revenue recognized in a given period.

When collaborators have rights to elect additional targets, the rights are assessed as to whether they represent deliverables at the inception of the arrangement. In assessing these contingent deliverables, we consider whether the right is a substantive option. We consider a right to be a substantive option if the election of the additional targets is not essential to the functionality of the other elements in the arrangement and if we are truly at risk of the right being exercised. If the right is determined to be a substantive option, we further consider whether the right is priced at a significant and incremental discount that should be accounted for as an element of the arrangement. If a right is determined to be a substantive option and is not priced at a significant and incremental discount, it is not treated as a deliverable in the arrangement and receives no allocation at the inception of the arrangement of the original arrangement consideration. The right is then accounted for when and if it is exercised.

Certain of our collaborative agreements provide for milestone payments upon achievement of development and regulatory events and/or specified sales volumes of commercialized products by the collaborator. We account for milestone payments in accordance with the provisions of ASU No. 2010-17, Revenue Recognition - Milestone Method ("Milestone Method of Accounting"). We recognize consideration that is contingent upon the achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone is substantive in its entirety. A milestone is considered substantive when it meets all of the following criteria:

1. The consideration is commensurate with either the entity's performance to achieve the milestone or the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the entity's performance to achieve the milestone;
2. The consideration relates solely to past performance; and
3. The consideration is reasonable relative to all of the deliverables and payment terms within the arrangement.

A milestone is defined as an event (i) that can only be achieved based in whole or in part on either the entity's performance or on the occurrence of a specific outcome resulting from the entity's performance, (ii) for which there is substantive uncertainty at the date the arrangement is entered into that the event will be achieved and (iii) that would result in additional payments being due to the vendor.

Reimbursements of research and development services are recognized as revenue during the period in which the services are performed as long as there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection of the related receivable is reasonably assured. Revenue from the manufacture of bulk rHuPH20 is recognized when the materials have met all specifications required for the collaborator's acceptance and title and risk of loss have transferred to the collaborator. We do not directly control when any collaborator will request research and development services or supply of bulk rHuPH20; therefore, we cannot predict when we will recognize revenues in connection with research and development services and supply of bulk rHuPH20.

Since we receive royalty reports 60 days after quarter end, royalty revenue from sales of collaboration products by our collaborators is recognized in the quarter following the quarter in which the corresponding sales occurred.

The collaborative agreements typically provide the collaborators the right to terminate such agreement in whole or on a product-by-product or target-by-target basis at any time upon 30 to 90 days prior written notice to us. There are no performance, cancellation, termination or refund provisions in any of our collaborative agreements that contain material financial consequences to us.

Refer to Note 4, Collaborative Agreements, for further discussion on our collaborative agreements.

Cost of Product Sales

Cost of product sales consists primarily of raw materials, third-party manufacturing costs, fill and finish costs, freight costs, internal costs and manufacturing overhead associated with the production of Hylenex recombinant and bulk rHuPH20 for use in approved collaboration products. Cost of product sales also consists of the write-down of excess, dated and obsolete inventories and the write-off of inventories that do not meet certain product specifications, if any.

Research and Development Expenses

Research and development expenses include salaries and benefits, facilities and other overhead expenses, external clinical trial expenses, research related manufacturing services, contract services and other outside expenses. Research and development expenses are charged to operations as incurred when these expenditures relate to our research and development efforts and have no alternative future uses. After receiving approval from the FDA or comparable regulatory agencies in foreign countries for a product, costs related to purchases and manufacturing of bulk rHuPH20 for such product are capitalized as inventory. The manufacturing costs of bulk rHuPH20 for the collaboration products, Herceptin SC, MabThera SC and HYQVIA, incurred after the receipt of marketing approvals are capitalized as inventory.

We are obligated to make upfront payments upon execution of certain research and development agreements. Advance payments, including nonrefundable amounts, for goods or services that will be used or rendered for future research and development activities are deferred. Such amounts are recognized as expense as the related goods are delivered or the related services are performed or such time when we do not expect the goods to be delivered or services to be performed.

Milestone payments that we make in connection with in-licensed technology for a particular research and development project that have no alternative future uses (in other research and development projects or otherwise) and therefore no separate economic value are expensed as research and development costs at the time the costs are incurred. We currently have no in-licensed technologies that have alternative future uses in research and development projects or otherwise.

Clinical Trial Expenses

Payments in connection with our clinical trials are often made under contracts with multiple contract research organizations that conduct and manage clinical trials on our behalf. The financial terms of these agreements are subject to negotiation and vary from contract to contract and may result in uneven payment flows. Generally, these agreements set forth the scope of work to be performed at a fixed fee, unit price or on a time and materials basis. A portion of our obligation to make payments under these contracts depends on factors such as the successful enrollment or treatment of patients or the completion of other clinical trial milestones.

Expenses related to clinical trials are accrued based on our estimates and/or representations from service providers regarding work performed, including actual level of patient enrollment, completion of patient studies and progress of the clinical trials. Other incidental costs related to patient enrollment or treatment are accrued when reasonably certain. If the amounts we are obligated to pay under our clinical trial agreements are modified (for instance, as a result of changes in the clinical trial protocol or scope of work to be performed), we adjust our accruals accordingly on a prospective basis. Revisions to our contractual payment obligations are charged to expense in the period in which the facts that give rise to the revision become reasonably certain. Historically, such revisions to our clinical trial expense accruals have not had a material impact on our consolidated results of operations or financial position.

Share-Based Compensation

We record compensation expense associated with stock options, restricted stock awards (“RSAs”), restricted stock units (“RSUs”), and RSUs with performance conditions (“PRSUs”) in accordance with the authoritative guidance for stock-based compensation. The cost of employee services received in exchange for an award of an equity instrument is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense on a straight-line basis over the requisite service period of the award. Share-based compensation expense for an award with a performance condition is recognized when the achievement of such performance condition is determined to be probable. If the outcome of such performance condition is not determined to be probable or is not met, no compensation expense is recognized and any previously recognized compensation expense is reversed. Forfeitures are recognized as a reduction of Share-based compensation expense as they occur.

Income Taxes

We provide for income taxes using the liability method. Under this method, deferred income tax assets and liabilities are determined based on the differences between the financial statement carrying amounts of existing assets and liabilities at each year end and their respective tax bases and are measured using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Significant judgment is required by management to determine our provision for income taxes, our deferred tax assets and liabilities, and the valuation allowance to record against our net deferred tax assets, which are based on complex and evolving tax regulations throughout the world. Deferred tax assets and other tax benefits are recorded when it is more likely than not that the position will be sustained upon audit. Valuation allowances have been established to reduce our net deferred tax assets to zero, as we believe that it is more likely than not that such assets will not be realized. The interim tax provision is calculated using the estimated effective tax rate expected to be applicable for the full year. During the three and six months ended June 30, 2016, we recognized $0.3 million in income tax expense, comprising U.S. federal alternative minimum tax.

Net (Loss) Income Per Share

Basic net (loss) income per common share is computed by dividing net (loss) income for the period by the weighted average number of common shares outstanding during the period, without consideration for common stock equivalents. Outstanding stock options, unvested RSAs, unvested RSUs and unvested PRSUs are considered common stock equivalents and are only included in the calculation of diluted earnings per common share when net income is reported and their effect is dilutive. For the three months ended June 30, 2016 and 2015, approximately 13.2 million and 0.4 million shares, respectively, of outstanding stock options, unvested RSAs, unvested RSUs and unvested PRSUs were excluded from the calculation of diluted net (loss) income per common share because their effect was anti-dilutive. For the six months ended June 30, 2016 and 2015, approximately 13.2 million and 9.2 million shares, respectively, of outstanding stock options, unvested RSAs, unvested RSUs and unvested PRSUs were excluded from the calculation of diluted net loss per common share because a net loss was reported in each of these periods and therefore their effect was anti-dilutive.

Segment Information

We operate our business in one segment, which includes all activities related to the research, development and commercialization of our proprietary enzymes. This segment also includes revenues and expenses related to (i) research and development and bulk rHuPH20 manufacturing activities conducted under our collaborative agreements with third parties and (ii) product sales of Hylenex recombinant. Our chief operating decision-maker reviews the operating results on an aggregate basis and manages the operations as a single operating segment.

3. Marketable Securities

Available-for-sale marketable securities consisted of the following (in thousands):

June 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	$72,592	$ 43	$ (5)	$72,630
U.S. Treasury securities	87,986	178	—	88,164
Commercial paper	7,963	—	—	7,963
	$168,541	$ 221	$ (5)	$168,757

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate debt securities	$62,151	$ —	$ (99)	$ 62,052
Commercial paper	2,995	—	—	2,995
	$65,146	$ —	$ (99)	$ 65,047

As of June 30, 2016, $144.7 million of our available-for-sale marketable securities were scheduled to mature within the next 12 months. As of June 30, 2016, we had six available-for-sale marketable securities in a gross unrealized loss position, all of which had been in such position for less than 12 months. Based on our review of these marketable securities, we believe there were no other-than-temporary impairments on these marketable securities as of June 30, 2016 because we do not intend to sell these marketable securities prior to maturity and it is not more likely than not that we will be required to sell these marketable securities before the recovery of their amortized cost basis.

4. Collaborative Agreements

Roche Collaboration

In December 2006, we and Roche entered into a collaboration and license agreement, under which Roche obtained a worldwide, exclusive license to develop and commercialize product combinations of rHuPH20 and up to thirteen Roche target compounds (the "Roche Collaboration"). As of June 30, 2016, Roche has elected a total of five targets, two of which are exclusive, and retains the option to develop and commercialize rHuPH20 with three additional targets. In August 2013, Roche received European marketing approval for its collaboration product, Herceptin SC, for the treatment of patients with HER2-positive breast cancer and launched Herceptin SC in the European Union ("EU") in September 2013. In March 2014, Roche received European marketing approval for its collaboration product, MabThera SC, for the treatment of patients with common forms of non-Hodgkin lymphoma ("NHL"). In June 2014, Roche launched MabThera SC in the EU.

Roche assumes all development, manufacturing, clinical, regulatory, sales and marketing costs under the Roche Collaboration, while we are responsible for the supply of bulk rHuPH20. We are entitled to receive reimbursements for providing research and development services and supplying bulk rHuPH20 to Roche at its request.

Under the terms of the Roche Collaboration, Roche pays us a royalty on each product commercialized under the agreement consisting of a mid-single digit percent of the net sales of such product. Unless terminated earlier in accordance with its terms, the Roche Collaboration continues in effect until the expiration of Roche's obligation to pay royalties. Roche has the obligation to pay royalties to us with respect to each product commercialized in each country, during the period equal to the longer of: (a) the duration of any valid claim of our patents covering rHuPH20 or other specified patents developed under the Roche Collaboration which valid claim covers the product in such country or (b) ten years following the date of the first commercial sale of such product in such country. In the event such valid claims expire, the royalty rate is reduced for the remaining royalty term.

Payments received from Roche, excluding royalties and reimbursements for providing research and development services and supplying bulk rHuPH20, since inception of the collaboration agreement are as follows (in thousands):

	As of June 30, 2016	
Upfront license fee payment for the application of rHuPH20 to the initial exclusive targets	$	20,000
Election of additional exclusive targets and annual license maintenance fees for the right to designate the remaining targets as exclusive targets	23,000	
Clinical development milestone payments	13,000	
Regulatory milestone payments	8,000	
Sales-based milestone payments	15,000	
Total payments received	$	79,000

Due to our continuing involvement obligations (for example, support activities associated with rHuPH20), revenues from the upfront payment, exclusive designation fees, annual license maintenance fees and sales-based milestone payments were deferred and are being amortized over the remaining term of the Roche Collaboration.

For both the three months ended June 30, 2016 and 2015, we recognized $0.8 million of Roche deferred revenues, excluding reimbursements for providing research and development services and supplying bulk rHuPH20, as revenues under collaborative agreements. For the six months ended June 30, 2016 and 2015, we recognized $1.7 million and $1.6 million, respectively, of Roche deferred revenues, excluding reimbursements for providing research and development services, as revenues under collaborative agreements. Roche deferred revenues, excluding deferred revenues related to reimbursements for providing research and development services, were $37.4 million and $39.0 million as of June 30, 2016 and December 31, 2015, respectively.

Baxalta Collaboration

In September 2007, we and Baxalta entered into a collaboration and license agreement, under which Baxalta obtained a worldwide, exclusive license to develop and commercialize HYQVIA, a combination of Baxalta's current product GAMMAGARD LIQUID™ and our patented rHuPH20 enzyme (the "Baxalta Collaboration"). In May 2013, the European Commission granted Baxalta marketing authorization in all EU Member States for the use of HYQVIA (solution for subcutaneous use), a combination of GAMMAGARD LIQUID and rHuPH20 in dual vial units, as replacement therapy for adult patients with primary and secondary immunodeficiencies. Baxalta launched HYQVIA in the EU in July 2013. In September 2014, the FDA approved HYQVIA for treatment of adult patients with primary immunodeficiency. In October 2014, Baxalta announced the launch and first shipments of HYQVIA in the U.S.

The Baxalta Collaboration is applicable to both kit and formulation combinations. Baxalta assumes all development, manufacturing, clinical, regulatory, sales and marketing costs under the Baxalta Collaboration, while we are responsible for the supply of bulk rHuPH20. We perform research and development activities and supply bulk rHuPH20 at the request of Baxalta, and are reimbursed by Baxalta under the terms of the Baxalta Collaboration. In addition, Baxalta has certain product development and commercialization obligations in major markets identified in the Baxalta Collaboration.

Under the terms of the Baxalta Collaboration, Baxalta pays us a royalty consisting of a mid-single digit percent of the net sales of HYQVIA. Unless terminated earlier in accordance with its terms, the Baxalta Collaboration continues in effect until the expiration of Baxalta's obligation to pay royalties to us. Baxalta has the obligation to pay royalties to us with respect to each product commercialized in each country, during the period equal to the longer of: (a) the duration of any valid claim of our patents covering rHuPH20 or other specified patents developed under the Baxalta Collaboration which valid claim covers the product in such country or (b) ten years following the date of the first commercial sale of such product in such country. In the event such valid claims expire, the royalty rate is reduced for the remaining royalty term.

Payments received from Baxalta, excluding royalties and reimbursements for providing research and development services and supplying bulk rHuPH20, since inception of the collaboration agreement are as follows (in thousands):

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	As of June 30, 2016
Upfront license fee payment for the application of rHuPH20 to the initial exclusive target	$10,000
Regulatory milestone payments	3,000
Sales-based milestone payments	4,000
Total payments received	$17,000

Due to our continuing involvement obligations (for example, support activities associated with rHuPH20 enzyme), the upfront license fee and sales-based milestone payments were deferred and are being recognized over the term of the Baxalta Collaboration.

For both the three months ended June 30, 2016 and 2015, we recognized $0.2 million of Baxalta deferred revenues as revenues under collaborative agreements. For both the six months ended June 30, 2016 and 2015, we recognized $0.4 million of Baxalta deferred revenues as revenues under collaborative agreements. Baxalta deferred revenues totaled $8.6 million and $9.0 million as of June 30, 2016 and December 31, 2015, respectively.

Other Collaborations

In December 2015, we and Lilly entered into a collaboration and license agreement, under which Lilly has the worldwide license to develop and commercialize products combining our patented rHuPH20 enzyme with Lilly proprietary biologics directed at up to five targets (the “Lilly Collaboration”). Targets, once selected, will be on an exclusive, global basis. As of June 30, 2016, Lilly has elected two specified exclusive targets and one specified semi-exclusive target. Lilly has the right to elect up to two additional targets for additional fees. The upfront license payment may be followed by event-based payments subject to Lilly’s achievement of specified development, regulatory and sales-based milestones. In addition, Lilly will pay royalties to us if products under the collaboration are commercialized. Unless terminated earlier in accordance with its terms, the Lilly Collaboration continues in effect until the later of: (i) expiration of the last to expire of the valid claims of our patents covering rHuPH20 or other specified patents developed under the collaboration which valid claim covers a product developed under the collaboration, and (ii) expiration of the last to expire royalty term for a product developed under the collaboration. The royalty term of a product developed under the Lilly Collaboration, with respect to each country, consists of the period equal to the longer of: (a) the duration of any valid claim of our patents covering rHuPH20 or other specified patents developed under the collaboration which valid claim covers the product in such country or (b) ten years following the date of the first commercial sale of such product in such country. In the event such valid claims expire, the royalty rate is reduced for the remaining royalty term. Lilly may terminate the agreement prior to expiration for any reason in its entirety upon 60 days prior written notice to us. Upon any such termination, the license granted to Lilly (in total or with respect to the terminated target, as applicable) will terminate provided, however, that in the event of expiration of the agreement, the licenses granted will become perpetual, non-exclusive and fully paid.

In June 2015, we and AbbVie entered into a collaboration and license agreement, under which AbbVie has the worldwide license to develop and commercialize products combining our patented rHuPH20 enzyme with AbbVie proprietary biologics directed at up to nine targets (the “AbbVie Collaboration”). Targets, once selected, will be on an exclusive, global basis. As of June 30, 2016, AbbVie has elected one specified exclusive target, TNF alpha. AbbVie has announced plans to develop rHuPH20 with adalimumab (HUMIRA®) which may allow reduced number of induction injections and deliver additional performance benefits. AbbVie has the right to elect up to eight additional targets for additional fees. The upfront license payment may be followed by event-based payments subject to AbbVie’s achievement of specified development, regulatory and sales-based milestones. In addition, AbbVie will pay tiered royalties to us if products under the collaboration are commercialized. Unless terminated earlier in accordance with its terms, the AbbVie Collaboration continues in effect until the later of: (i) expiration of the last to expire of the valid claims of our patents covering rHuPH20 or other specified patents developed under the collaboration which valid claim covers a product developed under the collaboration, and (ii) expiration of the last to expire royalty term for a product developed under the collaboration. The royalty term of a product developed under the AbbVie Collaboration, with respect to each country, consists of the period equal to the longer of: (a) the duration of any valid claim of our patents covering rHuPH20 or other specified patents developed under the collaboration which valid claim covers the

product in such country or (b) ten years following the date of the first commercial sale of such product in such country. In the event such valid claims expire, the royalty rate is reduced for

the remaining royalty term. AbbVie may terminate the agreement prior to expiration for any reason in its entirety or on a target-by-target basis upon 90 days prior written notice to us. Upon any such termination, the license granted to AbbVie (in total or with respect to the terminated target, as applicable) will terminate provided, however, that in the event of expiration of the agreement, the licenses granted will become perpetual, non-exclusive and fully paid.

In December 2014, we and Janssen entered into a collaboration and license agreement, under which Janssen has the worldwide license to develop and commercialize products combining our patented rHuPH20 enzyme with Janssen proprietary biologics directed at up to five targets (the "Janssen Collaboration"). Targets, once selected, will be on an exclusive, global basis. As of June 30, 2016, Janssen has elected one specified exclusive target, CD38. Janssen has the right to elect four additional targets in the future upon payment of additional fees. In addition, Janssen will pay royalties to us if products under the collaboration are commercialized. Unless terminated earlier in accordance with its terms, the Janssen Collaboration continues in effect until the later of (i) expiration of the last to expire of the valid claims of our patents covering rHuPH20 or other specified patents developed under the collaboration which valid claim covers a product developed under the collaboration, and (ii) expiration of the last to expire royalty term for a product developed under the collaboration. The royalty term of a product developed under the Janssen Collaboration, with respect to each country, consists of the period equal to the longer of: (a) the duration of any valid claim of our patents covering rHuPH20 or other specified patents developed under the collaboration which valid claim covers the product in such country or (b) ten years following the date of the first commercial sale of such product in such country. In the event such valid claims expire, the royalty rate is reduced for the remaining royalty term. Janssen may terminate the agreement prior to expiration for any reason in its entirety or on a product-by-product basis upon 90 days prior written notice to us. Upon any such termination, the license granted to Janssen (in total or with respect to the terminated target, as applicable) will terminate provided, however, that in the event of expiration of the agreement, the licenses granted will become perpetual, non-exclusive and fully paid.

In December 2012, we and Pfizer entered into a collaboration and license agreement, under which Pfizer has the worldwide license to develop and commercialize products combining our patented rHuPH20 enzyme with Pfizer proprietary biologics directed at up to six targets (the "Pfizer Collaboration"). Targets may be selected on an exclusive or non-exclusive basis. As of June 30, 2016, Pfizer has elected five specified exclusive targets. One of the targets is proprotein convertase subtilisin/kexin type 9, also known as PCSK9. Pfizer has the right to elect one additional target in the future upon payment of additional fees. In addition, Pfizer will pay royalties to us if products under the collaboration are commercialized. Unless terminated earlier in accordance with its terms, the Pfizer Collaboration continues in effect until the later of (i) expiration of the last to expire of the valid claims of our patents covering rHuPH20 or other specified patents developed under the collaboration which valid claim covers a product developed under the collaboration, and (ii) expiration of the last to expire royalty term for a product developed under the collaboration. The royalty term of a product developed under the Pfizer Collaboration, with respect to each country, consists of the period equal to the longer of: (a) the duration of any valid claim of our patents covering rHuPH20 or other specified patents developed under the collaboration which valid claim covers the product in such country or (b) ten years following the date of the first commercial sale of such product in such country. Royalties are subject to adjustment as set forth in the agreement. Pfizer may terminate the agreement prior to expiration for any reason in its entirety or on a target-by-target basis upon 30 days prior written notice to us. Upon any such termination, the license granted to Pfizer (in total or with respect to the terminated target, as applicable) will terminate, provided, however, that in the event of expiration of the agreement, the licenses granted will become perpetual, non-exclusive and fully paid.

Payments received from other collaborators for upfront license fees, license fees for the election of additional targets, maintenance fees and event-based payments since inception of the collaboration agreements are as follows (in thousands):

	As of June 30, 2016
Lilly	$33,000
AbbVie	29,000

Janssen	15,250
Pfizer	16,500
Total payments received	$93,750

At the inception of the Pfizer, Janssen, AbbVie and Lilly arrangements, we identified the deliverables in each arrangement to include the license, research and development services and supply of bulk rHuPH20. We have determined that the license, research and development services and supply of bulk rHuPH20 individually represent separate units of accounting, because each deliverable has standalone value. We determined that the rights to elect additional targets in the future upon the payment of additional license fees are substantive options that are not priced at a significant and incremental discount. Therefore, we determined for each collaboration that the rights to elect additional targets are not deliverables at the inception of the arrangement. The estimated selling prices for the units of accounting we identified were determined based on market conditions, the terms of comparable collaborative arrangements for similar technology in the pharmaceutical and biotech industry and entity-specific factors such as the terms of our previous collaborative agreements, our pricing practices and pricing objectives. The arrangement consideration was allocated to the deliverables based on the relative selling price method and the nature of the research and development services to be performed for the collaborator.

The amount allocable to the delivered unit or units of accounting is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions (non-contingent amount). As such, we excluded from the allocable arrangement consideration the event-based payments, milestone payments, annual exclusivity fees and royalties regardless of the probability of receipt. Based on the results of our analysis, we allocated the $12.5 million license fees from Pfizer, the $15.3 million license fee from Janssen, the $23.0 million upfront license fee from AbbVie and the $33.0 million license fees from Lilly to the license fee deliverable under each of the arrangements. We determined that the upfront payments were earned upon the granting of the worldwide, exclusive right to our technology to the collaborators in these arrangements. As a result, we recognized the $12.5 million license fees under the Pfizer Collaboration, the $15.3 million license fee under the Janssen Collaboration, the $23.0 million upfront license fee under the AbbVie Collaboration, and the $33.0 million license fees under the Lilly Collaboration as revenues under collaborative agreements in the period when such license fees were earned. We recognized revenues of $6.0 million related to event-based payments or milestone payments under these collaborations for both the three and six months ended June 30, 2016. We did not recognize any such revenues for the three and six months ended June 30, 2015.

The collaborators are each solely responsible for the development, manufacturing and marketing of any products resulting from their respective collaborations. We are entitled to receive payments for research and development services and supply of bulk rHuPH20 if requested by any collaborator. We recognize amounts allocated to research and development services as revenues under collaborative agreements as the related services are performed. We recognize amounts allocated to the sales of bulk rHuPH20 as revenues under collaborative agreements when such bulk rHuPH20 has met all required specifications by the collaborators and the related title and risk of loss and damages have passed to the collaborators. We cannot predict the timing of delivery of research and development services and bulk rHuPH20 as they are at the collaborators' requests.

Pursuant to the terms of our collaboration agreements with Roche and Pfizer, certain future payments meet the definition of a milestone in accordance with the Milestone Method of Accounting. We are entitled to receive additional milestone payments under our collaboration agreements with Roche and Pfizer for the successful development of the elected targets in the aggregate of up to $62.5 million upon achievement of specified clinical development milestone events and up to $12.0 million upon achievement of specified regulatory milestone events in connection with specified regulatory filings and receipt of marketing approvals.

5. Certain Balance Sheet Items

Accounts receivable, net consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Accounts receivable from product sales to collaborators	$16,575	$ 4,996
Accounts receivable from other product sales	2,467	2,442
Accounts receivable from revenues under collaborative agreements	5,001	25,939
Subtotal	24,043	33,377
Allowance for distribution fees and discounts	(816)	(967)
Total accounts receivable, net	$23,227	$ 32,410

Inventories consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Raw materials	$1,335	$ 677
Work-in-process	8,779	8,481
Finished goods	641	331
Total inventories	$10,755	$ 9,489

Prepaid expenses and other assets consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Prepaid research and development expenses	$8,044	$ 9,225
Other prepaid expenses	1,520	1,198
Other assets	669	530
Total prepaid expenses and other assets	10,233	10,953
Less long-term portion	6,601	5,574
Total prepaid expenses and other assets, current	$3,632	$ 5,379

Property and equipment, net consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Research equipment	$10,159	$ 9,666
Computer and office equipment	2,678	2,570
Leasehold improvements	2,739	2,025
Subtotal	15,576	14,261
Accumulated depreciation and amortization	(10,894)	(10,318)
Property and equipment, net	$4,682	$ 3,943

Depreciation and amortization expense totaled $0.6 million and $0.4 million for the three months ended June 30, 2016 and 2015, respectively, and $1.1 million and $0.8 million for the six months ended June 30, 2016 and 2015, respectively.

Accrued expenses consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Accrued outsourced research and development expenses	$10,995	$ 8,617
Accrued compensation and payroll taxes	5,993	8,636
Accrued outsourced manufacturing expenses	3,120	6,205
Other accrued expenses	3,773	4,118
Total accrued expenses	23,881	27,576
Less long-term accrued outsourced research and development expenses	30	784
Total accrued expenses, current	$23,851	$ 26,792

Long-term accrued outsourced research and development is included in other long-term liabilities in the condensed consolidated balance sheets.

Deferred revenue consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Collaborative agreements		
License fees and event-based payments:		
Roche	$37,374	$ 39,038
Other	8,591	9,724
	45,965	48,762
Reimbursement for research and development services	4,003	4,461
Total deferred revenue	49,968	53,223
Less current portion	8,096	9,304
Deferred revenue, net of current portion	$41,872	$ 43,919

6. Long-Term Debt, Net

Royalty-backed Loan

In January 2016, through our wholly-owned subsidiary Halozyme Royalty LLC (“Halozyme Royalty”), we received a $150 million loan (the “Royalty-backed Loan”) pursuant to a credit agreement (the “Credit Agreement”) with BioPharma Credit Investments IV Sub, LP and Athyrium Opportunities II Acquisition LP (the “Royalty-backed Lenders”). Under the terms of the Credit Agreement, Halozyme Therapeutics, Inc. transferred to Halozyme Royalty the right to receive royalty payments from the commercial sales of ENHANZE products owed under the Roche Collaboration and Baxalta Collaboration (“Collaboration Agreements”). The royalty payments from the Collaboration Agreements will be used to repay the principal and interest on the loan (the “Royalty Payments”). The Royalty-backed loan bears interest at a per annum rate of 8.75% plus the three-month LIBOR rate. The three-month LIBOR rate is subject to a floor of 0.7% and a cap of 1.5%. The interest rate as of June 30, 2016 was 9.45%.

The Credit Agreement provides that none of the Royalty Payments are required to be applied to the Royalty-backed Loan prior to January 1, 2017, 50% of the Royalty Payments are required to be applied to the Royalty-backed Loan between January 1, 2017 and January 1, 2018 and thereafter all Royalty Payments must be applied to the Royalty-backed Loan. However, the amounts available to repay the Royalty-backed Loan are subject to caps of $13.75 million per quarter in 2017, $18.75 million per quarter in 2018, $21.25 million per quarter in 2019 and $22.5 million per quarter in 2020 and thereafter. Amounts available to repay the Royalty-backed Loan will be applied first, to pay interest and second, to repay principal on the Royalty-backed Loan. Any accrued

interest that is not paid on any applicable quarterly payment date, as defined, will be capitalized and added to the principal balance of the Royalty-backed Loan on such date. Halozyme Royalty will be entitled to receive and distribute to Halozyme any Royalty Payments that are not required to be applied to the Royalty-backed Loan or which are in excess of the foregoing caps.

Because the repayment of the term loan is contingent upon the level of Royalty Payments received, the repayment term may be shortened or extended depending on the actual level of Royalty Payments. The final maturity date of the Royalty-backed Loan will be the earlier of (i) the date when principal and interest is paid in full, (ii) the termination of Halozyme Royalty's right to receive royalties under the Collaboration Agreements, and (iii) December 31, 2050. Currently, we estimate that the loan will be repaid in the first quarter of 2020. This estimate could be adversely affected and the repayment period could be extended if future royalty amounts are less than currently expected. Under the terms of the Credit Agreement, at any time after January 1, 2019, Halozyme Royalty may, subject to certain limitations, prepay the outstanding principal of the Royalty-backed Loan in whole or in part, at a price equal to 105% of the outstanding principal on the Royalty-backed Loan, plus accrued but unpaid interest. The Royalty-backed Loan constitutes an obligation of Halozyme Royalty, and is non-recourse to Halozyme. Halozyme Royalty retains its right to the Royalty Payments following repayment of the loan.

As of June 30, 2016, we were in compliance with all material covenants under the Royalty-backed Loan Agreement and there was no material adverse change in our business, operations or financial condition.

During the six months ended June 30, 2016, accrued interest in the amount of $5.5 million was capitalized and added to the principal balance of the Royalty-backed Loan. In addition, we recorded related accrued interest on the debt of $0.6 million as of June 30, 2016.

In connection with the Royalty-backed Loan, we paid the Lenders a fee of $1.5 million and incurred additional debt issuance costs totaling $0.4 million, which includes expenses that we paid on behalf of the Royalty-backed Lenders and expenses incurred directly by us. Debt issuance costs and the lender fee have been netted against the debt as of June 30, 2016, and are being amortized over the estimated term of the debt using the effective interest method. For the three and six months ended June 30, 2016, the Company recognized interest expense, including amortization of the debt discount, related to the Royalty-backed Loan of $3.8 million and $6.4 million, respectively. The assumptions used in determining the expected repayment term of the debt and amortization period of the issuance costs requires that we make estimates that could impact the short- and long-term classification of these costs, as well as the period over which these costs will be amortized. The outstanding balance of the Royalty-backed Loan as of June 30, 2016 was $153.8 million, inclusive of payment-in-kind interest expense of $5.5 million and net of unamortized debt discount of $1.7 million.

Oxford and SVB Loan and Security Agreement

In December 2013, we entered into an Amended and Restated Loan and Security Agreement (the "Original Loan Agreement") with Oxford Finance LLC ("Oxford") and Silicon Valley Bank ("SVB") (collectively, the "Lenders"), amending and restating in its entirety our previous loan agreement with the Lenders, dated December 2012. The Original Loan Agreement provided for an additional $20 million principal amount of new term loan, bringing the total term loan balance to $50 million. The amended term loan facility was scheduled to mature on January 1, 2018.

In January 2015, we entered into the second amendment to the Original Loan Agreement with the Lenders, amending and restating the loan repayment schedules of the Original Loan Agreement. The amended and restated term loan repayment schedule provided for interest only payments through January 2016, followed by consecutive equal monthly payments of principal and interest in arrears starting in February 2016 and continuing through the previously established maturity date of January 1, 2018. Consistent with the original loan, the amended Original Loan Agreement provided for a 7.55% interest rate on the term loan and a final payment equal to 8.5% of the original principal amount, or $4.25 million, which was due when the term loan became due or upon the prepayment of the facility.

In June 2016, we entered into a new Loan and Security Agreement (the "Loan Agreement") with the Lenders, providing a senior secured loan facility of up to an aggregate principal amount of $70.0 million. Upon entering the loan, we drew $55.0 million at an annual interest rate of 8.25% and used a portion of the proceeds to pay the outstanding principal and final payment owed on the Original Loan Agreement. The remaining proceeds are to be used for working capital and general business requirements. We have the option to draw the remaining $15.0 million during the second quarter of 2017 at an annual interest rate equal to the then-current prime rate as reported in The Wall Street Journal plus 4.75%. The term loan repayment schedule provides for interest only payments for the first 18 months, followed by consecutive equal monthly payments of principal and interest in arrears through the maturity date of January 1, 2021. The Loan Agreement provides for a final payment equal to 5.50% of the initial $55.0 million principal amount and, if we exercise our option to draw an additional $15.0 million in 2017, 7.25% of the principal amount of the second draw. The final payment is due when the term loan becomes due or upon the prepayment of the facility. We have the option to prepay the outstanding balance of the term loan in full, subject to a prepayment fee of 2% in the first year and 1% in the second year of the term loan.

In connection with the term loan, the debt offering costs have been recorded as a debt discount in our condensed consolidated balance sheets which, together with the final payment and fixed interest rate payments, are being amortized and recorded as interest expense throughout the life of the term loan using the effective interest rate method.

The term loan is secured by substantially all of the assets of the Company and our subsidiary, Halozyme, Inc., except that the collateral does not include any equity interests in Halozyme, Inc., any of our intellectual property (including all licensing, collaboration and similar agreements relating thereto), and certain other excluded assets. The Loan Agreement contains customary representations, warranties and covenants by us, which covenants limit our ability to convey, sell, lease, transfer, assign or otherwise dispose of certain of our assets; engage in any business other than the businesses currently engaged in by us or reasonably related thereto; liquidate or dissolve; make certain management changes; undergo certain change of control events; create, incur, assume, or be liable with respect to certain indebtedness; grant certain liens; pay dividends and make certain other restricted payments; make certain investments; make payments on any subordinated debt; enter into transactions with any of our affiliates outside of the ordinary course of business or permit our subsidiaries to do the same; and make any voluntary prepayment of or modify certain terms of the Royalty-backed Loan. In addition, subject to certain exceptions, we are required to maintain with SVB our primary deposit accounts, securities accounts and commodities, and to do the same for our subsidiary, Halozyme, Inc.

The Loan Agreement also contains customary indemnification obligations and customary events of default, including, among other things, our failure to fulfill certain of our obligations under the Loan Agreement and the occurrence of a material adverse change which is defined as a material adverse change in our business, operations, or condition (financial or otherwise), a material impairment of the prospect of repayment of any portion of the loan, a material impairment in the perfection or priority of lender's lien in the collateral or in the value of such collateral or the occurrence of an event of default under the Royalty-backed Loan. In the event of default by us under the Loan Agreement, the Lenders would be entitled to exercise their remedies thereunder, including the right to accelerate the debt, upon which we may be required to repay all amounts then outstanding under the Loan Agreement, which could harm our financial condition.

As of June 30, 2016, we were in compliance with all material covenants under the Loan Agreement and there was no material adverse change in our business, operations or financial condition.

Interest expense, including amortization of the debt discount, related to the Oxford and SVB loan totaled $1.4 million and $1.3 million for the three months ended June 30, 2016 and 2015, respectively, and $2.7 million and $2.6 million for the six months ended June 30, 2016 and 2015, respectively. There was no accrued interest as of June 30, 2016. Accrued interest, which is included in accrued expenses and other long-term liabilities, was $3.2 million as of December 31, 2015. The outstanding term loan balance was $54.4 million as of June 30, 2016, net of unamortized debt discount of $0.6 million.

7. Share-based Compensation

Total share-based compensation expense related to share-based awards was comprised of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Research and development	$2,830	$2,902	$5,414	$4,999
Selling, general and administrative	3,541	3,003	6,774	5,036
Share-based compensation expense	$6,371	$5,905	$12,188	$10,035

Share-based compensation expense by type of share-based award (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Stock options	$4,068	$2,729	$7,776	$4,624
RSAs, RSUs and PRSUs	2,303	3,176	4,412	5,411
	$6,371	$5,905	$12,188	$10,035

Because we have a net operating loss carryforward as of June 30, 2016, no excess tax benefits for the tax deductions related to share-based awards were recognized in the condensed consolidated statements of operations for the three and six months ended June 30, 2016.

The Company granted stock options to purchase approximately 0.7 million and 0.9 million shares of the Company's common stock during the three months ended June 30, 2016 and 2015, respectively, and 3.5 million and 2.5 million shares of the Company's common stock during the six months ended June 30, 2016 and 2015, respectively. The exercise price of stock options granted is equal to the closing price of the Company's common stock on the date of grant. We estimated fair value of each stock option granted on the date of grant using the Black-Scholes-Merton option pricing model ("Black-Scholes model"). Expected volatility is based on historical volatility of our common stock. The expected term of options granted is based on analyses of historical employee termination rates and option exercises. The risk-free interest rate is based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. The dividend yield assumption is based on the expectation that we will not be making future dividend payments. The assumptions used in the Black-Scholes model were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Expected volatility	69.6-70.2%	66.7-66.9%	67.5-70.2%	66.2-67.0%
Average expected term (in years)	5.4	5.6	5.4	5.6
Risk-free interest rate	1.24-1.39%	1.49-1.91%	1.24-1.73%	1.34-1.91%
Expected dividend yield	—	—	—	—

Total unrecognized estimated compensation cost by type of award and the weighted-average remaining requisite service period over which such expense is expected to be recognized (in thousands, unless otherwise noted):

	June 30, 2016	
	Unrecognized Expense	Remaining Weighted-Average Recognition Period (years)
Stock options	$46,353	3.0
RSAs	$11,710	2.8
RSUs	$10,436	3.1
PRSUs	$—	0.8

8. Stockholders' Equity

During the six months ended June 30, 2016 and 2015, we issued an aggregate of 300,219 and 1,555,127 shares of common stock, respectively, in connection with the exercises of stock options at a weighted average exercise price of $6.71 and $7.45 per share, respectively, for net proceeds of approximately $2.0 million and $11.6 million, respectively. For the six months ended June 30, 2016 and 2015, we issued 209,529 and 134,088 shares of common stock, respectively, upon vesting of certain RSUs for which the RSU holders surrendered 80,048 and 52,019 RSUs, respectively, to pay for minimum withholding taxes totaling approximately $0.8 million and $0.7 million, respectively. In addition, we issued 968,652 and 482,790 shares of common stock in connection with the grants of RSAs during the six months ended June 30, 2016 and 2015, respectively. Stock options, unvested RSUs, and PRSUs totaling approximately 11.8 million shares and 9.0 million shares of our common stock were outstanding as of June 30, 2016 and December 31, 2015, respectively.

9. Commitments and Contingencies

From time to time, we may be involved in disputes, including litigation, relating to claims arising out of operations in the normal course of our business. Any of these claims could subject us to costly legal expenses and, while we generally believe that we have adequate insurance to cover many different types of liabilities, our insurance carriers may deny coverage or our policy limits may be inadequate to fully satisfy any damage awards or settlements. If this were to happen, the payment of any such awards could have a material adverse effect on our consolidated results of operations and financial position. Additionally, any such claims, whether or not successful, could damage our reputation and business. We currently are not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on our consolidated results of operations or financial position.

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

As used in this report, unless the context suggests otherwise, references to "Halozyme," "the Company," "we," "our," "ours," a "us" refer to Halozyme Therapeutics, Inc., its wholly owned subsidiary, Halozyme, Inc. and Halozyme Inc.'s wholly owned subsidiaries, Halozyme Holdings Ltd. and Halozyme Royalty LLC. References to "Notes" refer to the Notes to Condensed Consolidated Financial Statements included herein (refer to Item 1 of Part I).

The following information should be read in conjunction with the interim unaudited condensed consolidated financial statements and Notes thereto included in Item 1 of this Quarterly Report on Form 10-Q, as well as the audited financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2015, included in our Annual Report on Form 10-K for the year ended December 31, 2015. Past financial or operating performance is not necessarily a reliable indicator of future performance, and our historical performance should not be used to anticipate results or future period trends.

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements in this report other than statements of historical fact are, or may be deemed to be, forward-looking statements. Words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," "think," "ma "will," "would," "should," "continue," "potential," "likely," "opportunity" and similar expressions or variations of such words intended to identify forward-looking statements, but are not the exclusive means of identifying forward-looking statements in this report. Additionally, statements concerning future matters such as the anticipated timing and scope of planned clinical trials, the development or regulatory approval of new products, enhancements of existing products or technologies, timing and success of the launch of new products by us or by our collaborators, third party performance under key collaboration agreements, revenue, expense and cash burn levels, expected repayment of the Royalty-backed Loan and trends and other statements regarding matters that are not historical are forward-looking statements. Such statements reflect management's current forecast of certain aspects of our future, are based on currently available operating, financial and competitive information and are subject to various risks, uncertainties and assumptions that could cause actual results to differ materially from those anticipated or implied in our forward-looking statements due to a number of factors including, but not limited to, those set forth below under the section entitled "Risks Factors" and elsewhere in this Quarterly Report on Form 10-Q and our most recent Annual Report on Form 10-K. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report. We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report.

Overview

Halozyme Therapeutics, Inc. is a biotechnology company focused on developing and commercializing novel oncology therapies. We are seeking to translate our unique knowledge of the tumor microenvironment to create therapies that have the potential to improve cancer patient survival. Our research primarily focuses on human enzymes that alter the extracellular matrix and tumor microenvironment. The extracellular matrix is a complex matrix of proteins and carbohydrates surrounding the cell that provides structural support in tissues and orchestrates many important biological activities, including cell migration, signaling and survival. Over many years, we have developed unique technology and scientific expertise enabling us to pursue this target-rich environment for the development of therapies.

Our proprietary enzymes are used to facilitate the delivery of injected drugs and fluids, potentially enhancing the efficacy and the convenience of other drugs or can be used to alter tissue structures for potential clinical benefit. We exploit our technology and expertise using a two pillar strategy that we believe enables us to manage risk and cost by: (1) developing our own proprietary products in therapeutic areas with significant unmet medical needs, with a focus on oncology, and (2) licensing our technology to biopharmaceutical companies to collaboratively develop products that combine our technology with the collaborators' proprietary compounds.

The majority of our approved product and product candidates are based on rHuPH20, our patented recombinant human hyaluronidase enzyme. rHuPH20 is the active ingredient in our first commercially approved product, Hylenex® recombinant, and it works by temporarily breaking down hyaluronan (or HA), a naturally occurring complex carbohydrate that is a major component of the extracellular matrix in tissues throughout the body such as skin and cartilage. We believe this temporary degradation creates an opportunistic window for the improved subcutaneous delivery of injectable biologics, such as monoclonal antibodies and other large therapeutic molecules, as well as small molecules and fluids. We refer to the application of rHuPH20 to facilitate the delivery of other drugs or fluids as our ENHANZE™ Technology. We license the ENHANZE Technology to form collaborations with biopharmaceutical companies that develop or market drugs requiring or benefiting from injection via the subcutaneous route of administration.

We currently have ENHANZE collaborations with F. Hoffmann-La Roche, Ltd. and Hoffmann-La Roche, Inc. (Roche), Baxalta US Inc. and Baxalta GmbH (Baxalta Incorporated was acquired by Shire plc in June 2016) (Baxalta), Pfizer Inc. (Pfizer), Janssen Biotech, Inc. (Janssen), AbbVie, Inc. (AbbVie), and Eli Lilly and Company (Lilly). We receive royalties from two of these collaborations, including royalties from sales of one product approved in both the United States and outside the United States from the Baxalta collaboration and from sales of two products approved for marketing outside the United States from the Roche collaboration. Future potential revenues from the sales and/or royalties of our approved products, product candidates, and ENHANZE collaborations will depend on the ability of Halozyme and our collaborators to develop, manufacture, secure and maintain regulatory approvals for approved products and product candidates and commercialize product candidates.

Our proprietary development pipeline consists primarily of clinical stage product candidates in oncology. Our lead oncology program is PEGPH20 (PEGylated recombinant human hyaluronidase), a molecular entity we are developing in combination with currently approved cancer therapies as a candidate for the systemic treatment of tumors that accumulate HA. We have demonstrated that when HA accumulates in a tumor, it can cause higher pressure in the tumor, reducing blood flow into the tumor and with that, reduced access of cancer therapies to the tumor. PEGPH20 has been demonstrated in animal models to work by temporarily degrading HA surrounding cancer cells resulting in reduced pressure and increased blood flow to the tumor thereby enabling increased amounts of anticancer treatments administered concomitantly gaining access to the tumor. We are currently in Phase 2 and Phase 3 clinical testing for PEGPH20 with gemcitabine and nab-paclitaxel (ABRAXANE®) in stage IV pancreatic ductal adenocarcinoma (PDA) (Studies 109-202 and 109-301), in Phase 1b clinical testing for PEGPH20 with docetaxel (Taxotere®) in non-small cell lung cancer (Study 107-201), in Phase 1b clinical testing for PEGPH20 with KEYTRUDA® in non-small cell lung cancer and gastric cancer (Study 107-101) and and in Phase 1b/2 clinical testing for PEGPH20 with eribulin (HALAVEN®) in first line and second line HER2-negative high-HA metastatic breast cancer.

Our second quarter of 2016 and recent highlights include:

- In August 2016, after assessing recruitment and the enrollment of increasingly later line patients, we decided to discontinue the PRIMAL study of PEGPH20 with docetaxel in non-small cell lung cancer patients and focus on immuno-oncology therapy in our ongoing phase 1b study of PEGPH20 in combination with KEYTRUDA.
- In July 2016, we resumed patient enrollment and dosing in our ongoing Phase 1b study evaluating PEGPH20 in combination with KEYTRUDA in relapsed lung and gastric cancer patients under a revised clinical protocol. The revised protocol has been submitted to all institutional review boards (IRB) and is pending feedback from the FDA. The majority of IRBs have approved the amended protocol allowing the study to resume.
- In July 2016, we initiated a phase 1b/2 study with our partner, Eisai, exploring the combination of PEGPH20 and eribulin in first line and second line HER2-negative high-HA metastatic breast cancer.
- In June 2016, we entered into an agreement with Oxford Finance LLC and Silicon Valley Bank to borrow $55.0 million at a fixed rate of 8.25%, and used the proceeds to refinance our existing long-term debt. The new facility provides for interest-only payments for the first 18 months followed by consecutive monthly payments of principal and interest until maturity on January 1, 2021. The agreement will result in a $22.0 million per year increase to the company's expected cash balance at the end of 2016 and 2017. The new loan facility also provides Halozyme the option to borrow an additional $15.0 million in 2017 at a fixed interest rate equal to the then current prime rate plus 4.75%.

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- In June 2016, we presented key efficacy and safety data from stage 1 of our phase 2 clinical study in metastatic pancreatic cancer patients treated with PEGPH20 at the 2016 American Society of Clinical Oncology annual conference. The results continue to show clinically meaningful efficacy for HA-high patients treated with PEGPH20 plus gemcitabine and ABRAXANE versus gemcitabine and ABRAXANE alone, including median progression free survival of 9.2 months versus 6.0 months. Safety data presented from stage 2 of the study continued to show a reduction in the rate of thromboembolic events in both treatment arms as compared to stage 1.
- In May 2016, Roche announced that the European Medicines Agency approved Mabthera SC to treat patients with chronic lymphocytic leukemia, demonstrating the expansion of our Enhanze technology into a new indication.
- In May 2016, Baxalta announced that HYQVIA received a marketing authorization from the European Commission for a pediatric indication, which will be launched in eight European countries to treat primary and certain secondary immunodeficiencies.

Product and Product Candidates

We have one marketed proprietary product and one proprietary product candidate targeting several indications in various stages of development. The following table summarizes our proprietary product and product candidate as well as products and product candidates under development with our collaborators:

Proprietary Pipeline

Hylenex Recombinant (hyaluronidase human injection)

Hylenex recombinant is a formulation of rHuPH20 that has received FDA approval to facilitate subcutaneous fluid administration for achieving hydration, to increase the dispersion and absorption of other injected drugs and, in subcutaneous urography, to improve resorption of radiopaque agents. Hylenex recombinant is currently the number one prescribed branded hyaluronidase.

PEGPH20

We are developing PEGPH20 in combination with currently approved cancer therapies as a candidate for the systemic treatment of tumors that accumulate HA. ‘PEG’ refers to the attachment of polyethylene glycol to rHuPH20, thereby creating PEGPH20. One of the novel properties of PEGPH20 is that it lasts for an extended duration in the bloodstream and, therefore, can be administered systemically to maintain its therapeutic effect to treat disease. Cancer malignancies, including pancreatic, lung, breast, gastric, colon and prostate cancers can accumulate high levels of HA and therefore we believe that PEGPH20 has the potential to help patients with these types of cancer when used with currently

approved cancer therapies. Among solid tumors, PDA has been reported to be associated with the highest frequency of HA accumulation. Approximately 90,000 patients in the United States and the European Union will be diagnosed with PDA in 2016.

The pathologic accumulation of HA, along with other matrix components, creates a unique microenvironment for the growth of tumor cells compared to normal cells. We believe that depleting the HA component of the tumor microenvironment with PEGPH20 remodels the tumor microenvironment, resulting in tumor growth inhibition in animal models. Removal of HA from the tumor microenvironment results in expansion of previously constricted blood vessels allowing increased blood flow, potentially increasing the access of activated immune cells and factors in the blood into the tumor microenvironment. If PEGPH20 is administered in conjunction with other anti-cancer therapies, the increase in blood flow may allow anti-cancer therapies to have greater access to the tumor, which may enhance the treatment effect of therapeutic modalities like chemotherapies, monoclonal antibodies and other agents.

Pancreatic cancer indications:

Study Halo 109-201:

In January 2015, we presented the final results from Study 109-201, a multi-center, international open label dose escalation Phase 1b clinical study of PEGPH20 in combination with gemcitabine for the treatment of patients with stage IV PDA at the 2015 Gastrointestinal Cancers Symposium (also known as ASCO-GI meeting). This study enrolled 28 patients with previously untreated stage IV PDA. Patients were treated with one of three doses of PEGPH20 (1.0, 1.6 and 3.0 μg/kg twice weekly for four weeks, then weekly thereafter) in combination with gemcitabine 1000 mg/m2 administered intravenously. In this study, the confirmed overall response rate (complete response + partial response confirmed on a second scan as assessed by an independent radiology review) was 29 percent (7 of 24 patients) for those treated at therapeutic dose levels of PEGPH20 (1.6 and 3.0 μg/kg). Median progression-free survival (PFS) was 154 days (95% CI, 50-166) in the efficacy-evaluable population (n = 24). Among efficacy-evaluable patients with baseline tumor HA staining (n = 17), the median PFS in patients with high baseline tumor HA staining (6/17 patients) was substantially longer, 219 days, than in the patients with low baseline tumor HA staining (11/17 patients), 108 days. Median overall survival (OS) was 200 days (95% CI, 123-370) in the efficacy-evaluable population (n = 24). Among efficacy-evaluable patients with baseline tumor HA staining (n = 17), the median OS in patients with high baseline tumor HA staining (6/17 patients) was substantially longer, 395 days, than in the patients with low baseline tumor HA staining (11/17 patients), 174 days. The most common treatment-emergent adverse events (occurring in ≥ 15% of patients) were peripheral edema, muscle spasms, thrombocytopenia, fatigue, myalgia, anemia, and nausea. Thromboembolic (TE) events were reported in 8 patients (28.6%) and musculoskeletal events were reported in 21 patients (75%) which were generally grade 1/2 in severity.

Study Halo 109-202:

In the second quarter of 2013, we initiated Study 109-202, a Phase 2 multicenter randomized clinical trial evaluating PEGPH20 as a first-line therapy for patients with stage IV PDA. The study was designed to enroll patients who would receive gemcitabine and nab-paclitaxel (ABRAXANE®) either with or without PEGPH20. The primary endpoint is to measure the improvement in PFS in patients receiving PEGPH20 plus gemcitabine and ABRAXANE (PAG arm) compared to those who are receiving gemcitabine and ABRAXANE alone (AG arm). In April 2014, after 146 patients had been enrolled, the trial was put on clinical hold by Halozyme and the FDA to assess a question raised by the Data Monitoring Committee regarding a possible difference in the TE events rate between the group of patients treated in the PAG arm versus the group of patients treated in the AG arm. This portion of the study and patients in this portion are now referred to as Stage 1. At the time of the clinical hold all patients remaining in the study continued on gemcitabine and ABRAXANE. In July 2014, the Study 109-202 was reinitiated (Stage 2) under a revised protocol, which excludes patients that are expected to be at a greater risk for TE events. The revised protocol provides for thromboembolism prophylaxis of all patients in both arms of the study with low molecular weight heparin, and adds evaluation of the TE events rate in Stage 2 PEGPH20-treated patients as a co-primary end point. Stage 2 of Study 109-202 enrolled an additional 133 patients, to add to the 146 patients already in the clinical trial, with a 2:1 randomization for the PAG arm compared to the AG arm. We project to present mature PFS data and overall response rate in the fourth quarter of 2016.

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In March 2016, our partner, Ventana, received approval for an investigational device exemption (IDE) application from the FDA for our companion diagnostic test to enable patient selection in our Phase 3 Study 301 of PEGPH20 in high-HA patients. Based on the cutpoint for the Ventana diagnostic, we expect approximately 35 to 40 percent of stage IV PDA patients to have high-HA tumors, similar to the previously reported interim results from Stage 1 of Study 202 using the Halozyme prototype assay.

In June 2016, results from a final analysis of Stage 1 of Study 109-202 were presented at the American Society of Clinical Oncology annual conference. The trial included 135 treated patients in Stage 1, of whom a total of 43 patients (22 in the PAG arm and 21 in the AG arm) were determined to have high HA. This final analysis of secondary and exploratory endpoints was conducted using the Ventana companion diagnostic to retrospectively identify high levels of HA. The key results based on a February 2016 data cut-off showed in the high-HA patient population:

- Median PFS was 9.2 months in the PAG arm versus 6.0 months in the AG arm, hazard ratio (HR) with a 95 percent confidence interval (CI): 0.46 (0.15, 1.40);
- Overall response rate of 50 percent, including one complete response in the PAG arm versus 33 percent and all partial responses in the AG arm;
- Median duration of response of 8.1 months in the PAG arm versus 3.7 months in the AG arm;
- The exploratory analysis of median OS was similar between the treatment arms -- 11.8 months vs. 10.9 months in the PAG vs. AG arms respectively. Factors potentially having an impact on these results include less aggressive disease among patients in the AG arm and a greater than 40 percent discontinuation rate of PEGPH20 treatment in the PAG arm at the time of the clinical hold, resulting in all patients receiving AG alone in both arms;