

NEKTAR THERAPEUTICS
Form S-3/A
October 28, 2003

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As filed with the Securities and Exchange Commission on October 28, 2003

Registration No. 333-108856

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2

to

FORM S-3

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

NEKTAR THERAPEUTICS

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

94-3134940
(I.R.S. Employer
Identification No.)

**150 Industrial Road
San Carlos, California 94070
(650) 631-3100**

(Address, including zip code, and telephone number, including
area code of Registrant's principal executive offices)

Ajit S. Gill
Chief Executive Officer, President and Director
Nektar Therapeutics
150 Industrial Road
San Carlos, CA 94070
(650) 631-3100

(Name, address, including zip code, and telephone number,
including area code, of agent for service)

Copies to:

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Approximate date of commencement of proposed sale to the public:

From time to time after the effective date of this Registration Statement.

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If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price per Unit(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
3% Convertible Subordinated Notes due June 30, 2010	\$110,000,000	100%	\$110,000,000	\$8,899.00
Common Stock, par value \$0.0001 per share, issuable upon conversion of the 3% Convertible Subordinated Notes due June 30, 2010(2)	9,691,629 (3)	(4)	(4)	(4)
Other Common Stock, par value \$0.0001 per share(2)	72,419 (5)	\$13.93	\$1,008,797	\$81.61
Total Registration Fee				\$8,980.61 (6)

- (1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(i) and 457(c) of the Securities Act of 1933, as amended.
- (2) Each share of the registrant's common stock being registered hereunder, if issued prior to the termination by the registrant of its preferred share rights agreement, includes Series A junior participating preferred stock purchase rights. Prior to the occurrence of certain events, the Series A junior participating preferred stock purchase rights will not be exercisable or evidenced separately from the registrant's common stock and have no value except as reflected in the market price of the shares to which they are attached.
- (3) Represents the number of shares of common stock that are initially issuable upon conversion of the 3% Subordinated Convertible Notes due June 30, 2010 registered hereby. For purposes of estimating the number of shares of common stock issuable upon conversion of the notes to be registered hereunder, the registrant calculated the number of shares issuable upon conversion of the notes based on the initial conversion price of \$11.35 per share of common stock. In addition to the shares set forth in the table, pursuant to Rule 416 under the Securities Act, the amount of common stock to be registered includes an indeterminate number of shares of common stock issuable upon conversion of the notes, as this amount may be adjusted as a result of stock splits, stock dividends and antidilution provisions.
- (4) No additional consideration will be received for the common stock issuable upon conversion of the notes and, therefore, no registration fee is required pursuant to Rule 457(i).
- (5) Represents shares of common stock held by AFAC Equity, L.P.
- (6) \$8,980.61 was previously paid and no fee is included with this filing.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. The selling security holders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is declared effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject To Completion, Dated October 28, 2003

PROSPECTUS

NEKTAR THERAPEUTICS

\$110,000,000 of 3% Convertible Subordinated Notes due June 30, 2010 and Shares of Common Stock Issuable upon Conversion of the Notes and 72,419 Shares of Additional Common Stock

We issued \$110,000,000 principal amount of our 3% Convertible Subordinated Notes due June 30, 2010 in a private offering in June 2003. This prospectus relates to our 3% Convertible Subordinated Notes due June 30, 2010 held by certain security holders who may offer for sale the notes and the shares of our common stock into which the notes are convertible at any time at market prices prevailing at the time of sale or at privately negotiated prices. The selling security holders may sell the notes or the common stock directly to purchasers or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions. This prospectus also relates to the sale by AFAC Equity, L.P. of up to 72,419 shares of our common stock acquired by them from us in a private placement. AFAC Equity, L.P. may sell the common stock directly to purchasers or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions. We will not receive any proceeds from these resales.

The notes have the following provisions:

the holders of the notes may convert the notes into shares of our common stock at any time at a conversion price of \$11.35 per share which is equivalent to a conversion rate of 88.1057 shares per each \$1,000 principal amount of notes, subject to adjustment;

we will pay interest on the notes on June 30 and December 30 of each year, and the first interest payment will be made on December 30, 2003;

the notes will mature on June 30, 2010;

we may redeem some or all of the notes at any time before June 30, 2006 at a redemption price of \$1,000 per \$1,000 principal amount of notes, if the closing price of our common stock has exceeded 150% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date of mailing of the provisional redemption notice. If we choose to redeem the notes during this period, we will make an additional payment equal to \$90 per \$1,000 principal amount of notes redeemed, however the amount of this payment will be reduced by the amount of any interest actually paid on the notes redeemed before the date of the redemption. We may make this payment, at our option, in cash, in shares of our common stock or in a combination of cash and shares of our common stock;

in the event of a Change of Control, as defined in the section of this prospectus entitled "Description of the Notes-Repurchase at Option of Holders Upon a Change of Control," each holder of the notes may require us to repurchase

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some or all of the holder's notes at 100% of the principal amount of the notes plus accrued and unpaid interest. At our option, we may repurchase the notes for cash or common stock or a combination of cash, common stock or securities of a company that acquires us; and

the notes are unsecured and subordinated to all of our existing and future Senior Debt, as that term is defined in this prospectus, except we have purchased and pledged a portfolio of U.S. treasury securities as security for the notes, in an amount sufficient to pay the first six scheduled interest payments due on the notes.

Prior to this offering, the notes have been eligible for trading on the PORTAL Market of the Nasdaq Stock Market. Notes sold by means of this prospectus will no longer trade on the PORTAL Market. We do not intend to list the notes for trading on any national securities exchange or on the Nasdaq National Market.

Our common stock currently trades on the Nasdaq National Market under the symbol "NKTR." The last reported sale price on October 27, 2003 was \$13.28 per share.

Investing in our common stock or our notes offered by this prospectus involves a high degree of risk. Please carefully consider the "Risk Factors" beginning on page 6 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2003.

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED, OR INCORPORATED BY REFERENCE, IN THIS PROSPECTUS OR THE REGISTRATION STATEMENT. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. NEITHER THE NOTES NOR ANY SHARES OF COMMON STOCK COVERED BY THIS PROSPECTUS ARE BEING OFFERED IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS IS ACCURATE ONLY AS OF THE DATE OF THIS PROSPECTUS, AND THE INFORMATION IN THE DOCUMENTS INCORPORATED OR DEEMED TO BE INCORPORATED BY REFERENCE IN THIS PROSPECTUS SPEAKS ONLY AS OF THE RESPECTIVE DATES THOSE DOCUMENTS WERE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS OR OF ANY SALE OF THE NOTES OR SHARES OF COMMON STOCK COVERED BY THIS PROSPECTUS.

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This prospectus contains summaries of certain provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by the actual documents. Copies of some of the documents referred to herein have been filed or incorporated by reference as exhibits to the registration statement of which this prospectus is a part and you may obtain copies of those documents as described below under "Where You Can Find More Information."

SUMMARY

This summary highlights information contained elsewhere in this prospectus or incorporated by reference into this prospectus. This summary does not contain all the information that is important to you. We urge you to read this entire prospectus carefully, including the "Risk Factors" section and the documents incorporated and deemed to be incorporated by reference into this prospectus, including the financial statements and related notes, identified under "Where You Can Find More Information" before making an investment decision.

Nektar Therapeutics

Overview

We are working to become one of the world's leading drug delivery products based companies by providing a portfolio of technologies and expertise that is intended to enable us and our pharmaceutical and biotechnology partners to improve drug performance throughout the drug development process. Historically, drug delivery has been focused on life cycle management of older products facing patent expiration, or on seeking product line extensions. The advent of newer technologies, including high-throughput screening, combinatorial chemistry, genomics and proteomics, has led to an increase in the number of molecular leads for new drugs. This has led pharmaceutical companies to focus earlier in development on molecular characteristics such as toxicity, solubility and immunogenicity to improve clinical safety and efficacy of drugs. We believe it is now recognized that drug delivery spans the entire development process, with an emphasis on applying technologies that can optimize drug candidates, and places a premium on faster and more efficient drug development.

Our mission is to provide drug delivery technologies that enable superior therapeutics that make a difference in patients' lives. Primarily, we want to partner with pharmaceutical and biotechnology companies seeking to improve and differentiate the products in their pipelines. In addition to our partner-funded programs, we have started applying our technology independently through internal early-stage proprietary product development efforts.

We have three areas of technological focus:

Nektar Molecule Engineering using advanced PEGylation (covalent chemical attachment of polyethylene glycol, or PEG, chains to drug substances) and PEG-based delivery systems (e.g., PEG-based gels and polymer-based encapsulating agents) to enable drug performance;

Nektar Particle Engineering using our expertise in pulmonary particle technology and supercritical fluids technology to design and manufacture optimal drug particles; and

Nektar Delivery Solutions using advanced systems for pulmonary administration to improve therapeutic outcomes.

Our technologies are designed to improve either the performance of a drug molecule (e.g., bioavailability, safety, efficacy, stability, targeting, etc.) or how the drug is delivered (e.g., enabling a new dosage form or delivery profile that improves how the therapeutic can treat patients). We believe these technologies have the potential to create better performing drugs, achieve shorter product development times and reduce the risk of product instability or inconsistency.

Corporate Information

In January 2003, we changed our corporate name to Nektar Therapeutics from Inhale Therapeutic Systems, Inc. Our principal executive offices are located at 150 Industrial Road, San Carlos, California 94070. Our telephone number is (650) 631-3100. We maintain an Internet home page at www.nektar.com. The contents of our web page are not a part of this prospectus.

All Nektar brand and product names are trademarks or registered trademarks of Nektar Therapeutics, in the United States and other countries. All other trade names, trademarks and service marks appearing in this prospectus are the property of their respective holders. We do not intend our use or display of other parties' trade names, or trademarks or service marks to imply a relationship with, or endorsement or sponsorship of, us by these other parties.

The Offering

This prospectus relates to the sale by certain security holders of our 3% Convertible Subordinated Notes due June 30, 2010 and the shares of our common stock into which the notes are convertible and to the sale by AFAC Equity, L.P. of up to 72,419 shares of our common stock.

The Notes

The following is a brief summary of some of the terms of the notes offered for resale by this prospectus. For a more complete description of the terms of the notes, see "Description of the Notes" in this prospectus.

Notes Offered	\$110,000,000 aggregate principal amount of 3% Convertible Subordinated Notes due 2010 and shares of our common stock issuable upon conversion of the notes.
Maturity	June 30, 2010.
Interest	We will pay interest on the notes at 3% per annum on the principal amount, payable semiannually on June 30 and December 30, beginning on December 30, 2003.
Conversion Rights	<p> Holders may convert the notes at their option at any time on or prior to maturity into shares of our common stock at a conversion price of \$11.35 per share, which is equal to an initial conversion rate of approximately 88.1057 shares per \$1,000 principal amount of notes. The conversion price is subject to adjustment. See "Description of the Notes Conversion Rights." </p>
Security	<p> Pursuant to the terms of a pledge agreement between us and J.P. Morgan Trust Company, National Association, as collateral agent, we have purchased and pledged to the collateral agent, as security for the notes and for the exclusive benefit of the holders of the notes, a portfolio of \$9,900,000 aggregate principal amount at maturity of zero-coupon U.S. treasury securities. This treasury portfolio consists of principal or interest strips of U.S. treasury securities that mature on or prior to the business day immediately preceding each of the first six interest payment dates for the notes in such amounts as are sufficient upon receipt of scheduled interest and principal payments of such securities to provide for payment in full of the first six scheduled interest payments on the notes when due. In limited circumstances involving an event of default under the notes, the pledged U.S. treasury securities and the pledge account also secure the repayment of the principal amount of the notes and our obligation to pay the "additional payment" referred to below under "Provisional Redemption." The notes are otherwise not secured. See "Description of the Notes Security." </p>

Provisional Redemption	We may redeem the notes, in whole or in part, at any time prior to June 30, 2006, at a redemption price, payable in cash, equal to \$1,000 per \$1,000 principal amount of notes to be redeemed if
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the closing price of our common stock has exceeded 150% of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day prior to the date of mailing of the provisional

redemption notice; and

the shelf registration statement covering resales of the notes and the common stock issuable upon conversion of the notes is effective and available for use and is expected to remain effective and available for use for the 30 days following the provisional redemption date.

Upon any provisional redemption, we will make an additional payment on the provisional redemption date with respect to the notes called for redemption in an amount equal to \$90 per \$1,000 principal amount of notes, less the amount of any interest actually paid on these notes before the provisional redemption date. We may make this additional payment, at our option, in either cash or our common stock (or a combination of both). We will state the form of consideration to be paid in our notice of provisional redemption. Payments made in our common stock will be valued at 97% of the average of the closing sale prices for the five consecutive trading days ending on the trading day prior to the provisional redemption date. We will be obligated to make this additional payment on all notes called for provisional redemption, including any notes converted after the notice date and on or before the provisional redemption date. See "Description of the Notes Provisional Redemption."

Optional Redemption

We may redeem some or all of the notes on or after June 30, 2006 at the redemption prices listed in this prospectus, plus accrued and unpaid interest.

Repurchase Right

Holder of the notes may require us to repurchase some or all of the holders' notes at 100% of their principal amount plus accrued and unpaid interest in certain circumstances involving a Change of Control. The repurchase price is payable, at our option:

in cash;

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subject to the satisfaction of certain conditions, in our common stock or the securities of a company that acquires us. The number of shares of our common stock or the securities of the acquiror will equal the repurchase price (less any amounts paid in cash) divided by 95% of the average of the closing sale prices for the five consecutive trading days ending on and including the third trading day prior to the repurchase date; or

a combination of cash, common stock or securities of a company that acquires us, as referred to above.

See "Description of the Notes Repurchase at Option of Holders Upon a Change of Control."

Subordination

Other than as set forth under "Description of the Notes Security" and "Subordination," the notes are unsecured and rank subordinate to all of our existing and future Senior Debt (as defined under "Description of the Notes Subordination") and are effectively subordinated to all of the indebtedness and other liabilities (including trade and other

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payables) of our subsidiaries. As of June 30, 2003, we had approximately \$35.4 million of Senior Debt outstanding, and our subsidiaries had no indebtedness outstanding (other than intercompany indebtedness and liabilities), except for, Nektar Therapeutics AL, Corporation, which has entered into a \$5 million revolving line of credit with Compass Bank. The notes rank equal in right of payment (except to the extent of the collateral pledged to secure the notes as described above under " Security") with our outstanding convertible subordinated notes and debentures. As of July 31, 2003, we had approximately \$388.6 million aggregate principal amount of convertible subordinated notes and debentures outstanding. The indenture governing the notes does not limit the amount of indebtedness, including Senior Debt, or other liabilities that we and our subsidiaries may incur. See "Description of the Notes Subordination."

Form and Denomination

The notes were issued in fully registered form.

The notes are represented by one or more global notes, deposited with a trustee as custodian for The Depository Trust Company and registered in the name of Cede & Co., DTC's nominee. Beneficial interests in the global notes are shown on, and any transfers will be effected only through, records maintained by DTC and its participants. See "Description of the Notes Form, Denomination and Registration."

Use of Proceeds

We will not receive any proceeds from the sale by the selling securityholders of the notes or the shares of common stock issuable upon conversion of the notes.

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Registration Rights

Under the terms of a registration rights agreement that we entered into in connection with the private offering of the notes in June 2003, we have filed a shelf registration statement under the Securities Act of 1933 relating to the resale of the notes and the common stock issuable upon conversion of the notes. This prospectus constitutes a part of that registration statement. We filed the shelf registration statement to permit the resale of the notes issued in the June 2003 private offering and shares of common stock issued on conversion of those notes, and investors who purchase notes or shares of common stock from selling holders in this offering will not be entitled to any registration rights under the registration rights agreement. In addition, under the registration rights agreement, selling holders may be required to discontinue the sale or other disposition of notes and shares of common stock issued upon conversion of notes pursuant to the shelf registration statement and to discontinue the use of this prospectus under certain circumstances specified in the registration rights agreement.

The Common Stock

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The following is a brief summary of the terms of the common stock offered for resale by AFAC Equity, L.P. by this prospectus. For a more complete description of the terms of our common stock, see "Description of Capital Stock" in this prospectus.

In 2002, we issued shares of our common stock to AFAC Equity L.P., an affiliated partnership of McKinsey & Company, Inc. United States ("McKinsey"), in connection with certain consulting services provided to us by McKinsey during 2002.

Under the terms of registration rights agreements that we entered into in connection with the sale of common stock to AFAC Equity, L.P., we have filed a shelf registration statement under the Securities Act of 1933 relating to the resale of 72,419 shares of common stock purchased by AFAC Equity, L.P. This prospectus constitutes a part of that registration statement. We filed the shelf registration statement to permit the resale of the common stock, and investors who purchase shares of common stock from AFAC Equity, L.P. in this offering will not be entitled to any registration rights under the registration rights agreements. In addition, under the registration rights agreements, AFAC Equity, L.P. may be required to discontinue the sale or other disposition of the common stock pursuant to the shelf registration statement and to discontinue the use of this prospectus under certain circumstances specified in the registration rights agreements.

Risk Factors

See "Risk Factors" and other information included and incorporated by reference in this prospectus for a discussion of factors you should carefully consider before deciding to invest in the notes, the common stock issuable upon conversion of the notes or the common stock sold by AFAC Equity, L.P.

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RISK FACTORS

An investment in the securities offered by this prospectus involves a high degree of risk. You should carefully consider the following factors and other information in this prospectus and the documents incorporated or deemed to be incorporated by reference in this prospectus before deciding to purchase the notes or shares of common stock offered by this prospectus. Any of the following factors could materially and adversely affect our business, operating results or financial condition. In that case, the value of the notes and the market price of our common stock could decline and you may lose part or all of your investment.

Risks Related to our Business

If our collaborative partners that we depend on to obtain regulatory approvals and commercialization of our products are not successful, or if such collaborations fail, then our product development or commercialization of our products may be delayed or unsuccessful.

Because we are in the business of developing technology for improving drug formulations and methods for drug delivery, and licensing these technologies to companies that make and sell drugs, we do not have the people and other resources to do the following things:

synthesize active pharmaceutical ingredients to be used as medicines;

design and conduct large scale clinical studies;

prepare and file documents necessary to obtain government approval to sell a given drug product; or

market and sell our products when and if they are approved.

When we sign a collaborative development agreement or license agreement to develop a product with a drug or biotechnology company, the drug or biotechnology company agrees to do some or all of the things described above.

Reliance on collaborative relationships poses a number of risks, including:

the potential inability to control whether and the extent to which our collaborative partners will devote sufficient resources to our programs or products;

disputes which may arise in the future with respect to the ownership of rights to technology and/or intellectual property developed with collaborative partners;

disagreements with collaborative partners which could lead to delays in or termination of the research, development or commercialization of product candidates, or result in litigation or arbitration;

the potential for contracts with our collaborative partners to fail to provide significant protection or to be effectively enforced if one of these partners fails to perform. Collaborative partners have considerable discretion in electing whether to pursue the development of any additional products and may pursue alternative technologies or products either on their own or in collaboration with our competitors;

the potential for collaborative partners with marketing rights to choose to devote fewer resources to the marketing of our products than they do to products of their own development;

risks related to the ability of our distributors and corporate partners to pay us; and

the potential for collaborative partners to unilaterally terminate their agreements with us for any or no reason.

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Given these risks, there is a great deal of uncertainty regarding the success of our current and future collaborative efforts.

We have entered into collaborations in the past that have been subsequently terminated. If other collaborations are suspended or terminated, our ability to successfully commercialize certain of our other proposed products could also be negatively impacted. If these efforts fail, our product development or commercialization of products could be delayed and our financial position and results of operation would be significantly harmed.

If Pfizer does not file an NDA or equivalent European regulatory submission for approval for Exubera®, if the FDA or European regulatory agencies do not timely approve any NDA or equivalent European regulatory submission for Exubera or if our collaboration with Pfizer is discontinued prior to the launch of Exubera, then our financial position and results of operations will be significantly harmed.

We are developing with Pfizer an inhaleable version of insulin, Exubera, for the treatment of Type 1 and Type 2 diabetes that will be administered using our pulmonary delivery system. Exubera is currently in Phase III clinical trials. We currently depend on Pfizer as the source of a significant portion of our revenues. For the three-months ended June 30, 2003, and 2002, contract research revenue from Pfizer accounted for 63% and 61% of our revenue, respectively, and 58% and 61% for the six-months ended June 30, 2003 and 2002, respectively. Delays in the filing of the Exubera NDA or equivalent European regulatory submission will result in a delay in marketing approval, and there can be no assurance that even if the NDA or equivalent European regulatory submission is filed, Exubera will be approved for marketing and commercial use. Among the factors that may delay the filing or approval of the NDA or equivalent European regulatory submission, or the commercial launch of Exubera, are the following:

Pfizer is currently conducting studies to generate controlled long-term safety data with respect to Exubera, in particular its affect on lung function, and the results of the studies may impact the filing of regulatory submissions or regulatory approvals;

The results of any discussions with the FDA and European regulatory agencies with respect to the requirements for and timing of the submission of an NDA or equivalent European regulatory submission may impact the filing or approval of the

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NDA or equivalent European regulatory submission;

We may experience difficulties with respect to the processing of the dry powder formulation of inhaleable insulin, and the filling and packaging of the inhaleable insulin powder for Exubera. We may not be able to successfully transfer the filling and packaging technology to Pfizer for the large scale commercial production of Exubera;

We, with our contract manufacturers, may experience difficulties with respect to the production of the pulmonary inhaler device for Exubera, including the design, scale up and automation of the commercial manufacture of the pulmonary inhaler device for Exubera, and any such difficulties may delay the filing and approval of the NDA or equivalent European regulatory submission. Our contract manufacturers may also experience difficulties with respect to manufacturing the device in high volumes for commercial use; and

Pfizer may elect for marketing or other reasons to delay or not proceed with the filing, or if approved following any such filing, the commercial launch of Exubera.

The determination as to whether or when an NDA or equivalent European regulatory submission is filed with respect to Exubera will be made by Pfizer in its discretion. We cannot provide any assurance as to when or if any NDA or equivalent European regulatory submission will be made. If the filing or approval of the NDA or equivalent European regulatory submission is substantially delayed

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beyond the internal estimates we have made for purposes of budgeting and resource allocation, we may not have the financial ability to continue supporting the Exubera program or be able to meet our contractual obligations relating to the commercial launch of Exubera. In the event of any such delay, we may also elect to divert resources away from Exubera related activities or otherwise reduce our activities relating to the Exubera program. Any material delay in the filing for regulatory approval or material delay in receiving regulatory approval, or failure to receive regulatory approval for Exubera at all, would affect our contract research revenue from Pfizer, may result in the payment by us of substantial reimbursements to the contract manufacturers of our proprietary inhaler device, and would significantly harm our financial position and results of operations. Furthermore, should the collaboration with Pfizer be discontinued, our financial position and results of operations may be substantially harmed.

If we fail to establish future successful collaborative relationships, then our financial results may suffer and our product development efforts may be delayed or unsuccessful.

We intend to seek future collaborative relationships with pharmaceutical and biotechnology partners to fund some of our research and development expenses and to develop and commercialize potential products. Further, we anticipate that the timing of drug development programs under existing collaborative agreements with our partners will continue to affect our revenues from such agreements. We may not be able to negotiate acceptable collaborative arrangements in the future, and any arrangements we do negotiate may not be successful. If we fail to establish additional collaborative relationships, we will be required to undertake research, development, marketing and manufacturing of our proposed products at our own expense or discontinue or reduce these activities.

If our drug delivery technologies are not commercially feasible, then our revenues and results of operations will be impacted negatively.

We are in an early stage of development with respect to many of our products. There is a risk that our technologies will not be commercially feasible. Even if our technologies are commercially feasible, they may not be commercially accepted across a range of large and small molecule drugs. We have tested 12 drug formulations based on our pulmonary delivery systems in humans, but many of our potential formulations have not been tested in clinical trials. While our Advanced PEGylation technology has been incorporated in five products that the FDA has approved for marketing, and three other products using our Advanced PEGylation technology are in Phase II/III pivotal trials or in Phase III trials, many of the drug formulations which incorporate this technology are in the early stages of feasibility or preclinical testing or in human clinical trials. Our supercritical fluids technology is also primarily in an early stage of feasibility. This technology represents a new method of manufacturing drug particles and is still in research and development, with only one formulation having entered human clinical testing.

Our potential products require extensive research, development and preclinical and clinical testing. Our potential products also may involve lengthy regulatory reviews and require regulatory approval before they can be sold. We do not know if, and cannot provide assurance that, any of our potential products will prove to be safe and effective, accomplish the objectives that we and our collaborative partners are seeking through

the use of our technologies, meet regulatory standards or continue to meet such standards if already approved. There is a risk that we and our collaborative partners may not be able to produce any of our potential products in commercial quantities at acceptable costs, or market them successfully. Failure to achieve commercial feasibility, demonstrate safety, achieve clinical efficacy, obtain regulatory approval or, together with partners, successfully market products will negatively impact our revenues and results of operations.

If our research and development efforts are delayed or unsuccessful, then we will experience delay or be unsuccessful in having our products commercialized, and our business will suffer.

Except for our products that have already been approved by the FDA, our product candidates are still in research and development, including preclinical testing and clinical trials. Preclinical testing and clinical trials are long, expensive and uncertain processes. It may take us or our collaborators several years to complete this testing, and failure can occur at any stage in the process. Success in preclinical testing and early clinical trials does not ensure that later clinical trials will be successful. A number of companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in later stage clinical trials, even after promising results in earlier trials.

Any clinical trial may fail to produce results satisfactory to us, our collaborative partners or the FDA. Preclinical and clinical data can be interpreted in different ways, which could delay, limit or prevent regulatory approval or commercialization. Negative or inconclusive results or adverse medical events during a clinical trial could cause a clinical trial to be repeated or a program to be terminated. We typically rely on collaborative partners and third-party clinical investigators to conduct clinical trials of our products and, as a result, we may face additional delaying factors outside our control.

We do not know if any of our research and development efforts, including preclinical testing or clinical trials will adhere to our planned schedules or be completed on a timely basis or at all. Typically, there is a high rate of attrition for product candidates in preclinical and clinical trials.

If our drug delivery technologies do not satisfy certain basic feasibility requirements such as total system efficiency, then our products may not be competitive.

We may not be able to achieve the total system efficiency for products based on our pulmonary delivery system that is needed to be competitive with alternative routes of delivery or formulation technologies. We determine total system efficiency by the amount of drug loss during manufacture, in the delivery system, and in reaching the ultimate site at which the drug exhibits its activity.

Deep lung bioavailability is the percentage of a drug that is absorbed into the bloodstream when that drug is delivered directly to the lungs as compared to when the drug is delivered by injection. Relative bioavailability is the initial screen for determining whether deep lung delivery of any drug, based on our pulmonary delivery systems, is commercially feasible. We would not consider a drug to be a good candidate for development and commercialization using our pulmonary delivery systems if drug loss is excessive at any one stage or cumulatively in the manufacturing and delivery process.

Our ability to efficiently attach PEG polymer chains to a drug molecule is the initial screen for determining whether drug formulations using our Advanced PEGylation technology are commercially feasible. We would not consider a drug formulation to be a good candidate for development and commercialization using our Advanced PEGylation technology if we could not efficiently attach a PEG polymer chain to such drug without destroying or impairing the drug's activity.

For our supercritical fluids technology, solubility characteristics of a drug and the solvents, which may be incorporated in the manufacturing process, provide the initial screen for whether drug formulations using this technology are commercially feasible. We would not consider a drug to be a good candidate for this technology if its solubility characteristics were such that the application of our technology results in very low efficiency in manufacturing of drug powders.

If our drug formulations are not stable, then we will not be able to develop or commercialize products.

We may not be able to identify and produce powdered or other formulations of drugs that retain the physical and chemical properties needed to work effectively with our inhaler devices for deep lung delivery using our pulmonary delivery systems, or through other methods of drug delivery using Advanced PEGylation or supercritical fluids technologies. Formulation stability is the physical and

chemical stability of the drug over time and under various storage, shipping and usage conditions. Formulation stability will vary with each drug formulation and the type and amount of ingredients that are used in the formulation. Since our drug formulation technology is new and largely unproven, we do not know if our drug formulations will retain the needed physical and chemical properties and performance of the drugs. Problems with formulated drug powder stability in particular would negatively impact our ability to develop products based on our pulmonary delivery systems or supercritical fluids technology, or obtain regulatory approval for or market such products.

If our drug delivery technologies are not safe, then regulatory approval of our products may not be obtained, or our products may not be developed or marketed.

We or our collaborative partners may not be able to prove that potential products using our drug delivery technologies are safe. Our products require lengthy laboratory, animal and human testing. Most of our products are in preclinical testing or the early stage of human testing. Since most of our products are in an early stage of testing and have not completed clinical trials, we cannot be certain that these products, and our technology that developed these products, are safe or will not produce unacceptable adverse side effects. The safety of our formulations will vary with each drug and the ingredients used in our formulation. If any product is found not to be safe, the product will not be approved for marketing or commercialization.

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

The manufacture, testing, marketing and sale of medical products entail an inherent risk of product liability. If product liability costs exceed our liability insurance coverage, we may incur substantial liabilities. Whether or not we were ultimately successful in product liability litigation, such litigation would consume substantial amounts of our financial and managerial resources, and might result in adverse publicity, all of which would impair our business. We may not be able to maintain our clinical trial insurance or product liability insurance at an acceptable cost, if at all, and this insurance may not provide adequate coverage against potential claims or losses.

If our products using our pulmonary delivery systems do not provide consistent doses of medicine, then we will not be able to develop, obtain regulatory approval for and commercialize products.

We may not be able to provide reproducible dosing of stable formulations of drug compounds. Reproducible dosing is the ability to deliver a consistent and predictable amount of drug into the bloodstream over time both for a single patient and across patient groups. Reproducible dosing of drugs based on our pulmonary delivery systems requires the development of:

an inhalation or other device that consistently delivers predictable amounts of dry powder to the deep lung;

accurate unit dose packaging of dry powder; and

moisture resistant packaging.

Since our pulmonary delivery systems are still in development and are yet to be used in commercialized products, we cannot be certain that we will be able to develop reproducible dosing of any potential product. The failure to do so means that we would not consider such a product as a good candidate for development and commercialization.

If we or our partners do not obtain regulatory approval for our products on a timely basis, then our revenues and results of operations may be affected negatively.

There is a risk that we or our partners will not obtain regulatory approval for our unapproved products on a timely basis, or at all. Our unapproved products must undergo rigorous animal and

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human testing and an extensive FDA mandated or equivalent foreign authorities' review process. This process generally takes a number of years and requires the expenditure of substantial resources. The time required for completing such testing and obtaining such approvals is uncertain. The FDA and other U.S. and foreign regulatory agencies also have substantial discretion to terminate clinical trials, require additional testing, delay or withhold registration and marketing approval and mandate product withdrawals including recalls. The FDA has approved for marketing five products using our Advanced PEGylation technology for specific uses in the United States. Further, another product using our Advanced PEGylation technology has been approved in Europe. Even though our partners have obtained regulatory approval for some of our products, these products and our manufacturing processes are subject to continued review by the FDA and other regulatory authorities. Even if our partners receive regulatory approval of a product, the approval may limit the indicated uses for which our partners may market the product. In addition, our partners' marketed products, our manufacturing facilities and we, as the manufacturer in certain instances, will be subject to continual review and periodic inspections. Later discovery from such review and inspection of previously unknown problems may result in restrictions on our partners' products or on us, including withdrawal of our partners' products from the market. The failure to obtain timely regulatory approval of our partners' products, any product marketing limitations or a product withdrawal would negatively impact our revenues and results of operations.

In addition, we may encounter delays or rejections based upon changes in FDA regulations or policies, including policies relating to current good manufacturing practice compliance, or "cGMP," during the period of product development. We may encounter similar delays in other countries.

If our technologies cannot be integrated successfully to bring products to market, then our ability to develop, and our partners' ability to obtain approval or market our products, may be delayed or unsuccessful.

We may not be able to integrate all of the relevant technologies to provide complete drug delivery and formulation systems. In particular, our development of drugs based on our pulmonary delivery systems relies upon the following several different but related technologies:

dry powder formulations;

dry powder processing technology;

dry powder packaging technology; and

deep lung delivery devices.

Our other technologies may face similar challenges relating to the integration of drug formulation, processing, packaging and delivery device technologies. At the same time we must:

establish collaborations with partners;

perform laboratory and clinical testing of potential products; and

scale-up our manufacturing processes.

We must accomplish all of these steps without delaying any aspect of technology development. Any delay in one component of product or business development could delay our ability to develop, and our partners' ability to obtain approval or market products using our delivery and formulation technologies.

If we are not able to manufacture our products in commercially feasible quantities or at commercially feasible costs, then our products will not be successfully commercialized.

Advanced PEGylation and Supercritical Fluids Technologies

Except for the five approved products incorporating our Advanced PEGylation technology, all of the drug formulations which incorporate our Advanced PEGylation and supercritical fluids technologies are in various stages of feasibility testing or human clinical trials. We anticipate having to expand our Advanced PEGylation technology and our supercritical fluids technology manufacturing facilities. If we are not able to scale-up to large clinical trials or commercial manufacturing for products incorporating either of these technologies in a timely manner or at a commercially reasonable cost, we risk not meeting our customers' supply requirements or our contractual obligations. Our failure to solve any of these problems could delay or prevent late stage clinical testing and commercialization of our products and could negatively impact our revenues and results of operations.

Pulmonary Delivery Systems

Powder Processing. We have no experience manufacturing powder processing products for commercial purposes. With respect to drugs based on our pulmonary delivery systems, we have only performed powder processing on the scale needed for testing formulations, and for early stage and larger clinical trials. We may encounter manufacturing and control problems as we attempt to scale-up powder processing facilities. We may not be able to achieve such scale-up in a timely manner or at a commercially reasonable cost, if at all, and the powder processing system we implement may not be applicable for other drugs. Our failure to solve any of these problems could delay or prevent some late stage clinical testing and commercialization of our products and could negatively impact our revenues and results of operations.

To date, we rely primarily on one particular method of powder processing. There is a risk that this technology will not work with all drugs or that the cost of drug production with this processing will preclude the commercial viability of certain drugs. Additionally, there is a risk that any alternative powder processing methods we may pursue will not be commercially practical for aerosol drugs or that we will not have, or be able to acquire the rights to use, such alternative methods.

Powder Packaging. Our fine particle powders and small quantity packaging utilized for drugs based on our pulmonary delivery systems require special handling. We have designed and qualified automated filling equipment for small and moderate quantity packaging of fine powders. We face significant technical challenges in scaling-up an automated filling system that can handle the small dose and particle sizes of our powders in commercial quantities. There is a risk that we will not be able to scale-up our automated filling equipment in a timely manner or at commercially reasonable costs. Any failure or delay in such scale-up would delay product development or bar commercialization of products based on our pulmonary delivery systems and would negatively impact our revenues and results of operations.

There can be no assurance we will be able to successfully manufacture products on our autofiller system in a timely manner or at a commercially reasonable cost; any delay or failure in further developing such technology would delay product development or inhibit commercialization of our products and would have a materially adverse effect on us.

Inhaler Devices. We face many technical challenges in developing our pulmonary inhaler devices to work with a broad range of drugs, to produce such devices in sufficient quantities and to adapt the devices to different powder formulations. Our inhaler device being used with Exubera is still in clinical testing and production scale-up work is underway. Further design and development work is underway to enable commercial manufacturing and additional work may be required to optimize the device for regulatory approval, field reliability or other issues that may be important to its commercial success.

Additional design and development work may lead to a delay in regulatory approval and delay efforts to seek regulatory approval for any product that incorporates the device or the time the device could be ready for commercial launch. In addition, we are attempting to develop a smaller inhaler device, which presents particular technical challenges. There is a risk that we will not successfully achieve any of these challenges. Our failure to overcome any of these challenges would negatively impact our revenues and results of operations.

For late stage clinical trials and initial commercial production, we intend to use one or more contract manufacturers to produce our pulmonary inhaler devices. There is a risk that we will not be able to maintain arrangements with our contract manufacturers on commercially acceptable terms or at all, or effectively scale-up production of our pulmonary inhaler devices through contract manufacturers. Our failure to do so would negatively impact our revenues and results of operations. Dependence on third parties for the manufacture of our pulmonary inhaler devices and their supply chain may adversely affect our cost of goods and ability to develop and commercialize products on a timely or competitive basis. Because our manufacturing processes and those of our contract manufacturers are very complex and subject to lengthy governmental approval processes, alternative qualified production sources or capacity may not be available on a timely basis or at all. Disruptions or delays in our manufacturing processes or those of our contract manufacturers for existing or new products could result in increased costs, loss of revenues or market share, or damage to our reputation.

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There is no assurance that devices designed by us and built by contract manufacturers will be approved or will meet approval requirements on a timely basis or at all, or that any of our device development will be successful or commercially viable.

We depend on sole or exclusive suppliers for our pulmonary inhaler devices, bulk active pharmaceutical ingredients and PEG polymer chains and if such suppliers fail to supply when required, then our product development efforts may be delayed or unsuccessful.

We agreed to subcontract the manufacture of our pulmonary inhaler devices used with Exubera before commercial production. We have identified contract manufacturers that we believe have the technical capabilities and production capacity to manufacture such device and which can meet the requirements of cGMP. We are not certain that we will be able to maintain satisfactory contract manufacturing on commercially acceptable terms, if at all. Our failure to maintain ongoing commercial relationships with our existing contract manufacturers may subject us to significant reimbursement obligations upon termination of such relationships. Our dependence on third parties for the manufacture of our pulmonary inhaler devices may negatively impact our cost of goods and our ability to develop and commercialize products based on our pulmonary delivery systems on a timely and competitive basis.

For the most part, we obtain the bulk active pharmaceutical ingredients we use to manufacture products using our technologies from sole or exclusive sources of supply. For example, with respect to our source of bulk insulin, we have entered into a collaborative agreement with Pfizer that has, in turn, entered into an agreement with Aventis Pharma to manufacture regular human insulin. Under the terms of their agreement, Pfizer and Aventis Pharma agreed to construct a jointly owned manufacturing plant in Frankfurt, Germany. Until needed, Pfizer will provide us with insulin from Aventis Pharma's existing plant. We have also entered into an agreement with one supplier for the supply of PEG polymer chains we use in our products that incorporate our Advanced PEGylation technology. NOF Corporation is our supplier of pharmaceutical grade PEGylation materials pursuant to an agreement.

If our sole or exclusive source suppliers fail to provide either active pharmaceutical ingredients or PEGylation materials in sufficient quantities when required, our revenues and results of operations will be negatively impacted.

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If the market does not accept products using our drug delivery technologies, then our revenues and results of operations will be adversely affected.

The commercial success of our potential products depends upon market acceptance by health care providers, third-party payors like health insurance companies and Medicare and patients. Our products under development use new drug delivery technologies and there is a risk that the market will not accept our potential products. Market acceptance will depend on many factors, including:

the safety and efficacy of products demonstrated in clinical trials;

favorable regulatory approval and product labeling;

the frequency of product use;

the availability of third-party reimbursement;

the availability of alternative technologies; and

the price of our products relative to alternative technologies.

There is a risk that health care providers, patients or third-party payors will not accept products using our drug delivery and formulation technologies. If the market does not accept our potential products, our revenues and results of operations would be significantly and negatively impacted.

If our products are not cost effective, then government and private insurance plans may not pay for them and our products may not be widely accepted, which will adversely affect our revenues and results of operations.

In both domestic and foreign markets, sales of our products under development will depend in part upon the availability of reimbursement from third-party payors, such as government health administration authorities, managed care providers, private health insurers and other organizations. In addition, such third-party payors are increasingly challenging the price and cost effectiveness of medical products and services. Significant uncertainty exists as to the reimbursement status of newly approved health care products. Legislation and regulations affecting the pricing of pharmaceuticals may change before regulatory agencies approve our proposed products for marketing. Adoption of such legislation and regulations could further limit reimbursement for medical products. A government or third-party payor decision to not provide adequate coverage and reimbursements for our products would limit market acceptance of such products.

If our competitors develop and sell better drug delivery and formulation technologies, then our products or technologies may be uncompetitive or obsolete and our revenues and results of operations will be adversely affected.

We are aware of other companies engaged in developing and commercializing drug delivery and formulation technologies similar to our technologies. Some of our competitors with regard to our pulmonary delivery systems include AeroGen, Inc., Alkermes, Inc. and Aradigm Corporation. AeroGen and Aradigm are each developing liquid drug delivery systems, and Alkermes is working on a dry powder delivery system. Our competitors with regard to our Advanced PEGylation technology include Valentis, Inc., Mountain View Pharmaceuticals, Inc. and SunBio PEG-SHOP, as well as several pharmaceutical and biotechnology companies with in-house PEGylation expertise. Some of our competitors with regard to our supercritical fluids technology include Alkermes, Battelle Memorial Institute, Ethypharm SA, Ferro Corp., Lavipharm SA and RxKinetics. Some of these companies license or provide the technology to other companies, while others are developing the technology for internal use. Many of these companies have greater research and development capabilities, experience, manufacturing, marketing, financial and managerial resources than we do and represent significant competition for us. Acquisitions of or collaborations with competing drug delivery companies by large

pharmaceutical or biotechnology companies could enhance our competitors' financial, marketing and other resources. Accordingly, our competitors may succeed in developing competing technologies, obtaining regulatory approval for products or gaining market acceptance before us. Developments by others could make our products or technologies uncompetitive or obsolete. Our competitors may introduce products or processes competitive with or superior to our products or processes.

If any of our patents are invalid or pending patents do not issue or following issuance are deemed not valid, then we may lose key intellectual property right protection. If our products infringe on third-party's rights, then we will suffer adverse effects on our ability to develop and commercialize products as well as our revenues and results of operations.

We have filed patent applications covering certain aspects of our inhalation devices, powder processing technology, powder formulations and deep lung route of delivery for certain molecules as well as for our Advanced PEGylation and supercritical fluids technologies, and we plan to file additional patent applications. As of June 30, 2003, we had 561 issued U.S. and foreign patents that cover certain aspects of our technologies and we have a number of patent applications pending. There is a risk that many of the patents applied for will not issue, or that any patents that issue or have issued will not be held valid and enforceable. Enforcing our patent rights would be time consuming and costly.

Our access or our partners' access to the drugs to be formulated using our technologies will affect our ability to develop and commercialize our technologies. Many drugs, including powder formulations of certain drugs that are presently under development by us, and our drug formulation technologies are subject to issued and pending U.S. and foreign patents that may be owned by competitors. We know that there are issued patents and pending patent applications relating to the formulation and delivery of large and small molecule drugs, including several for which we are developing formulations using our various technologies. This situation is highly complex, and the ability of any one company, including us, to commercialize a particular drug is unpredictable.

We intend generally to rely on the ability of our partners to provide access to the drugs that we formulate for deep lung and other forms of delivery. There is a risk that our partners will not be able to provide access to such drug candidates. Even if our partners provide such access, there is a risk that third parties will accuse, and possibly a court or a governmental agency will determine, our partners or us to be infringing a third-party's patent rights, and we will be prohibited from working with the drug or be found liable for damages that may not be subject to indemnification, or we may choose to pay such third party royalties under a license to such patent rights. Any such restriction on access to drug candidates, liability for damages or payment of royalties would negatively impact our revenues and results of operations.

We may incur material litigation costs, which may adversely affect our business and results of operations.

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We are party to various litigation matters, including several which relate to our patent and intellectual property rights. We cannot predict with certainty the eventual outcome of any pending litigation or potential future litigation, and we might have to incur substantial expense in defending these or future lawsuits or indemnifying third parties with respect to the results of such litigation.

If earthquakes, tornadoes, hurricanes and other catastrophic events strike, our business may be negatively affected.

Our corporate headquarters, including a substantial portion of our research and development operations, are located in the Silicon Valley area of Northern California, a region known for seismic activity. A significant natural disaster such as an earthquake could have a material adverse impact on

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our business, operating results, and financial condition. Certain of our other facilities, such as our facility in Huntsville, Alabama and certain of our collaborative partners located elsewhere may also be subject to catastrophic events such as hurricanes and tornadoes, any of which could have a material adverse effect on our business, operating results, and financial condition.

Investors should be aware of industry-wide risks, which are applicable to us and may affect our revenues and results of operations.

In addition to the risks associated specifically with us described above, investors should also be aware of general risks associated with drug development and the pharmaceutical and biotechnology industries. These include, but are not limited to:

changes in and compliance with government regulations;

handling and disposal of hazardous materials;

workplace health and safety requirements;

hiring and retaining qualified people; and

insuring against product liability claims.

If we do not generate sufficient cash flow through increased revenues or raising additional capital, then we may not be able to meet our substantial debt obligations.

As of July 31, 2003, we had approximately \$388.6 million in long-term convertible subordinated notes and debentures, \$31.0 million in non-current capital lease obligations and \$5.5 million in other long-term liabilities. Our substantial indebtedness, which totaled \$424.9 million at July 31, 2003, has and will continue to impact us by:

making it more difficult to obtain additional financing; and

constraining our ability to react quickly in an unfavorable economic climate.

Currently we are not generating positive cash flow. Delay in the approval of Exubera, or other adverse occurrences related to our product development efforts will adversely impact our ability to meet our obligations to repay the principal amounts on our convertible subordinated notes and debentures when due. In addition, because of the decline in the market price of our common stock, it has become highly unlikely that the holders of a large percentage of our outstanding convertible subordinated notes and debentures will convert such securities to equity in accordance with their existing terms. If we are unable to satisfy our debt service requirements, substantial liquidity problems could result. As of June 30, 2003, we had cash, cash equivalents and short-term investments valued at approximately \$308.3 million. We expect to use substantially all of these assets to fund our on-going operations over the next few years. As of July 31, 2003, we had approximately \$388.6 million outstanding convertible subordinated notes and debentures, of which \$7.8 million, \$270.8 million and \$110.0 million in principal amount mature

in 2006, 2007 and 2010, respectively. We may not generate sufficient cash from operations to repay our convertible subordinated notes and debentures or satisfy any other of these obligations when they become due and may have to raise additional financing from the sale of equity or debt securities or otherwise restructure our obligations in order to do so. There can no assurance that any such financing or restructuring will be available to us on commercially acceptable terms, if at all.

If we cannot raise additional capital our financial condition may suffer.

Our capital needs may change as a result of numerous factors, and may result in additional funding requirements. In addition, we may choose to raise additional capital due to market conditions

or strategic considerations. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of such securities could result in dilution to our stockholders.

We have no material credit facility or other material committed sources of capital. To the extent operating and capital resources are insufficient to meet future requirements, we will have to raise additional funds to continue the development and commercialization of our technologies and products. Such funds may not be available on favorable terms, or at all. In particular, our substantial leverage may limit our ability to obtain additional financing. In addition, as an early stage biotechnology company, we do not qualify to issue investment grade debt and therefore any financing we do undertake will likely involve the issuance of equity, convertible debt instruments and/or high-yield debt. These sources of capital may not be available to us in the event we require additional financing. If adequate funds are not available on reasonable terms, we may be required to curtail operations significantly or obtain funds by entering into financing, supply or collaboration agreements on unattractive terms. Our inability to raise capital could negatively impact our business.

If we fail to manage our growth effectively, our business may suffer.

Our ability to offer commercially viable products, achieve our expansion objectives, manage our growth effectively and satisfy our commitments under our collaboration agreements depends on a variety of factors, all of which must be successfully managed. Key factors include our ability to develop products internally, enter into strategic partnerships with collaborators, attract and retain skilled employees and effectively expand our internal organization to accommodate anticipated growth including integration of any potential businesses that we may acquire. If we are unable to manage some or all of these factors effectively, our business could grow too slowly or too quickly to be successfully sustained, thereby resulting in material adverse effects on our business, financial condition and results of operations.

If we do not effectively integrate personnel and operations relating to our acquisitions of Bradford Particle Design and Shearwater, our business and management may suffer disruptions.

Our relatively recent acquisitions of Bradford Particle Design and Shearwater may present unique risks related to our business. We may not be able to successfully assimilate the additional personnel, operations, acquired technology and products into our business. In particular, we need to assimilate and retain key management, research and engineering personnel. Key personnel from acquired companies often decide to pursue other opportunities. In addition, there may be complications if we attempt to integrate any of the technology acquired from these companies with our other technologies, and it is uncertain whether we may accomplish this easily or at all. These integration difficulties could disrupt our ongoing business, distract management and employees or increase expenses. Acquisitions are inherently risky, and we may also face unexpected costs, which may adversely affect operating results in any quarter. Additionally we face additional risks related to cross-border acquisitions and international operations, including foreign legal and regulatory restrictions and potential economic instability. Due diligence conducted in connection with our acquisitions may not have uncovered all the potential problems or liabilities we may have assumed in these transactions. Any of these risks could have a significant impact on our ability to continue our research and development efforts, and regulatory and commercialization efforts on a competitive and timely basis.

If we acquire additional companies, products or technologies, we may face risks similar to those faced in our other acquisitions.

We may continue to acquire or make investments in complementary companies, products or technologies. We may not realize the anticipated benefits of any other acquisition or investment. If we acquire another company, we will likely face some or all of the same risks, uncertainties, earnings and disruptions as discussed above with respect to our recent acquisitions. We may face risks relating to

difficult integrations of personnel, technology and operations, uncertainty whether any integration will be successful and whether earnings will be negatively affected, and potential distractions to our management with respect to these acquisitions. In addition, our earnings may suffer because of acquisition-related costs.

We expect to continue to lose money for the next few years and may not reach profitability if our products do not generate sufficient revenue.

We have never been profitable and, through June 30, 2003, we have an accumulated deficit of approximately \$582.3 million. We expect to continue to incur substantial and potentially increasing losses over at least the next few years as we expand our research and development efforts, testing activities and manufacturing operations, and as we further expand our late stage clinical and early commercial production facilities. Most of our potential products are in the early stages of development. Except for the approved products incorporating our Advanced PEGylation technology, we have generated no revenues from product sales. Our revenues to date have consisted primarily of payments under short-term research and feasibility agreements and development contracts.

To achieve and sustain profitable operations, we must, alone or with others, successfully develop, obtain regulatory approval for, manufacture, introduce, market and sell products using our drug delivery technologies. There is risk that we will not generate sufficient product or contract research revenue to become profitable or to sustain profitability.

Anti-takeover provisions in our charter documents and under Delaware law may make it more difficult to acquire us, even though such acquisitions may be beneficial to our stockholders.

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

establishment of a classified board of directors such that not all members of the board may be elected at one time;

lack of a provision for cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;

the ability of our board to authorize the issuance of "blank check" preferred stock to increase the number of outstanding shares and thwart a takeover attempt;

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

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

limitations on who may call a special meeting of stockholders.

Further, we have in place a preferred share purchase rights plan, commonly known as a "poison pill." The provisions described above, our "poison pill" and provisions of Delaware law relating to business combinations with interested stockholders may discourage, delay or prevent a third party from acquiring us. These provisions may also discourage, delay or prevent a third party from acquiring a large portion of our securities, or initiating a tender offer or proxy contest, even if our stockholders might receive a premium for their shares in the acquisition over the then current market prices.

Risks Relating to the Notes and Our Common Stock

Our ability to repurchase the notes, if required, may be limited.

In certain circumstances involving a Change of Control, the holders of the notes may require us to repurchase some or all of the holder's notes. We currently do not have sufficient financial resources and may not be able to arrange financing to pay the repurchase price of the notes if they were required to be repurchased by us. Our ability to repurchase the notes in such event may be limited by law, the indenture, by the terms of other agreements relating to our Senior Debt and as such indebtedness and agreements may be entered into, replaced, supplemented or amended from time to time. We may be required to refinance our Senior Debt in order to make such payments.

We expect our stock price to remain volatile.

Our stock price is volatile. In the last twelve-month period ending September 12, 2003, based on closing bid prices on The Nasdaq National Market, our stock price ranged from \$4.13 to \$14.06. We expect our stock price to remain volatile. A variety of factors may have a significant effect on the market price of our common stock, including:

clinical trial results or product development delays or delays in product approval or launch;

announcements by collaboration partners as to their plan or expectations related to products using our technologies;

announcement or termination of collaborative relationships by us or our competitors;

fluctuations in our operating results;

developments in patent or other proprietary rights;

announcements of technological innovations or new therapeutic products;

governmental regulation;

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

general market conditions.

Any litigation brought against us as a result of this volatility could result in substantial costs and a diversion of our management's attention and resources, which could negatively impact our financial condition, revenues, results of operations and the price of our common stock.

The notes are subordinated to any of our existing and future Senior Debt.

Except as described below in the section entitled "Description of the Notes Security" and " Subordination," the notes are contractually subordinated in the right of payment to our existing and future Senior Debt. As of June 30, 2003, we had approximately \$35.4 million of Senior Debt outstanding. The indenture does not limit the creation of additional Senior Debt (or any other indebtedness). Any significant additional Senior Debt incurred may materially adversely impact our ability to service our debt, including the notes. Due to the subordination provisions, in the event of our insolvency, funds which we would otherwise use to pay the holders of the notes will be used to pay the holders of Senior Debt to the extent necessary to pay the Senior Debt in full. As a result of these payments, our general creditors may recover less, ratably, than the holders of our Senior Debt and such general creditors may recover more, ratably, than the holders of our notes or our other subordinated indebtedness. In addition, the holders of our Senior Debt may, under certain circumstances, restrict or prohibit us from making payments on the notes.

The notes are effectively subordinated to the liabilities of our subsidiaries.

The notes are effectively subordinated to all existing and future liabilities of our subsidiaries. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. Therefore, our rights and the rights of our creditors, including the holders of the notes, to participate in the assets of any subsidiary upon that subsidiary's liquidation or reorganization will be subject to the prior claims of the subsidiary's creditors, except to the extent that we may ourselves be a creditor with recognized claims against the subsidiary. However, even if we are a creditor of one of our subsidiaries, our claims would still be effectively subordinated to any security interests in, or mortgages or other liens on, the assets of that subsidiary and would be subordinate to any indebtedness of the subsidiary senior to that held by us. As of June 30, 2003, our subsidiaries had no indebtedness outstanding (other than intercompany indebtedness and liabilities), except for Nektar Therapeutics AL, Corporation, which has entered into a \$5 million revolving line of credit with Compass Bank.

Absence of market for the notes.

We issued the notes in June 2003 in a private offering made to "qualified institutional buyers," as defined in Rule 144 under the Securities Act of 1933. The offering was made through a group of investment banks, which we refer to as the "initial purchasers," for which Merrill Lynch, Pierce, Fenner & Smith Incorporated acted as sole book-running manager. Prior to that offering, there was no trading market for the notes. Although the initial purchasers advised us at the time of that offering that they intended to make a market in the notes, they are not obligated to do so and may discontinue such market making at any time without notice. Accordingly, there can be no assurance that any market for the notes will develop or, if one does develop, that it will be maintained. If an active market for the notes fails to develop or be sustained, the value of the notes could be materially adversely affected.

There is no public market for the notes, and we do not intend to apply for listing of the notes on any securities exchange or for quotation of the notes through any automated quotation system. The notes issued to qualified institutional buyers in the June 2003 offering currently trade on the PORTAL Market. However, once notes are sold under this prospectus, those notes will no longer trade on the PORTAL market.

Future sales of our common stock in the public market could adversely affect the trading price of our common stock and the value of the notes and our ability to raise funds in new stock offerings.

Future sales of substantial amounts of our common stock in the public market, or the perception that such sales could occur, could adversely affect prevailing trading prices of our common stock and the value of the notes and could impair our ability to raise capital through future offerings of equity or equity-related securities. As of June 30, 2003, we had:

15,436,097 shares of common stock reserved for issuance upon exercise of options outstanding under our stock option plans;

56,000 shares of our common stock reserved for issuance upon exercise of outstanding warrants;

17,683,678 shares of common stock reserved for issuance upon conversion of our outstanding convertible subordinated notes and debentures as well as our outstanding convertible preferred stock; and

825,220 additional shares reserved for future issuance under our stock option and stock purchase plans.

We cannot predict the effect, if any, that future sales of shares of common stock, or the availability of shares of common stock for future sale, will have on the trading price of our common stock or the value of the notes prevailing from time to time. Sales of substantial amounts of common stock or the

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The notes are convertible at the option of the holders into shares of our common stock. Pursuant to a registration rights agreement entered into in connection with this offering, we have registered the notes and the shares of common stock issuable upon conversion of the notes pursuant to a registration statement filed with the SEC of which this prospectus is a part. Accordingly, such common stock will be freely tradable in the public markets without restriction. In addition, if we elect to redeem the notes as described below under "Description of the Notes Provisional Redemption," we are required to repurchase notes following specified change in control events relating to us as described below under "Description of the Notes Repurchase at Option of Holders Upon a Change in Control," or we undertake similar transactions with respect to our outstanding convertible notes that have similar terms, we have the option of paying all or a portion of the additional payments due in such provisional redemption or purchase price in such repurchase, as applicable, in shares of our common stock. The conversion of notes into common stock or the issuance of common stock to pay additional amounts due upon provisional redemption or the purchase price of any notes upon a change of control could result in the issuance of a substantial number of shares and substantial dilution to our stockholders.

RATIO OF EARNINGS TO FIXED CHARGES

Our earnings were insufficient to cover fixed charges in each of the years in the five-year period ended December 31, 2002 and in the six-month periods ended June 30, 2003 and 2002. Earnings consist of loss from continuing operations before income taxes, extraordinary items, cumulative effect of accounting changes, equity in net losses of affiliates and fixed charges, adjusted for capitalized interest. Fixed charges consist of interest expensed and capitalized and amortized premiums, discounts and capitalized expenses related to indebtedness. The extent to which earnings were insufficient to cover fixed charges is as follows:

	Year Ended December 31,					Six Months Ended June 30,	
	2002	2001	2000	1999	1998	2003	2002
	(in thousands)						
Deficiency of earnings available to cover fixed charges	\$ (107,468)	\$ (251,238)	\$ (97,403)	\$ (38,448)	\$ (18,559)	\$ (32,988)	\$ (49,873)
Ratio of earnings to fixed charges	N/A	N/A	N/A	N/A	N/A	N/A	N/A

FORWARD-LOOKING STATEMENTS

This prospectus and the documents that we have filed with the Securities and Exchange Commission that are included or incorporated or deemed to be incorporated by reference in this prospectus include "forward-looking statements" within the meaning of Seto financial statement preparation and presentation.

A material weakness in internal controls is a deficiency in internal control, or combination of control deficiencies, that adversely affects the Company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a material misstatement of the Company's annual or interim financial statements that is more than inconsequential will not be prevented or detected. In the course of making our assessment of the effectiveness of internal controls over financial reporting, we identified three material weaknesses in our internal control over financial reporting. These material weaknesses consisted of:

- a. Inadequate staffing and supervision within the accounting operations of our company. The relatively small number of employees who are responsible for accounting functions prevents us from segregating duties within our internal control system. The inadequate segregation of duties is a weakness because it could lead to the untimely identification and resolution of accounting and disclosure matters or could lead to a failure to perform timely and effective reviews.
- b. Lack of expertise in U.S accounting principles among the personnel in our Chinese headquarters. Our books are maintained and our financial statements are prepared by the personnel employed at our executive offices in China. None of our employees has substantial experience or familiarity with U.S accounting principles. The lack of personnel in our China office who are trained in U.S. accounting principles is a weakness because it could lead to

improper classification of items and other failures to make the entries and adjustments necessary to comply with U.S. GAAP.

Management is currently reviewing its staffing and their training in order to remedy the weaknesses identified in this assessment. To date, we are not aware of significant accounting problems resulting from these weaknesses; so we have to weigh the cost of improvement against the benefit of strengthened controls. However, because of the above conditions, management's assessment is that the Company's internal controls over financial reporting were not effective as of December 31, 2007.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Item 8B. Other Information

None.

PART III

Item Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 9. 16(a) of the Exchange Act.

The Board of Directors has arranged to replace current management as soon as this Annual Report is filed. Currently, the officers and directors of the Company are:

Name	Age	Position with the Company	Director Since
Fang Jinzhong	52	Chairman, Chief Executive Officer, Chief Financial Officer	2006
Zhang Chengcai	46	Director, V.P.- Marketing, Secretary	2006
Zhou Huakang	56	Director	2006

Directors hold office until the annual meeting of the Company's stockholders and the election and qualification of their successors. Officers hold office, subject to removal at any time by the Board, until the meeting of directors immediately following the annual meeting of stockholders and until their successors are appointed and qualified.

Fang Jinzhong joined Mr. Zheng in founding Jilin Huaren in 2002. He has served as its Chairman and Chief Executive Officer since then. Prior to forming Jilin Huaren, Mr. Fang had been engaged since 1978 in the business of agricultural production, agricultural product processing, marketing of agricultural products and agricultural technology. Mr. Fang was awarded a Bachelor's Degree from the Jilin Financial College in 1978, where he majored in Agricultural Industrial Operations.

Zhang Chengcai joined Mr. Fang in founding Jilin Huaren in 2002. He has served as its Deputy Chairman and Director of Marketing. From 1998 to 2002 Mr. Zhang was a sales representative for Amway China, from whom he received the Emerald Award. From 1987 to 1998 Mr. Zhang was employed in the radiology department of Jilin Medical College Hospital, where he conducted research on agricultural products and supervised testing of organic foods. Mr. Zhang was awarded a Bachelor's Degree from the Jilin Medical College in 1978, where he majored in Radiology.

Zhou Huakang. Since 1993 Zhou Huakang has been employed as chairman of the board of Warner Technology and Investment Corp. a New Jersey corporation that he organized in 1993. Warner Technology provides international training and market consulting services. Warner is licensed by the People's Republic of China to serve as an official host for Chinese government officials and business executives in the US. As part of the hosting process Warner also provides training programs to assist visiting Chinese officials and business executives with the transition to doing business in the US. Mr. Zhou holds a Ph.D. degree in Operations Research that was awarded in 1989 by the Polytechnic University of New York.

Promptly after this Annual Report is filed, Mr. Fang and Mr. Zhang will resign from their positions in the Company's management. The new management will be:

Name	Position with the Company
Cao Yushu	Chairman, Chief Executive Officer, Chief Financial Officer, Director
Zhou Huakang	Director

Cao Yushu. Since 2000 Mr. Yushu has been employed as President of Heilongjiang Futian Clean Fuel Co., Ltd. Prior to that appointment, Mr. Yushu was employed in the fuel industry as a manager, and in a government position as an accountant.

Zhou Huakang. See above.

Audit Committee; Compensation Committee

The Board of Directors has not yet appointed an Audit Committee or a Compensation Committee, due to the small size of the Board. The Board of Directors does not contain an audit committee financial expert, again due to the small size of the Board.

Code of Ethics

The Company does not have a written code of ethics applicable to its executive officers. The Board of Directors has not adopted a written code of ethics because there are so few executive officers of the Company.

Section 16(a) Beneficial Ownership Reporting Compliance

None of the officers, directors or beneficial owners of more than 10% of the Company's common stock failed to file on a timely basis the reports required by Section 16(a) of the Exchange Act during the year ended December 31, 2007.

Item 10. Executive Compensation

The following table sets forth all compensation awarded to, earned by, or paid by China Huaren and its subsidiaries to Fang Jinzhong, its Chief Executive Officer, for services rendered in all capacities to the Company during the years ended December 31, 2006, 2005 and 2004. There were no executive officers whose total salary and bonus for the fiscal year ended December 31, 2006 exceeded \$100,000.

	Year	Salary	Bonus	Stock Awards	Option Awards	Other Compensation
Fang Jinzhong	2007	\$10,000				
	2006	\$10,000				
	2005	\$10,000				

Employment Agreements

All of our employment arrangements with our executives are on an at will basis.

Equity Grants

The following tables set forth certain information regarding the stock options acquired by the Company's Chief Executive Officer during the year ended December 31, 2007 and those options held by him on December 31, 2007.

Option Grants in the Last Fiscal Year

	Number of securities underlying option granted	Percent of total options granted to employees in fiscal year	Exercise Price (\$/share)	Expiration Date	Potential realizable value at assumed annual rates of appreciation for option term	
					5%	10%
Fang Jinzhong	--	--	--	--	--	--

The following tables set forth certain information regarding the stock grants received by the executive officers named in the table above during the year ended December 31, 2006 and held by them unvested at December 31, 2007

Unvested Stock Awards in the Last Fiscal Year

	Number of Shares That Have Not Vested	Market Value of Shares That Have Not Vested
Fang Jinzhong	0	--

Remuneration of Directors

None of the members of the Board of Directors received remuneration for service on the Board during 2007

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information known to us with respect to the beneficial ownership of our common stock as of the date of this prospectus by the following:

- each shareholder known by us to own beneficially more than 5% of our common stock;
 - Fand Jinzhong, our Chief Executive Officer
 - each of our directors; and
 - all directors and executive officers as a group.

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There are 15,000,712 shares of our common stock outstanding on the date of this report. Except as otherwise indicated, we believe that the beneficial owners of the common stock listed below have sole voting power and investment power with respect to their shares, subject to community property laws where applicable. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission.

In computing the number of shares beneficially owned by a person and the percent ownership of that person, we include shares of common stock subject to options or warrants held by that person that are currently exercisable or will become exercisable within 60 days. We do not, however, include these "issuable" shares in the outstanding shares when we compute the percent ownership of any other person.

Name of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership(2)	Percentage of Class
Fang Jinzhong	2,376,000	15.8%
Zhang Chengcai	1,419,272	9.5%
Zhou Huakang 18 Kimberly Court East Hanover, NJ 07936	2,857,765(3)	19.1%
All officers and directors (3 persons)	6,653,037	44.4%

(1) Except as otherwise noted, the address of each shareholder is 648 Weihai Road, Changchun, Jilin Province, P.R. China.

(2) Except as otherwise noted, all shares are owned of record and beneficially.

(3) Represents shares held of record by Warner Technology & Investment Corp., of which Mr. Zhou is the President and controlling shareholder.

Equity Compensation Plan Information

The information set forth in the table below regarding equity compensation plans (which include individual compensation arrangements) was determined as of December 31, 2007.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders.....	0		0
Equity compensation plans not approved by security holders.....	0		0
Total.....	0		0

Item 12. Certain Relationships and Related Transactions

Neither Mr. Fang nor Mr. Zhang has engaged in any transaction with China Huaren, China Organic or Jilin Huaren during the past fiscal year or the current fiscal year that had a transaction value in excess of \$60,000.

Item 13. Exhibit List

(a) Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheet - December 31, 2007

Consolidated Statements of Operation – Years ended December 31, 2007 and 2006

Consolidated Statements of Stockholders' Equity and Comprehensive Income - Years ended December 31, 2007 and 2006

Consolidated Statements of Cash Flows - Years ended December 31, 2007 and 2006

Notes to Consolidated Financial Statements

(b) Exhibit List

3-a. Articles of Incorporation, and 1989 amendment. - filed as an exhibit to the Company's Registration Statement on Form SB-2 (33-85218 C) and incorporated herein by reference.

3-a(1) Amendment to Articles of Incorporation dated March 4, 1991, March 22, 1994, and November 18, 1994. - filed as an exhibit to the Company's Registration Statement on Form SB-2 (33-85218 C) and incorporated herein by reference.

3-a(2) Certification of Correction of Articles of Incorporation. - filed as an exhibit to the Company's Registration Statement on Form SB-2 (33-85218 C) and incorporated herein by reference.

3-a(3) Amendment to Articles of Incorporation dated July 26, 1996 - filed as an Exhibit to Form 10-KSB for the year ended December 31, 1997, and incorporated herein by reference.

3-a(4) Amendment to Articles of Incorporation dated June 15, 2005 - - filed as an exhibit to the Current Report on Form 8-K dated February 17, 2005 and incorporated herein by reference.

3-a(5) Amendment to Articles of Incorporation dated January 16, 2007 - - filed as an exhibit to the Current Report on Form 8-K dated January 5, 2007 and incorporated herein by reference.

3-b. By-laws. - filed as an exhibit to the Company's Registration Statement on Form SB-2 (33-85218 C) and incorporated herein by reference.

10-a Intention Agreement on Construction On One Million Acres of White Thorn Deep Processing Based Between Baicheng Forestry Bureau and China Huaren Organic Products Inc.

21 Subsidiaries – China Organic Health Products, Inc.
Jilin Huaren Organic Health Products Co., Ltd.

31 Rule 13a-14(a) Certification

32 Rule 13a-14(b) Certification

Item 14. Principal Accountant Fees and Services

Audit Fees

MS Group CPA LLC billed \$ 65,000.00 in connection with the audit of the Company's financial statements for the year ended December 31, 2007 and review of the financial statements included in our 2007 10-QSB filings. MS Group CPA LLC billed \$45,000 in connection with the audit of the Company's financial statements for the year ended December 31, 2006.

All Other Fees

MS Group CPA LLC has not billed the Company for any other services.

It is the policy of the Company that all services other than audit, review or attest services must be pre-approved by the Board of Directors. No such services have been performed by MS Group CPA LLC.

China Huaren Organic Products Inc. and Subsidiary

Consolidated Financial Statements

December 31, 2007 and 2006

Page	
F - 2	Report of Independent Registered Public Accounting Firm
F - 3	Consolidated Balance Sheet as of December 31, 2007
F - 4	Consolidated Statements of Operations for the Years Ended December 31, 2007 and 2006
F - 5	Consolidated Statements of Stockholders' Equity and Comprehensive Income for the Years Ended December 31, 2007 and 2006
F - 6	Consolidated Statements of Cash Flows for the Years Ended December 31, 2007 and 2006
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
China Huaren Organic Products Inc. and Subsidiary

We have audited the accompanying consolidated balance sheet of China Huaren Organic Products Inc. and Subsidiary as of December 31, 2007, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the two-year period ended December 31, 2007. The management of China Huaren Organic Products Inc. and Subsidiary is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have nor were we engaged to perform, and audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Huaren Organic Products Inc. and Subsidiary as of December 31, 2007, and the results of its operations and its cash flows for each of the years in the two-years period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company's subsidiary incurred a significant loss from operations in the fourth quarter of year 2007 and had no sales revenue in 2008. These events raise substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are also described in Note 2. The consolidated financial statements did not include any adjustments that might result from the outcome of this uncertainty.

MS Group CPA LLC
Edison New Jersey
March 24, 2008

CHINA HUAREN ORGANIC PRODUCTS INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2007

Assets

Current Assets:

Cash and equivalents	76,658
	\$
Accounts receivable, net of allowance for doubtful amounts of \$45,668	4,521,106
Inventories	762,972
Prepaid expenses	1,591,952
Other current assets	110
Total Current Assets	6,952,798

Property and Equipment, Net	10,670
Deposit for Purchase of Fixed Assets	3,692,950
Total Assets	10,656,418

Liabilities and Stockholders' Equity

Current Liabilities:

Accounts payable and accrued expenses	87,732
Loan from officers/stockholders	90,132
Tax payable	1,570,078
Other current liabilities	5,127
Total Current Liabilities	1,753,069

Stockholders' Equity

Series C preferred stock, \$0.01 par value, 150,000 shares in year 2007 and 2006 authorized, 100,000 shares issued and outstanding on December 31, 2007 and 2006.	1,000
Common stock, \$0.01 par value, 100,000,000 shares in year 2007 and 2006 authorized; 14,699,853 shares issued and outstanding on December 31, 2007 and 2006.	146,999
Additional paid-in capital	6,043,876
Reserve fund	259,244
Retained earnings	1,447,838
Accumulated other comprehensive income	1,004,392
Total Shareholders' Equity	8,903,349
Total Liabilities and Stockholders' Equity	10,656,418
	\$

See notes to consolidated financial statements.

F - 3

CHINA HUAREN ORGANIC
PRODUCTS INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF
OPERATIONS

	For Years Ended December 31,	
	2007	2006
Revenues	\$ 7,449,370	\$ 2,188,146
Cost of Goods Sold	6,183,543	1,104,847
Gross Profit	1,265,827	1,083,299
Operating Expenses		
Selling expenses	148,262	97,159
General and administrative expenses	281,637	260,290
Research and development	52,603	76,142
Total Operating Expenses	482,502	433,591
Income From Operations	783,325	649,708
Other Income (Expenses)		
Interest income	17,076	33,751
Other expense, net	(165,665)	(52,355)
Loss on disposal of inventory	(282,922)	-
Loss on disposal of fixed assets	(25,050)	(3,244)
Total Other Expenses	(456,561)	(21,848)
Income Before Income Taxes	326,764	627,860
Provision for Income Taxes	114,824	207,279
Net Income	\$ 211,940	\$ 420,581
Foreign Currency Translation Adjustment	576,680	262,480

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Comprehensive Income	\$	788,620	\$	683,061
Net Income Per Common Share				
-Basic	\$	0.01	\$	0.03
-Diluted	\$	0.01	\$	0.03
Weighted Common Shares Outstanding*				
-Basic		14,699,853		14,699,853
-Diluted		14,999,850		14,999,850

* As restated to reflect recapitalization and the subsequent reverse stock split.

See notes to consolidated financial statements.

tion

-	-	-	-	-	34,969	(34,969)	-
-	-	-	-	-	-	-	576,680

r	1 \$	1,000	14,699,853 \$	146,999 \$	6,043,876 \$	259,244\$	1,447,838 \$	1,004,392 \$
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See notes to consolidated financial statements.

CHINA HUAREN
ORGANIC PRODUCTS
INC. AND SUBSIDIARY
CONSOLIDATED
STATEMENTS OF CASH
FLOWS

	For Years Ended December 31,	
	2007	2006
Cash flows From Operating Activities:		
Net Income	\$ 211,940	\$ 420,581
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Bad debt adjustment	78,059	(6,439)
Depreciation	11,888	12,463
Loss on disposal of fixed assets	25,050	3,244
Loss on disposal of inventory	282,922	-
Changes in Operating Assets and Liabilities		
Accounts receivable	(3,758,892)	1,300,090
Inventories	4,272,204	238,938
Other receivable	(110)	-
Employee travel and operation advance	-	(13,435)
Advances to suppliers	124,762	(73,972)
Prepaid expenses	435,254	(1,841,204)
Other current assets	43,451	(15,300)
Accounts payable and accrued expenses	(4,268)	60,894
Customer deposit	(78,684)	13,144
Welfare payable	-	(8,120)
Tax payable	421,251	292,536
Other current liabilities	(3,373)	(5,790)
	2,061,454	377,630

Net Cash Provided by
Operating Activities

Cash Flows From Investing
Activities

Purchases of property and equipment	(1,675)	(3,961)
Proceeds from repayment of related party advance	37,441	502,465
Payment for deposit of purchase of fixed assets	(2,154,639)	(1,191,991)
Net Cash Used in Investing Activities	(2,118,873)	(693,487)

Cash Flows From
Financing Activities

Proceeds from officers/shareholders loans	168,938	1,433,957
Payment for loan to officers/shareholders	(76,632)	(1,056,918)
Net Cash Provided by Financing Activities	92,306	377,039

Net Increase in Cash and Equivalents	34,887	61,182
Effect of Exchange Rate Changes on Cash	(44,495)	(16,784)
Cash and Equivalents, Beginning of Period	86,266	41,868
Cash and Equivalents, End of Period	\$ 76,658	\$ 86,266

SUPPLEMENT SCHEDULE OF
NON-CASH INVESTING AND
FINANCING

Other receivable decreased for inventories transfer in	\$ -	\$ (5,211,843)
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See notes to consolidated financial statements.

China Huaren Organic Products Inc. and Subsidiary
Notes to Financial Statements

1. Organization and Nature of Business

China Huaren Organic Products Inc. (“the Company”) through its indirect wholly-owned subsidiary, Jilin Huaren Organic Product Co., Ltd. (“Jilin Huaren”) develops, produces, and sells a wide array of organic foods and healthcare and cosmetic products.

In November 2006, the Company acquired all the ownership interest in China Organic Health Products Inc. (“China Organic”), a Delaware corporation organized in January 2006. The Company acquired China Organic in exchange for shares of common stock and shares of Series C Preferred Stock of the Company. The capitalizations are described in further detail in Note 15 to the accompanying consolidated financial statements.

China Organic was organized under the laws of Delaware in January 2006. It never initiated any business activity. Most of the Company's activities are conducted through its 100% equity ownership in Jilin Huaren established in the People's Republic of China. Jilin Huaren is engaged in the business of research, development, production and sale of organic foods and healthcare products. All of Jilin Huaren's business is currently in China.

Jilin Huaren is a domestic enterprise incorporated in the Jilin district of People Republic of China (“PRC”) in February 2000. The Company was formerly known as Jilin KangJian Technology Trade Center (Jilin KangJian) and changed its name to Jilin Huaren Organic Product Co., Ltd. in December 23, 2004.

Jilin KangJian remained inactive and incurred minor administrative expenses prior to December 31, 2003. It was only in March 2004 that Jilin KangJian began its business operation as a wholesaler of organic agricultural products, nutritional health food products, and cosmetics related merchandises in PRC. The company is selling the cosmetics products under the “Huaren” brand name.

2. Net loss during Transaction Period and Management Plans

During the fourth quarter of 2007, the sales revenue of Jilin Huaren dropped down significantly and incurred net loss. In addition, Jilin Huaren had no sales revenue in the first three months of 2008. As of December 31, 2007, the Company had \$76,658 cash and equivalents and \$4,521,106 of net trade receivables to fund short-term working capital requirements, but these net trade receivables are all owed by one debtor and had been outstanding for more than nine months.

The Company's ability to continue as a going concern and its future success is dependent upon its ability to find a better management team to handle the Company's business in China, to merge with better business, and to raise capital in the near term to (1) satisfy its current obligations, and (2) the successful wide scale development and marketing of its high profit products.

The Company presently has ongoing discussions and negotiations with a number of additional financing alternatives and merger targets. However, the Company has no definitive agreements to provide funding at this time. In addition, the Company has no firm commitment with any merger target.

The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3. Basis of Presentation Basis of Preparing Accounting Statement

The accompanying consolidated financial statements present the financial position, results of operations and cash flows of the Company and all entities in which the Company has a controlling voting interest. The consolidated financial statements also include the accounts of any variable interest entities in which the Company is considered to be the primary beneficiary and such entities are required to be consolidated in accordance with accounting principles generally accepted in the United States ("US GAAP"). These consolidated financial statements include the financial statements of China Huaren Organic Products Inc. and its subsidiary. All significant inter-company transactions and balances are eliminated in consolidation.

The accompanying consolidated financial statements are prepared in accordance with US GAAP. This basis of accounting differs from that used in the statutory accounts of some of the Company's subsidiary, which were prepared in accordance with the accounting principles and relevant financial regulations applicable to enterprises with foreign investment in the PRC ("PRC GAAP"). Necessary adjustments were made to the Subsidiary's statutory accounts to conform to US GAAP to be included in these consolidated financial statements.

4. Summary of Significant Accounting Policies

a. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

b. Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits and highly liquid instruments with a maturity of three months or less at the time of purchase.

c. Accounts Receivable

Accounts receivables are recognized and carried at original invoice amount less allowance for any uncollectible amounts. The Company provides an allowance for doubtful accounts equal to the estimated losses that will be incurred in the collection of all receivables. The estimated losses are based on a review of the current status of the existing receivables. The allowance for doubtful accounts as of December 31, 2007 and 2006 were \$45,668, and \$ 2,549, respectively.

d. Inventories

Inventories are stated at the lower of cost or market value. Estimated obsolescence and any excess of carrying costs over market are provided for through valuation reserves.

e. Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation on property and equipment is determined using the straight-line method over the estimated useful life of the assets, the office equipments and vehicles have estimated useful lives of 5 years. Repairs and maintenance expenditures which do not extend the useful lives of the related assets are expensed as incurred, whereas significant renewals and betterments are capitalized.

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the statements of operations.

f. Research and Development Costs

Research and development cost are charged to expenses as incurred. The Company incurred \$52,603 and \$76,142 research and development expenses for the years ended December 31, 2007 and 2006, respectively.

g. Long-Lived Assets

The Company accounts for long-lived assets in accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Impairments are written off when events or circumstances indicate the carrying amount exceeds the recoverability or the estimated future cash flows expected from these assets. For long lived assets to be disposed, impairment is written off when the carrying amount exceeds the fair market value of the asset less the cost of disposal.

h. Warranties

The Company offers a commercial warranty on its products. Based on historical returns, an estimated return reserve is accrued for in the period revenue is recognized. The experience for costs and expenses in connection with such warranties had been minimal and through December 31, 2007 and 2006, no amount had been reserved.

i. Fair Value of Financial Instruments

The carrying amounts of cash and equivalents, accounts receivable, inventories, prepaid expenses, other current assets, accounts payable, accrued liabilities, customer deposits, taxes payable, and other current liabilities approximate their fair value because of the immediate or short-term maturity of these financial instruments.

j. Revenue Recognition

Revenue is recognized at the date of shipment to customers, and when the price is fixed or determinable, the delivery is completed, no other significant obligations by us exist and collectibility is reasonably assured. All revenues for the years ended December 31, 2007 and 2006 were products sales revenue recorded net of value added taxes.

Sales transactions not meeting all the conditions of the full accrual method are accounted for using the deposit method of accounting. Under the deposit method, all costs are capitalized as incurred, and payments received from the buyer are recorded as a customer deposits.

k. Advertising and Marketing Costs

Advertising and marketing costs, except for costs associated with direct-response advertising and marketing, are charged to operations when incurred. The costs of direct-response advertising are capitalized and amortized over the period during which future benefits are expected to be received. Advertising and marketing expense were \$18,822 and \$2,724 for the fiscal year ended December 31, 2007 and 2006, respectively.

l. Employee Welfare Benefit

The Company established an employee welfare plan in accordance with Chinese law and regulations. The Company makes an annual pre-tax contributions of 14% of all employees' salaries. Starting from when the Chinese subsidiary became foreign fully owned company in June 2006, the Company's Chinese subsidiary has expensed all employee welfare benefit as incurred. The total expense for the above plan amounted to \$7,966 and \$7,787 for the years ended December 31, 2007 and 2006, respectively.

m. Foreign Currency Translation

The Company's reporting currency is the U.S. dollar. The functional currencies of the Company's subsidiary are local currencies, primarily the Chinese Renminbi. The financial statements are translated into U.S. dollars using period-end rates of exchange for assets and liabilities and average rates of exchange for the period for revenues and expenses. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in other comprehensive income or loss.

n. Income Taxes

The Company and its U.S. subsidiary will file consolidated federal income tax return and file the Delaware state franchise tax returns individually. The Company's PRC subsidiary files income tax returns under the Income Tax Law of the People's Republic of China concerning Foreign Investment Enterprises and Foreign Enterprises and local income tax laws.

The Company follows Statement of Financial Accounting Standards No. 109 - Accounting for Income Taxes, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are based on the differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

o. Comprehensive Income

SFAS 130, Reporting Comprehensive Income, defines comprehensive income to include all changes in equity except those resulting from investments by owners and distributions to owners and requires that the period's comprehensive income, its components and accumulated balances be disclosed. Among other disclosures, SFAS 130 requires that all items that are required to be recognized under current accounting standards as components of comprehensive income be reported in a financial statement that is presented with the same prominence as other financial statements. The Company's only current component of comprehensive income is the foreign currency translation adjustment.

p. Segment Reporting

SFAS 131, Disclosure about Segments of an Enterprise and Related Information, requires disclosure of reportable segments used by management for making operating decisions and assessing performance. Reportable segments are categorized by products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company. SFAS 131 has no effect on the Company's financial statements as substantially all of the Company's operations and management is under a single operating segment.

q. Recent Pronouncements

In December 2007, the Financial Accounting Standard Board ("FASB") issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No.51" which clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This statement also changes the way the consolidated income statement is presented. It requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. In addition, it requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The Company is currently in the process of evaluating the effect, if any, the adoption of SFAS No. 160 will have on its consolidated results of operations, financial position, and financial disclosure.

In December 2007, the Financial Accounting Standard Board ("FASB") issued SFAS No. 141R (revised 2007), "Business Combinations" which replaces FASB Statement No. 141, "Business Combinations". The Statement 141R retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. The Statement 141R defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as date that the acquirer achieves control. Statement 141 did not define the acquirer, although it included guidance on identifying the acquirer, as does in Statement 141R. The scope of Statement 141R is broader than that of Statement 141, which applied only to business combinations in which control was obtained by transferring consideration. By applying the same method accounting – the acquisition method- to all transactions and other events in which on entity obtains control over one or more other businesses, the Statement 141R improves the comparability of the information about business combinations provided in financial reports. SFAS No.141R applies prospectively to business combinations for which that acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Company is currently in the process of evaluating the effect, if any, for the future acquisition and combinations.

In February 2007, the Financial Accounting Standard Board (“FASB”) issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115” which permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. SFAS No. 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, “Fair Value Measurements”. The Company is currently in the process of evaluating the effect, if any, the adoption of SFAS No 159 and 157 will have on its consolidated results of operations, financial position, and cash flows.

5. Accounts Receivable

During the first quarter of 2007, the Company, facing an imminent expiration date on organic crops that it had received from Wancheng, sold those crops at cost to Yushu Wanli Co., Ltd (“Yushu”) pursuant to a sales contract. This sale on March 15, 2007 increased the Company’s accounts receivable by approximately \$5,526,387 (equivalent to RMB 40,312,786), which included the merchandise price plus VAT and other sales taxes. Yushu Wanli Co., Ltd. is a non-related third party. Based upon the sales contract, Yushu started to pay the amount due to the Company in May 2007. As of December 31, 2007, the outstanding balance due from Yushu was \$4,566,774 (equivalent to RMB 33,312,786). It represented all of the Company’s gross accounts receivable balance as of December 31, 2007.

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6. Inventories

Inventories consist of the following:

	December 31,	
	2007	2006
Work in process	\$ 480,532	\$ 307,047
Finished goods	242,633	4,957,890
Packaging materials and other	39,807	3,351
Total	\$ 762,972	\$ 5,268,288

7. Prepaid Expenses

Prepaid expenses consist of the following:

	December	
	31, 2007	2006
Prepaid office rent	\$ 267	\$ -
Prepaid lease fee for the right to use lands	1,591,685	1,867,599
Prepaid research and development fee	-	51,255
Prepaid heating fee	-	4,421
Total	\$ 1,591,952	\$ 1,923,275

8. Other Current Assets

Other current assets consist of the following:

	December 31,	
	2007	2006
Other receivable	\$ 110	\$ -
Employees travel and operation advance	-	25,864
Advances to suppliers	-	124,762
Loan to officers/shareholders	-	1,885
Advance to related parties	-	37,441
Other current assets	-	17,587
Total	\$ 110	\$ 207,539

Employee travel and operation advance consists of prepaid travel and operation fee advances to the Company's employees. These amounts are unsecured, non-interest bearing and are due on demand.

Advance to related parties incurred in year 2006, the Company's subsidiary in China, Jilin Huaren, deposited a portion of its daily cash revenue into a related individual's personal bank account, and withdraw cash for the Company's regular operations if necessary. This behavior could cause ambiguity of the Company's financial records. Accordingly, in the first quarter of 2007 all such amounts were repaid, and this practice was terminated.

9. Property and Equipment, Net

Property and equipment at cost, less accumulated depreciation, consists of the following:

		December 31,	
	Estimated Life	2007	2006
Office equipments	5 years	21,930	\$ 18,933
		\$	
Vehicles	5 years	-	41,837
Subtotal		21,930	60,770
Less: Accumulated depreciation		11,260	16,370
Total		10,670	\$ 44,400

\$

Depreciation expenses charged to operations were \$11,888 and \$12,463 for the years ended December 31, 2007 and 2006, respectively. Loss on disposal of fixed assets for the years ended December 31, 2007 and 2006 was \$25,050 and \$3,244, respectively.

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10. Deposit for Purchase of Fixed Assets

Starting from late 2005, the subsidiary in China, Jilin Huaren, has intended to purchase an office building from an unrelated company in P. R. China. The purchase price was \$1,028,158 (equivalent to RMB7,500,000) and fix up construction cost was \$361,718 (equivalent to RMB2,638,593). During 2006 and 2007, all these cost had been paid to the seller by Jilin Huaren, but the title to the property has not transferred. Jilin Huaren had occupied the property since year 2005 without paying any rent. Accordingly, Jilin Huaren recognized \$17,043 (equivalent to RMB129,600) of rent expenses per year since October 1, 2005, and also recognized an offsetting amount of interest income imputed to the deposit that Jilin Huaren paid to the seller in 2005. Management estimated the value of the contribution items and expected to get fully refund \$1,389,876 (equivalent to RMB10,138,593) if the purchase does not go through.

On March 1, 2007, the Company signed a letter of intent with a village in Jilin P.R.China to purchase a land use right from the village. This letter of intent did not list the total purchase price, but the Company has deposited \$2,303,074 (equivalent to RMB16,800,000) to the village as of December 31, 2007. In addition, the title to the land use rights has not passed to the Company as of December 31, 2007.

Accordingly, the total deposits for purchase of fixed assets consist of the following:

	December 31,	
	2007	2006
Deposit for purchase office building	\$ 1,389,876	1,297,217
Deposit for purchase land use right from village	2,303,074	-
Total	\$ 3,692,950	1,297,217
		\$

11. Operating Lease Commitments

The Company leases its office space, and certain farm and plant lands under operating lease agreements.

The following was a schedule of future minimum rental payments required under operating leases that had initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2007.

Year Ending December 31,	
2008	\$ 182,233
2009	137,088
2010	137,088
2011	137,088
2012	137,088
Thereafter	5,974,739

Total minimum payments \$ 6,705,324
required

Rent expenses amounted to \$411,492 and \$274,729 for the years ended December 31, 2007 and 2006, respectively.

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12. Taxation

a. Corporation Income Tax (“CIT”)

The Company and its U. S. subsidiary will file consolidated federal income taxes return and file Delaware state franchise tax individually. The Company’s PRC subsidiary files income tax returns under the Income Tax Law of the People's Republic of China concerning Foreign Investment Enterprises and Foreign Enterprises and local income tax laws.

In accordance with the relevant PRC tax laws and regulations, the Company’s PRC subsidiary was subject to CIT at a 33% tax rate during 2007.

b. Value Added Tax (“VAT”)

The Company is subject to VAT on merchandises sales in PRC. For the years ended December 31, 2007 and 2006, a small scale tax rate of 4% was applicable.

c. Business Tax (“BT”)

The Company is also subject to Business Tax, which is charged on service income at a rate of 5% in accordance with the tax law in Jilin District of PRC.

d. Taxes Payable

As of December 31, 2007 and 2006, tax payable consists of the following:

	December 31,	
	2007	2006
Value-added tax	\$ 557,813	\$ 233,702
Income tax	964,564	789,711
Delaware franchise taxes	21,186	-
Individual income tax withholdings	6,126	3,788
City construction, education, and other taxes	20,389	19,124
Total	\$ 1,570,078	\$ 1,046,325

13. Foreign Subsidiary

a ..Operations

Substantially all of the Companies' operations are carried out through its subsidiary located in the PRC. Accordingly, the Companies' business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC. The Companies' business may be influenced by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency fluctuation and remittances and methods of taxation, among other things.

b. Dividends and Reserves

Under laws of the PRC, net income after taxation can only be distributed as dividends after appropriation has been made for the following: (i) cumulative prior years' losses, if any; (ii) allocations to the "Statutory Surplus Reserve" of at least 10% of net income after tax, as determined under PRC accounting rules and regulations, until the fund amounts to 50% of the Company's registered capital; (iii) allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company's "Statutory Common Welfare Fund", which is established for the purpose of providing employee facilities and other collective benefits to employees in China; and (iv) allocations to any discretionary surplus reserve, if approved by shareholders.

As of December 31, 2007 and 2006, the Company's PRC subsidiaries established and segregated in retained earnings an aggregate amount of \$259,244 and \$224,275 respectively, for the Statutory Surplus Reserve and the Statutory Common Welfare Fund.

14. Concentration of Business

a. Financial Risks

The Company provides credit in the normal course of business. The Company performs ongoing credit evaluations of its customers and maintains allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends, and other information.

b. Major Customers

The following summarizes sales to major customers (each 10% or more of sale):

Year Ended	Sales to Major Customers	Number of Customers	Percentage of Total
2007	5,097,508	1	68.43%
\$			
2006	594,363	2	26.59%
\$			

c. Major Suppliers

The following summarized purchases from major suppliers (each 10% or more of purchases):

Year Ended	Purchases from Major Suppliers	Number of Suppliers	Percentage of Total
2007	798,509	2	92.09%
\$			
2006	-	-	-
\$			

15. Stockholders Equity

On November 13, 2006, the Company acquired all of the outstanding capital stock of China Organic Health Products, Inc. ("China Organic"). In connection with the closing of the acquisition (the "Share Exchange"), the Company issued to the shareholders of China Organic (a) 27,486,175 shares of common stock and (b) Series D Preferred Stock, which was convertible into 469,760,000 shares of common stock. As a part of the merger, the Company changed its name to "China Huaren Organic Products, Inc. from Ultradata Systems, Inc. " In addition, the Company announced a 1:39 reverse split of its outstanding common shares and an increase in the number of authorized shares of common stock from 50,000,000 shares, par value \$0.01 to 100,000,000 shares, \$0.01 par value. After recapitalization, the Series D Preferred Stock was converted into 12,045,128 common shares, and there were 14,699,853 common shares issued and outstanding, par value \$0.01 on December 31, 2007.

16. Subsequent Events

On February 28, 2008, certain individuals converted all of the outstanding Series C Preferred Stock into 299,997 shares of the Company's common stock. Therefore the Company had 15,000,712 common shares issued and outstanding, par value \$0.01 on February 28, 2008.

SIGNATURES

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

China Huaren Organic Products, Inc.

By: /s/ Fang Jingzhong
Fang Jinzhong, Chief Executive Officer

In accordance with the Exchange Act, this Report has been signed below on May 9, 2008 by the following persons, on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Fang Jinzhong
Fang Jinzhong, Director,
Chief Executive Officer,
Chief Financial Officer

/s/ Zhang Chengcai
Zhang Chengcai, Director

/s/ Zhou Huakang
Zhou Huakang, Director