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

FORM 10-Q

(Mark One)

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2016

OR

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For transition period from to

Commission File Number: 000-19756

PDL BIOPHARMA, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-3023969**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

932 Southwood Boulevard
Incline Village, Nevada 89451
(Address of principal executive offices and Zip Code)

(775) 832-8500
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒	*Accelerated filer* ☐	*Non-accelerated filer* ☐	*Smaller reporting company* ☐

(Do not check if a smaller reporting company)

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

As of July 25, 2016, there were 165,540,749 shares of the registrant's Common Stock outstanding.

PDL BIOPHARMA, INC.
2016 Form 10-Q
Table of Contents

GLOSSARY OF TERMS AND ABBREVIATIONS

Abbreviation/term	Definition
'216B Patent	European Patent No. 0 451 216B
'761 Patent	U.S. Patent No. 5,693,761
AbbVie	AbbVie Biotherapeutics, Inc.
Accel 300	Accel 300, LLC, a wholly-owned subsidiary of kaléo
AcelRx	AcelRx Pharmaceuticals, Inc.
AcelRx Royalty Agreement	Royalty Interest Assignment Agreement, dated September 18, 2015, between PDL and AcelRx
Alphaeon	ALPHAEON Corporation
APIC	Additional paid-in-capital
ARIAD	ARIAD Pharmaceuticals, Inc.
ARIAD Royalty Agreement	Royalty Interest Assignment Agreement, dated July 28, 2015, between PDL and ARIAD
ARIAD Royalty Rights	The right to receive specified royalties on ARIAD's Net Revenues (as defined in the ARIAD Royalty Agreement) generated by the sale, distribution or other use of ARIAD's product Iclusig® (ponatinib)
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Avinger	Avinger, Inc.
Avinger Credit and Royalty Agreement	Credit Agreement, dated April 18, 2013, between PDL and Avinger
AxoGen	AxoGen, Inc.
AxoGen Royalty Agreement	Revenue Interests Purchase Agreement, dated as of October 5, 2012, between PDL and AxoGen
Biogen	Biogen, Inc.
CareView	CareView Communications, Inc.
Chugai	Chugai Pharmaceutical Co., Ltd.
Depo DR Sub	Depo DR Sub, LLC, a wholly-owned subsidiary of Depomed
Depomed	Depomed, Inc.
Depomed Royalty Agreement	Royalty Purchase and Sale Agreement, dated as of October 18, 2013, among Depomed, Depo DR Sub and PDL
Direct Flow Medical	Direct Flow Medical, Inc.
Durata	Collectively, Durata Therapeutics Holding C.V., Durata Therapeutics International B.V. and Durata Therapeutics, Inc. (parent company)
EBITDA	Earnings before interest, taxes, depreciation and amortization
Elan	Elan Corporation, PLC
EPO	European Patent Office
ex-U.S.-based Manufacturing and Sales	Products that are both manufactured and sold outside of the United States
ex-U.S.-based Sales	Products that are manufactured in the United States and sold outside of the United States
Facet	Facet Biotech Corporation. In April 2010, Abbott Laboratories acquired Facet and later renamed the company Abbott Biotherapeutics Corp., and in January 2013, Abbott Biotherapeutics Corp. was renamed AbbVie and spun off from Abbott Laboratories as a subsidiary of AbbVie Inc.
FASB	Financial Accounting Standards Board
FDA	U.S. Food and Drug Administration
February 2015 Notes	2.875% Convertible Senior Notes due February 15, 2015, fully retired at September 30, 2013
February 2018 Notes	4.0% Convertible Senior Notes due February 1, 2018
GAAP	U.S. Generally Accepted Accounting Principles
Genentech	Genentech, Inc.
Genentech Products	Avastin®, Herceptin®, Lucentis®, Xolair®, Perjeta® and Kadcyla®
Genzyme	Genzyme Corporation (a Sanofi company)
Hyperion	Hyperion Catalysis International, Inc.
Incyte	Incyte Corporation
IRS	Internal Revenue Service

kaléo	kaléo, Inc. (formerly known as Intellijject, Inc.)
kaléo Revenue Interests	100% of the royalties from kaléo's first approved product, Auvi-Q™ (epinephrine auto-injection, USP) (known as Allerject in Canada) and 10% of net sales of kaléo's second proprietary auto-injector based product, EVZIO (naloxone hydrochloride injection), collectively
KMPG	KPMG, LLP
Kythera	Kythera Biopharmaceuticals, Inc., a Delaware corporation.
LENSAR	LENSAR, Inc.
Lilly	Eli Lilly and Company
March 2015 Term Loan	Term Loan borrowed under the Credit Agreement, dated as of March 30, 2015, among PDL, the Royal Bank of Canada and lenders thereto, fully retired on February 12, 2016
May 2015 Notes	3.75% Senior Convertible Notes due May 2015, fully retired on May 1, 2015
Merck	Merck & Co., Inc.
Michigan Royalty Agreement	Royalty Purchase and Sale Agreement, dated as of November 6, 2014, between The Regents of the University of Michigan and PDL
New LENSAR	LENSAR, LLC a wholly-owned subsidiary of Alphaeon (formerly known as Lion Buyer LLC)
Noden	Noden Pharma DAC
Noden Purchase Agreement	Asset Purchase Agreement, dated as of May 24, 2016, by and among Novartis AG, a company organized under the laws of Switzerland, Novartis Pharma AG, company organized under the laws of Switzerland, Speedel Holding AG, a company organized under the laws of Switzerland, collectively referred to as "Novartis") and Noden.
Novartis	Novartis AG
OCI	Other Comprehensive Income (Loss)
Paradigm Spine	Paradigm Spine, LLC
Paradigm Spine Credit Agreement	Paradigm Spine Credit Agreement, dated February 14, 2014, between Paradigm Spine and the Company
PDL, we, us, our, the Company	PDL BioPharma, Inc.
Queen et al. patents	PDL's patents in the United States and elsewhere covering the humanization of antibodies
Roche	F. Hoffman LaRoche, Ltd.
Salix	Salix Pharmaceuticals, Inc.
Santarus	Santarus, Inc.
SDK	Showa Denka K.K.
SEC	Securities and Exchange Commission
Series 2012 Notes	2.875% Series 2012 Convertible Senior Notes, fully retired on February 15, 2015
Settlement Agreement	Settlement Agreement between and among PDL, Genentech and Roche, dated January 31, 2014
SPCs	Supplementary Protection Certificates
SPC Products	Avastin, Herceptin, Lucentis, Xolair and Tysabri
Spin-Off	The spin-off by PDL of Facet
Takeda	Takeda Pharmaceuticals America, Inc.
U-M	University of Michigan
Valeant Pharmaceuticals	Valeant Pharmaceuticals International, Inc.
VB	Viscogliosi Brothers, LLC
VB Royalty Agreement	Royalty Purchase and Sale Agreement, dated as of June 26, 2014, between VB and PDL
VWAP	Volume-weighted average share price
Wellstat Diagnostics	Wellstat Diagnostics, LLC a/k/a Defined Diagnostics, LLC
Wellstat Diagnostics Borrower Notice	A notice of default to Wellstat Diagnostics, due to, inter alia, its ongoing failure to pay its debts as they became due and Wellstat Diagnostics' failure to comply with certain covenants included in the first amendment to amended and restated credit agreement by the deadlines to which the parties had agreed
Wellstat Diagnostics Guarantor Notice	A notice to each of the guarantors of Wellstat Diagnostics' obligations to the Company under the credit agreement

Wellstat Diagnostics Guarantors	Some or all of: Samuel J. Wohlstadter; Nadine H. Wohlstadter; Duck Farm, Inc.; Hebron Valley Farms, Inc.; HVF, Inc.; Hyperion Catalysis EU Limited; Hyperion; NHW, LLC; Wellstat AVT Investment, LLC; Wellstat Biocatalysis, LLC; Wellstat Biologics Corporation; Wellstat Diagnostics; Wellstat Immunotherapeutics, LLC; Wellstat Management Company, LLC; Wellstate Opthalmics Corporation; Wellstat Therapeutics Corporation; Wellstat Therapeutics EU Limited; Wellstat Vaccines, LLC; and SJW Properties, Inc.
Wellstat Diagnostics Note Receivable and Credit Agreement	Senior Secured Note receivable among the Company and the holders of the equity interests in Wellstat Diagnostics, as amended, and Credit Agreement between Wellstat Diagnostics and the Company, dated November 2, 2012, as amended
Wellstat Diagnostics Petition	An Ex Parte Petition for Appointment of Receiver with the Circuit Court of Montgomery County, Maryland

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PDL BIOPHARMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Revenues				
Royalties from Queen et al. patents	$ 14,232	$ 116,884	$ 135,687	$ 244,694
Royalty rights - change in fair value	(855)	12,216	(27,957)	23,578
Interest revenue	7,343	8,966	16,307	19,500
License and other	327	—	134	—
Total revenues	21,047	138,066	124,171	287,772
Operating expenses				
General and administrative	6,951	7,429	16,797	15,095
Acquisition-related costs	2,959	—	2,959	—
Total operating expenses	9,910	7,429	19,756	15,095
Operating income	11,137	130,637	104,415	272,677
Non-operating expense, net				
Interest and other income, net	129	121	242	207
Interest expense	(4,461)	(7,199)	(9,011)	(15,809)
Total non-operating expense, net	(4,332)	(7,078)	(8,769)	(15,602)
Income before income taxes	6,805	123,559	95,646	257,075
Income tax expense	2,657	45,295	35,611	94,313
Net income	$ 4,148	$ 78,264	$ 60,035	$ 162,762
Net income per share				
Basic	$ 0.03	$ 0.48	$ 0.37	$ 1.00
Diluted	$ 0.03	$ 0.47	$ 0.37	$ 0.97
Weighted average shares outstanding				
Basic	163,791	163,544	163,729	163,188
Diluted	164,029	165,384	163,920	167,376
Cash dividends declared per common share	$ 0.05	$ —	$ 0.10	$ 0.60

See accompanying notes.

PDL BIOPHARMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Net income	$ 4,148	$ 78,264	$ 60,035	$ 162,762
Other comprehensive income (loss), net of tax				
Change in unrealized gains on investments in available-for-sale securities:				
Change in fair value of investments in available-for-sale securities, net of tax	15	(151)	122	(189)
Adjustment for net (gains) losses realized and included in net income, net of tax	(433)	—	(557)	—
Total change in unrealized gains on investments in available-for-sale securities, net of tax[a]	(418)	(151)	(435)	(189)
Change in unrealized gains (losses) on cash flow hedges:				
Change in fair value of cash flow hedges, net of tax	—	(1,305)	—	4,363
Adjustment to royalties from Queen et al. patents for net (gains) losses realized and included in net income, net of tax	—	(1,739)	(1,821)	(2,408)
Total change in unrealized losses on cash flow hedges, net of tax[b]	—	(3,044)	(1,821)	1,955
Total other comprehensive income (loss), net of tax	(418)	(3,195)	(2,256)	1,766
Comprehensive income	$ 3,730	$ 75,069	$ 57,779	$ 164,528

[a] Net of tax of ($225) and ($82) for the three months ended June 30, 2016 and 2015, respectively, and ($234) and ($102) for the six months ended June 30, 2016 and 2015, respectively.
[b] Net of tax of zero and ($1,639) for the three months ended June 30, 2016 and 2015, respectively, and ($981) and $1,053 for the six months ended June 30, 2016 and 2015, respectively.

See accompanying notes.

PDL BIOPHARMA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	June 30, 2016	December 31, 2015
	(unaudited)	(Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 115,854	$ 218,883
Short-term restricted cash	105,938	—
Short-term investments	—	1,469
Receivables from licensees and other	2,881	—
Deferred tax assets	—	981
Notes receivable	95,359	58,398
Prepaid and other current assets	673	2,979
Total current assets	320,705	282,710
Property and equipment, net	18	31
Investments-other	75,000	—
Royalty rights - at fair value	339,338	399,204
Notes and other receivables, long-term	276,823	306,507
Long-term deferred tax assets	25,707	16,172
Other assets	11,600	7,581
Total assets	$ 1,049,191	$ 1,012,205
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,073	$ 394
Accrued liabilities	11,738	8,009
Accrued income taxes	9,793	3,372
Term loan payable	—	24,966
Total current liabilities	22,604	36,741
Convertible notes payable	232,847	228,862
Other long-term liabilities	55,088	50,650
Total liabilities	310,539	316,253
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, par value $0.01 per share, 10,000 shares authorized; no shares issued and outstanding	—	—
Common stock, par value $0.01 per share, 350,000 shares authorized; 165,541 and 164,287 shares issued and outstanding at June 30, 2016, and December 31, 2015, respectively	1,655	1,643
Additional paid-in capital	(116,542)	(117,983)
Accumulated other comprehensive income	—	2,256
Retained earnings	853,539	810,036
Total stockholders' equity	738,652	695,952
Total liabilities and stockholders' equity	$ 1,049,191	$ 1,012,205

See accompanying notes.

PDL BIOPHARMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2016	**2015**
Cash flows from operating activities		
Net income	$ 60,035	$ 162,762
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of convertible notes and term loan offering costs	4,019	7,210
Change in fair value of royalty rights - at fair value	27,957	(23,578)
Change in fair value of derivative asset	747	—
Other amortization, depreciation and accretion of embedded derivative	13	20
Gain on sale of available-for-sale securities	(881)	—
Stock-based compensation expense	1,599	727
Deferred income taxes	(7,485)	8,358
Changes in assets and liabilities:		
Receivables from licensees and other	(2,881)	(100)
Prepaid and other current assets	(496)	(695)
Accrued interest on notes receivable	(2,277)	(2,527)
Other assets	31	23
Accounts payable	679	383
Accrued liabilities	3,746	(102)
Accrued income taxes	6,421	(3,293)
Other long-term liabilities	3,525	6,712
Net cash provided by operating activities	94,752	155,900
Cash flows from investing activities		
Purchase consideration paid in advance	(4,000)	—
Purchase of investments-other	(75,000)	—
Proceeds from sales of available-for-sale securities	1,681	—
Restricted cash	(105,938)	—
Proceeds from royalty rights - at fair value	31,909	2,091
Purchase of notes receivable	(5,000)	(5,226)
Net cash used in investing activities	(156,348)	(3,135)
Cash flows from financing activities		
Proceeds from term loan	—	100,000
Repurchase of convertible notes	—	(177,387)
Payment of debt issuance costs	—	(607)
Repayment of term loan	(25,000)	(25,000)
Cash dividends paid	(16,433)	(49,083)
Net cash used in financing activities	(41,433)	(152,077)
Net increase (decrease) in cash and cash equivalents	(103,029)	688
Cash and cash equivalents at beginning of the period	218,883	291,377
Cash and cash equivalents at end of period	$ 115,854	$ 292,065
Supplemental cash flow information		
Cash paid for income taxes	$ 34,000	$ 84,000
Cash paid for interest	$ 5,001	$ 9,655
Supplemental schedule of non-cash investing and financing activities		
Stock issued to settle debt	$ —	$ 9,794
Warrants received for notes receivable	$ 797	$ (1,258)

See accompanying notes.

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with GAAP for interim financial information. The financial statements include all adjustments (consisting only of normal recurring adjustments), that management of PDL believes are necessary for a fair presentation of the periods presented. These interim financial results are not necessarily indicative of results expected for the full fiscal year or for any subsequent interim period.

The accompanying unaudited Condensed Consolidated Financial Statements and related financial information should be read in conjunction with our audited Consolidated Financial Statements and the related notes thereto for the year ended December 31, 2015, included in our Annual Report on Form 10-K, filed with the SEC. The Condensed Consolidated Balance Sheet at December 31, 2015, has been derived from the audited Consolidated Financial Statements at that date, but does not include all disclosures required by GAAP.

Principles of Consolidation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of PDL and its subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation. Our accompanying unaudited Condensed Consolidated Financial Statements are prepared in accordance with GAAP and the rules and regulations of the SEC.

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Notes Receivable and Other Long-Term Receivables

We account for our notes receivable at both amortized cost, net of unamortized origination fees, if any, and as dependent on collateral when the loan for which repayment is expected to be provided solely by the underlying collateral. For loans accounted for at their amortized cost, related fees and costs are recorded net of any amounts reimbursed. Interest is accreted or accrued to "Interest revenue" using the effective interest method. When and if supplemental payments are received from certain of these notes and other long-term receivables, an adjustment to the estimated effective interest rate is affected prospectively.

We evaluate the collectability of both interest and principal for each note receivable and loan to determine whether it is impaired. A note receivable or loan is considered to be impaired when, based on current information and events, we determine it is probable that we will be unable to collect amounts due according to the existing contractual terms. When a note receivable or loan is considered to be impaired, the amount of loss is calculated by comparing the carrying value of the financial asset to the value determined by discounting the expected future cash flows at the loan's effective interest rate or to the estimated fair value of the underlying collateral, less costs to sell, if the loan is collateralized and we expect repayment to be provided solely by the collateral. Impairment assessments require significant judgments and are based on significant assumptions related to the borrower's credit risk, financial performance, expected sales, and estimated fair value of the collateral.

Convertible Notes

We issued our Series 2012 Notes, May 2015 Notes and February 2018 Notes with a net share settlement feature, meaning that upon any conversion, the principal amount will be settled in cash and the remaining amount, if any, will be settled in shares of our common stock. In accordance with accounting guidance for convertible debt instruments that may be settled in cash or other assets upon conversion, we separated the principal balance between the fair value of the liability component and the common stock conversion feature using a market interest rate for a similar nonconvertible instrument at the date of issuance.

Queen et al. Royalty Revenues

Under our Queen Patent license agreements, the Company receives royalty payments based upon our licensees' net sales of covered products. Generally, under these agreements we receive royalty reports from our licensees approximately one quarter in arrears, that is, generally in the second month of the quarter after the licensee has sold the royalty-bearing product. We recognize royalty revenues when we can reliably estimate such amounts and collectability is reasonably assured. Under this accounting policy, the royalty revenues we report are not based upon our estimates and such royalty revenues are typically reported in the same period in which we receive payment from our licensees.

The Company also received annual maintenance fees from licensees of our Queen et al. patents prior to patent expiry as well as periodic milestone payments. We have no performance obligations with respect to such fees. Maintenance fees were recognized as they became due and when payment was reasonably assured. Total annual maintenance and milestone payments in each of the last several years have been less than 1% of total revenue.

Although the last of our Queen et al. patents expired in December 2014, we have received royalties beyond expiration based on the terms of our licenses and our legal settlement. Under the terms of the legal settlement between Genentech and PDL, the first quarter of 2016 was the last period for which Genentech paid royalties to PDL for Avastin, Herceptin, Xolair, Kadcyla and Perjeta. Royalty payments for Avastin, Herceptin, Xolair, Kadcyla and Perjeta accounted for 86% of the $121.5 million Queen et al. royalty revenue recognized in the first quarter of 2016 and our royalties from our Queen et al. patents declined to $14.2 million in the second quarter of 2016. Other products from the Queen et al. patent licenses, such as Tysabri, entitle us to royalties following the expiration of our patents with respect to sales of licensed product manufactured prior to patent expiry in jurisdictions providing patent protection licenses. The amount of royalties we are due for product manufactured prior to patent expiry but sold after patent expiry is uncertain; however, the Company's revenues from payments made from these Queen et al. patent licenses and settlements materially decreased in the second quarter of 2016. The continued success of the Company is dependent on the timing and our ability to acquire new income generating assets in order to provide recurring revenues going forward and to support the Company's business model, and to pay amounts due on our debt as they become due.

Royalty Rights - At Fair Value

Currently, we have elected to account for our investments in royalty rights at fair value with changes in fair value presented in earnings. The fair value of the investments in royalty rights is determined by using a discounted cash flow analysis related to the expected future cash flows to be received. These assets are classified as Level 3 assets within the fair value hierarchy as our valuation estimates utilize significant unobservable inputs, including estimates as to the probability and timing of future sales of the related products. Transaction-related fees and costs are expensed as incurred.

The changes in the estimated fair value from investments in royalty rights along with cash receipts each reporting period are presented together on our Condensed Consolidated Statements of Income as a component of revenue under the caption, "Royalty rights - change in fair value."

Customer Concentration

The percentage of total revenue recognized, which individually accounted for 10% or more of our total revenues, was as follows:

		Three Months Ended June 30,		Six Months Ended June 30,	
Licensee	**Product Name**	**2016**	**2015**	**2016**	**2015**
Genentech	*Avastin*	0%	28%	31%	27%
	Herceptin	0%	29%	31%	27%
	Xolair	0%	8%	10%	8%
Biogen	*Tysabri®*	68%	10%	23%	10%
Depomed	*Glumetza, Janumet and Jentadueto*	20%	7%	*N/M*	6%
AcelRx	*Zalviso*	10%	0%	3%	0%
kaléo	*Interest revenues*	22%	4%	8%	3%

N/M = Not meaningful

Foreign Currency Hedging

From time to time, we may enter into foreign currency hedges to manage exposures arising in the normal course of business and not for speculative purposes.

We hedged certain Euro-denominated currency exposures related to royalties associated with our licensees' product sales with Euro forward contracts. In general, those contracts are intended to offset the underlying Euro market risk in our royalty revenues. The last of those contracts expired in the fourth quarter of 2015 and was settled in the first quarter of 2016. We designated foreign currency exchange contracts used to hedge royalty revenues based on underlying Euro-denominated licensee product sales as cash flow hedges.

The fair value of the Euro forward contracts was estimated using pricing models with readily observable inputs from actively quoted markets and was disclosed on a gross basis. The aggregate unrealized gains or losses, net of tax, on the effective component of the hedge was recorded in stockholders' equity as "Accumulated other comprehensive income." Realized gains or losses on cash flow hedges are recognized as an adjustment to royalty revenue in the same period that the hedged transaction impacts earnings as royalty revenue. Any gain or loss on the ineffective portion of our hedge contracts is reported in "Interest and other income, net" in the period the ineffectiveness occurs.

Income Taxes

The provision for income taxes is determined using the asset and liability approach. Tax laws require items to be included in tax filings at different times than the items are reflected in the financial statements. A current liability is recognized for the estimated taxes payable for the current year. Deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. Deferred taxes are adjusted for enacted changes in tax rates and tax laws. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Comprehensive Income (Loss)

Comprehensive income (loss) comprises net income adjusted for other comprehensive income (loss), using the specific identification method, which includes the changes in unrealized gains and losses on cash flow hedges and changes in unrealized gains and losses on our investments in available-for-sale securities, all net of tax, which are excluded from our net income.

Adopted Accounting Pronouncements

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU requires retrospective adoption and is effective for the Company beginning in the first quarter of 2016. The Company adopted this update in the first quarter of 2016 resulting in an immaterial impact on its unaudited condensed consolidated results of operations, financial position and cash flows. At December 31, 2015, the Company had $4.0 million in unamortized debt expense that was classified as a long-term asset and reclassified as a contra liability included in long-term debt. As of June 30, 2016, long-term debt included a contra liability of $3.1 million for unamortized debt expense previously recognized as a long-term asset.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*, which amends existing guidance on income taxes to require the classification of all deferred tax assets and liabilities as non-current on the balance sheet. ASU No. 2015-17 was adopted on a prospective basis by the Company in the first quarter of 2016, thus resulting in the reclassification of $1.0 million of current deferred tax liabilities to non-current on the accompanying condensed consolidated balance sheet. The prior reporting period was not retrospectively adjusted. The adoption of this guidance had no impact on the Company’s results of operations, financial positions or cash flows.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition method. In August 2015, the FASB issued an update to defer the effective date of this update by one year. The updated standard becomes effective for the Company in the first quarter of fiscal year 2018, but allows the Company to adopt the standard one year earlier if it so chooses. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its unaudited Condensed Consolidated Financial Statements and related disclosures, and is therefore unable to determine the impact on the Company's unaudited Condensed Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which seeks to increase transparency and comparability among organizations by, among other things, recognizing lease assets and lease liabilities on the balance sheet for leases classified as operating leases under previous GAAP and disclosing key information about leasing arrangements. ASU No. 2016-02 becomes effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the provisions of ASU No. 2016-02 and assessing the impact, if any, it may have on the Company’s unaudited Condensed Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, intended to improve the accounting for share-based payment transactions as part of its simplification initiative. The new guidance mainly requires entities to record all excess tax benefits and tax deficiencies as an income tax benefit or expense in the statement of income. The recognition of excess tax benefits and deficiencies and changes to diluted earnings per share are to be applied prospectively while a cumulative-effective adjustment in retained earnings would be made for tax benefits that had not previously been recognized and potential changes to forfeiture recognition. Cash flow presentation changes can be applied prospectively or retrospectively. The ASU is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. Upon adoption, the ASU may result in approximately $7.5 million cumulative-effect adjustment in retained earnings associated with tax benefits that were not previously recognized. The Company is continuing to evaluate the impact of the updated standard on its consolidated results of operations, financial position and cash flows.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The new guidance amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the more timely recognition of losses. ASU No. 2016-13 has an effective date of the fiscal years beginning December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating ASU 2016-13 and assessing the impact, if any, it may have to the Company's consolidated results of operations, financial position and cash flows.

2. Net Income per Share

Net Income per Basic and Diluted Share:	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
(in thousands except per share amounts)				
Numerator				
Income used to compute net income per basic and diluted share	$ 4,148	$ 78,264	$ 60,035	$ 162,762
Denominator				
Total weighted average shares used to compute net income per basic share	163,791	163,544	163,729	163,188
Restricted stock outstanding	238	134	191	117
Effect of dilutive stock options	—	19	—	19
Assumed conversion of Series 2012 Notes	—	—	—	266
Assumed conversion of warrants	—	503	—	1,551
Assumed conversion of May 2015 Notes	—	1,184	—	2,235
Shares used to compute net income per diluted share	164,029	165,384	163,920	167,376
Net income per share - basic	$ 0.03	$ 0.48	$ 0.37	$ 1.00
Net income per share - diluted	$ 0.03	$ 0.47	$ 0.37	$ 0.97

We compute net income per diluted share using the sum of the weighted-average number of common and common equivalent shares outstanding. Common equivalent shares used in the computation of net income per diluted share include shares that may be issued under our stock options and restricted stock awards, the Series 2012 Notes and the May 2015 Notes on a weighted average basis for the period that the notes were outstanding, including the effect of adding back interest expense and the underlying shares using the if converted method. In the first quarter of 2012, $179.0 million aggregate principal of the February 2015 Notes was exchanged for the Series 2012 Notes, and in the third quarter of 2013, $1.0 million aggregate principal of the February 2015 Notes was exchanged for the Series 2012 Notes and the February 2015 Notes were retired. In the first quarter of 2014, $131.7 million aggregate principal of the Series 2012 Notes was retired in a privately negotiated exchange and purchase agreement, and in the fourth quarter of 2014, the Company entered into a privately negotiated exchange agreement under which it retired approximately $26.0 million in principal of the outstanding Series 2012 Notes. In the first quarter of 2015, the Company completed the retirement of the remaining $22.3 million of aggregate principal of its Series 2012 Notes.

In May 2011, we issued the May 2015 Notes, and in January and February 2012 we issued the Series 2012 Notes. The Series 2012 Notes and May 2015 Notes were net share settled, with the principal amount settled in cash and the excess settled in our common stock. The weighted-average share adjustments related to the Series 2012 Notes and May 2015 Notes, shown in the table above, include the shares issuable in respect of such excess.

In the second quarter of 2015, the Company completed the retirement of the remaining $155.1 million of aggregate principal of its May 2015 Notes. Concurrently with the retirement of the May 2015 Notes, we exercised our purchased call options and received 5.2 million of PDL's common shares, which was the amount equal to the number of shares required to be delivered by us to the note holders for the excess conversion value (Note 9).

February 2018 Notes Purchase Call Option and Warrant Potential Dilution

We excluded from our calculation of net income per diluted share 23.8 million shares for the three and six months ended June 30, 2016, respectively, and 29.0 million shares for the three and six months ended June 30, 2015, respectively, for warrants issued in February 2014, because the exercise price of the warrants exceeded the VWAP of our common stock and conversion of the underlying February 2018 Notes is not assumed, therefore no stock would be issuable upon conversion. These securities could be dilutive in future periods. Our purchased call options, issued in February 2014, will always be anti-dilutive and therefore 26.9 million shares were excluded from our calculation of net income per diluted share for the three and six months ended June 30, 2016, respectively, and 32.7 million shares were excluded from our calculation of net income per

diluted share for the three and six months ended June 30, 2015, because they have no effect on net income per diluted share. For information related to the conversion rates on our convertible debt, see Note 9.

Anti-Dilutive Effect of Stock Options and Restricted Stock Awards

For the three months ended June 30, 2016 and 2015, we excluded approximately 1,154,000 and 39,000 shares underlying restricted stock awards, respectively, and for the six months ended June 30, 2016 and 2015, we excluded approximately 1,095,000 and 38,000 shares underlying restricted stock awards, respectively, calculated on a weighted average basis, from our net income per diluted share calculations because their effect was anti-dilutive.

3. Fair Value Measurements

The fair value of our financial instruments are estimates of the amounts that would be received if we were to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date or exit price. The assets and liabilities are categorized and disclosed in one of the following three categories:

Level 1 – based on quoted market prices in active markets for identical assets and liabilities;

Level 2 – based on quoted market prices for similar assets and liabilities, using observable market-based inputs or unobservable market-based inputs corroborated by market data; and

Level 3 – based on unobservable inputs using management's best estimate and assumptions when inputs are unavailable.

The following tables present the fair value of our financial instruments measured at fair value on a recurring basis by level within the valuation hierarchy.

	June 30, 2016				December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
(In thousands)								
Financial assets:								
Money market funds	$ 59,630	$ —	$ —	$ 59,630	$ 94,801	$ —	$ —	$ 94,801
Certificates of deposit	—	75,000	—	75,000	—	—	—	—
Corporate securities	—	—	—	—	—	1,469	—	1,469
Foreign currency hedge contracts	—	—	—	—	—	2,802	—	2,802
Warrants	—	339	695	1,034	—	984	—	984
Royalty rights - at fair value	—	—	339,338	339,338	—	—	399,204	399,204
Total	$ 59,630	$ 75,339	$ 340,033	$ 475,002	$ 94,801	$ 5,255	$ 399,204	$ 499,260

As of June 30, 2016, PDL held $75.0 million in a long-term certificate of deposit, which is designated as cash collateral for the letter of credit issued with respect to the first anniversary payment under the Noden Purchase Agreement described below. Except of the transfer of the long-term certificate of deposit into level 2, there have been no other transfers between levels during each of the three or six-month periods ended June 30, 2016, and December 31, 2015. The Company recognizes transfers between levels on the date of the event or change in circumstances that caused the transfer.

Certificates of Deposit

The fair value of the certificates of deposit is determined using quoted market prices for similar instruments and non-binding market prices that are corroborated by observable market data.

Corporate Securities

Corporate securities consist primarily of U.S. corporate equity holdings. The fair value of corporate securities is estimated using recently executed transactions or market quoted prices, where observable. Independent pricing sources are also used for valuation.

Royalty Rights - At Fair Value

Depomed Royalty Agreement

On October 18, 2013, PDL entered into the Depomed Royalty Agreement, whereby the Company acquired the rights to receive royalties and milestones payable on sales of Type 2 diabetes products licensed by Depomed in exchange for a $240.5 million cash payment. Total arrangement consideration was $241.3 million, which was comprised of the $240.5 million cash payment to Depomed and $0.8 million in transaction costs.

The rights acquired include Depomed's royalty and milestone payments accruing from and after October 1, 2013: (a) from Santarus (which was subsequently acquired by Salix, which itself was recently acquired by Valeant Pharmaceuticals) with respect to sales of Glumetza (metformin HCL extended-release tablets) in the United States; (b) from Merck with respect to sales of Janumet® XR (sitagliptin and metformin HCL extended-release tablets); (c) from Janssen Pharmaceutica N.V. with respect to potential future development milestones and sales of its investigational fixed-dose combination of Invokana® (canagliflozin) and extended-release metformin tablets; (d) from Boehringer Ingelheim with respect to potential future development milestones and sales of the investigational fixed-dose combinations of drugs and extended-release metformin subject to Depomed's license agreement with Boehringer Ingelheim; and (e) from LG Life Sciences and Valeant Pharmaceuticals for sales of extended-release metformin tablets in Korea and Canada, respectively.

Under the terms of the Depomed Royalty Agreement, the Company receives all royalty and milestone payments due under license agreements between Depomed and its licensees until the Company has received payments equal to two times the cash payment it made to Depomed, after which all net payments received by Depomed will be shared evenly between the Company and Depomed.

The Depomed Royalty Agreement terminates on the third anniversary following the date upon which the later of the following occurs: (a) October 25, 2021, or (b) at such time as no royalty payments remain payable under any license agreement and each of the license agreements has expired by its terms.

As of June 30, 2016, and December 31, 2015, the Company determined that its royalty purchase interest in Depo DR Sub represented a variable interest in a variable interest entity. However, the Company does not have the power to direct the activities of Depo DR Sub that most significantly impact Depo DR Sub's economic performance and is not the primary beneficiary of Depo DR Sub; therefore, Depo DR Sub is not subject to consolidation by the Company.

The financial asset acquired represents a single unit of accounting. The fair value of the financial asset acquired was determined by using a discounted cash flow analysis related to the expected future cash flows to be generated by each licensed product. This financial asset is classified as a Level 3 asset within the fair value hierarchy, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future commercialization for products not yet approved by the FDA or other regulatory agencies. The discounted cash flows are based upon expected royalties from sales of licensed products over a ten-year period. The discount rates utilized range from approximately 15% to 25%. Significant judgment is required in selecting appropriate discount rates. At June 30, 2016, an evaluation was performed to assess those rates and general market conditions potentially affecting the fair market value. Should these discount rates increase or decrease by 2.5%, the fair value of the asset could decrease by $8.4 million or increase by $9.4 million, respectively. A third-party expert was engaged to help management develop its original estimate of the expected future cash flows. The estimated fair value of the asset is subject to variation should those cash flows vary significantly from those estimates. We periodically assess the expected future cash flows and to the extent such payments are greater or less than our initial estimates, or the timing of such payments is materially different than our original estimates, we will adjust the estimated fair value of the asset. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $3.4 million or decrease by $3.4 million, respectively.

When PDL acquired the Depomed royalty rights, Glumetza was marketed by Santarus. In January 2014, Salix acquired Santarus and assumed responsibility for commercializing Glumetza, which was generally perceived to be a positive development because of Salix's larger sales force and track record in the successful commercialization of therapies. In late 2014, Salix made a number of disclosures relating to an excess of supply at the distribution level of Glumetza and other drugs that it commercialized, the practices leading to this excess of supply which were under review by Salix's audit committee in relation to the related accounting practices. Because of these disclosures and PDL's lack of direct access to information as to the levels of inventory of Glumetza in the distribution channels, PDL commenced a review of all public statements by Salix, publicly available historical third-party prescription data, analyst reports and other relevant data sources. PDL also engaged a third-party expert to specifically assess estimated inventory levels of Glumetza in the distribution channel and to ascertain the

potential effects those inventory levels may have on expected future cash flows. Salix was acquired by Valeant Pharmaceuticals in early April 2015. In mid-2015, Valeant Pharmaceuticals implemented two price increases on Glumetza. At year-end 2015, a third-party expert was engaged by PDL to assess the impact of the Glumetza price adjustments and near-term market entrance of manufacturer of generic equivalents to Glumetza to the expected future cash flows. Based on the analysis performed, management revised the underlying assumptions used in the discounted cash flow analysis at year-end 2015. In February 2016, a manufacturer of generic equivalents to Glumetza entered the market. At March 31, 2016, management evaluated, with assistance of a third-party expert, the erosion of market share data, the gross-to-net revenue adjustment assumptions and Glumetza demand data. These data and assumptions are based on available but limited information. Our expected future cash flows at year-end 2015 anticipated a reduction in future cash flows of Glumetza as a result of the generic competition in 2016. However, based on the demand and supply data of Glumetza it appeared that the loss of market share progressed more rapidly than forecasted at year-end 2015. At the end of the second quarter in 2016, management re-evaluated, with the assistance of a third-party expert, the cash flow projections concluding that a further deterioration in the net pricing warranted revision of the assumptions used in the discounted cash flow model at June 30, 2016.

As of June 30, 2016, our discounted cash flow analysis reflects our expectations as to the amount and timing of future cash flows up to the valuation date. We continue to monitor whether the generic competition further affects sales of Glumetza and thus royalties on such sales paid to PDL. Due to the uncertainty around Valeant's marketing and pricing strategy, as well as the recent generic competition and limited historical demand data after generic market entrance, we may need to further reduce future cash flows in the event of more rapid reduction in market share of Glumetza or a further erosion in net pricing. PDL exercised its audit right under the Depomed Royalty Agreement with respect to the Glumetza royalties in January 2016 and expects to conclude the audit in the second half of 2016.

In May 31, 2016, PDL obtained a notification indicating that the FDA approved Jentadueto XR for use in patients with type 2 diabetes. In June 2016, PDL received a $6.0 million FDA approval milestone. The product approval was earlier than initially expected, based on the FDA approval and expected product launch, PDL has adjusted the timing of future cash flows and discount rate used in the discounted cash flow model at June 30, 2016.

As of June 30, 2016, the fair value of the asset acquired as reported in our Condensed Consolidated Balance Sheet was $136.6 million and the maximum loss exposure was $136.6 million.

VB Royalty Agreement

On June 26, 2014, PDL entered into the VB Royalty Agreement, whereby VB conveyed to the Company the right to receive royalties payable on sales of a spinal implant that has received pre-market approval from the FDA, in exchange for a $15.5 million cash payment, less fees.

The royalty rights acquired includes royalties accruing from and after April 1, 2014. Under the terms of the VB Royalty Agreement, the Company receives all royalty payments due to VB pursuant to certain technology transfer agreements between VB and Paradigm Spine until the Company has received payments equal to two and three tenths times the cash payment made to VB, after which all rights to receive royalties will be returned to VB. VB may repurchase the royalty right at any time on or before June 26, 2018, for a specified amount. The chief executive officer of Paradigm Spine is one of the owners of VB. The Paradigm Spine Credit Agreement and the VB Royalty Agreement were negotiated separately.

The fair value of the royalty right at June 30, 2016, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a ten-year period. The discount rate utilized was approximately 17.5%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $1.3 million or increase by $1.5 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $0.4 million or decrease by $0.4 million, respectively. A third-party expert was engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. At each reporting period, an evaluation is performed to assess those estimates, discount rates utilized and general market conditions affecting fair market value.

As of June 30, 2016, the fair value of the asset acquired as reported in our Condensed Consolidated Balance Sheet was $14.6 million and the maximum loss exposure was $14.6 million.

U-M Royalty Agreement

On November 6, 2014, PDL acquired a portion of all royalty payments of the U-M's worldwide royalty interest in Cerdelga (eliglustat) for $65.6 million. Under the terms of the Michigan Royalty Agreement, PDL will receive 75% of all royalty payments due under U-M's license agreement with Genzyme until expiration of the licensed patents, excluding any patent term extension. Cerdelga, an oral therapy for adult patients with Gaucher disease type 1, was developed by Genzyme, a Sanofi company. Cerdelga was approved in the United States on August 19, 2014, in the European Union on January 22, 2015, and in Japan in March 2015. In addition, marketing applications for Cerdelga are under review by other regulatory authorities. While marketing applications have been approved in the European Union and Japan, national pricing and reimbursement decisions are delayed in some countries. At June 30, 2016, a third party expert was engaged by PDL to assess the impact of the delayed pricing and reimbursement decisions to Cerdelga's expected future cash flows. Based on the analysis performed, management revised the underlying assumptions used in the discounted cash flow analysis at June 30, 2016.

The fair value of the royalty right at June 30, 2016, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a six-year period. The discount rate utilized was approximately 12.8%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $5.0 million or increase by $5.6 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $1.6 million or decrease by $1.6 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed in each reporting period.

As of June 30, 2016, the fair value of the asset acquired as reported in our Condensed Consolidated Balance Sheet was $64.0 million and the maximum loss exposure was $64.0 million.

ARIAD Royalty Agreement

On July 28, 2015, PDL entered into the ARIAD Royalty Agreement, whereby the Company acquired the rights to receive royalties payable from ARIAD's net revenues generated by the sale, distribution or other use of Iclusig® (ponatinib), a cancer medicine for the treatment of adult patients with chronic myeloid leukemia, in exchange for up to $200.0 million in cash payments. The purchase price of $100.0 million is payable in two tranches of $50.0 million each, with the first tranche funded on the closing date and the second tranche to be funded on the first anniversary of the closing date. The ARIAD Royalty Agreement provided ARIAD with an option to draw up to an additional $100.0 million in up to two draws at any time between the six and 12 months after the closing date. ARIAD may repurchase the royalty rights at any time for a specified amount. Upon the occurrence of certain events, PDL has the right to require ARIAD to repurchase the royalty rights for a specified amount. Under the ARIAD Royalty Agreement, the Company has the right to a make-whole payment from ARIAD if the Company does not receive payments equal to or greater than the amounts funded on or prior to the fifth anniversary of each of the respective fundings. In such case, ARIAD will pay to the Company the difference between the amounts paid to such date by ARIAD (excluding any delinquent fee payments) and the amounts funded by the Company. PDL has elected the fair value option to account for the hybrid instrument in its entirety. Any embedded derivative shall not be separated from the host contract.

Under the terms of the ARIAD Royalty Agreement, the Company receives royalty payments at a royalty rate ranging from 2.5% to 7.5% of Iclusig revenue until the first to occur of (i) repurchase of the royalty rights by ARIAD or (ii) December 31, 2033. The annual royalty payments shall not exceed $20.0 million in any fiscal year for the years ended December 31, 2015 through December 31, 2018. If Iclusig revenue does not meet certain agreed-upon projections on an annual basis, PDL is entitled to certain royalty payments from net revenue of another ARIAD product, brigatinib, up to the amount of the shortfall from the projections for the applicable year.

On May 9, 2016, ARIAD entered into a share purchase agreement with Incyte, pursuant to which ARIAD agreed to sell to Incyte all of the outstanding shares of ARIAD Pharmaceuticals (Luxembourg) S.a.r.l., which is the parent company of ARIAD's European subsidiaries responsible for the commercialization of Iclusig in the European Union and certain other countries.

On May 9, 2016, the Company and ARIAD agreed to amend the ARIAD Royalty Agreement to, among other things, include in the Iclusig Net Revenues calculation payable to the Company by ARIAD under the ARIAD Royalty Agreement, net sales of Iclusig made by Incyte once it takes over ARIAD's commercialization operations with respect to Iclusig in the European Union

and certain other countries. In addition, the Company and ARIAD agreed to restructure future funding under the ARIAD Royalty Agreement such that ARIAD's option to draw up to an additional $100.0 million between January and July of 2016 was reduced to a maximum amount of up to an additional $40.0 million, which will be funded at ARIAD's option in July of 2017 upon 90 days' written notice to the Company. The amendment to the ARIAD Royalty Agreement did not affect the Company's obligation to fund the second tranche of $50.0 million on the first anniversary of the ARIAD Royalty Agreement, which was funded on July 28, 2016.

The asset acquired pursuant to the ARIAD Royalty Agreement represents a single unit of accounting. The fair value of the royalty right at June 30, 2016, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a six-year period. The discount rate utilized was approximately 10.0%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $7.9 million or increase by $9.0 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $1.3 million or decrease by $1.3 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed in each reporting period.

As of June 30, 2016, the fair value of the asset acquired as reported in our Condensed Consolidated Balance Sheet was $50.3 million and the maximum loss exposure was $50.3 million.

AcelRx Royalty Agreement

On September 18, 2015, PDL entered into the AcelRx Royalty Agreement with ARPI LLC, a wholly owned subsidiary of AcelRx, whereby the Company acquired the rights to receive a portion of the royalties and certain milestone payments on sales of Zalviso™ (sufentanil sublingual tablet system) in the European Union, Switzerland and Australia by AcelRx's commercial partner, Grünenthal, in exchange for a $65.0 million cash payment. Under the terms of the AcelRx Royalty Agreement, the Company will receive 75% of all royalty payments and 80% of the first four commercial milestone payments due under AcelRx's license agreement with Grünenthal until the earlier to occur of (i) receipt by the Company of payments equal to three times the cash payments made to AcelRx and (ii) the expiration of the licensed patents. Zalviso received marketing approval by the European Commission in September 2015. Grüenthal launched Zalviso in the second quarter of 2016 and PDL expects to begin receiving royalties in the third quarter of 2016.

As of June 30, 2016, and December 31, 2015, the Company determined that its royalty rights under the agreement with ARPI LLC represented a variable interest in a variable interest entity. However, the Company does not have the power to direct the activities of ARPI LLC that most significantly impact ARPI LLC's economic performance and is not the primary beneficiary of ARPI LLC; therefore, ARPI LLC is not subject to consolidation by the Company.

The fair value of the royalty right at June 30, 2016, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a fifteen-year period. The discount rate utilized was approximately 13.4%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $10.2 million or increase by $12.7 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $1.8 million or decrease by $1.8 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. At each reporting period, an evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed in each reporting period.

As of June 30, 2016, the fair value of the asset acquired as reported in our Condensed Consolidated Balance Sheet was $71.8 million and the maximum loss exposure was $71.8 million.

Dr. Stephen Hoffman is the President of 10x Capital, Inc., a third-party consultant to the Company, and is also a member of the board of directors of AcelRx. Dr. Hoffman recused himself from the AcelRx board of directors with respect to the entirety of its discussions and considerations of the transaction. Dr. Hoffman is being compensated for his contribution to consummate this

transaction by PDL as part of his consulting agreement. PDL concluded Dr. Hoffman is not considered a related party in accordance with FASB ASC 850, *Related Party Disclosures* and SEC Regulation S-X, *Related Party Transactions Which Affect the Financial Statements*.

Avinger Credit and Royalty Agreement

On April 18, 2013, PDL entered into the Avinger Credit and Royalty Agreement, under which we made available to Avinger up to $40.0 million (of which only $20.0 million was funded) to be used by Avinger in connection with the commercialization of its lumivascular catheter devices and the development of Avinger's lumivascular atherectomy device. On September 22, 2015, Avinger elected to prepay the note receivable in whole for a payment of $21.4 million in cash.

Under the terms of the Avinger Credit and Royalty Agreement, the Company was entitled to receive royalties at a rate of 1.8% on Avinger's net revenues until the note receivable was repaid by Avinger. Upon the repayment of the note receivable, which occurred on September 22, 2015, the royalty rate was reduced to 0.9% subject to certain minimum payments from the prepayment date until April 2018. The Company has accounted for the royalty rights in accordance with the fair value option. The fair value of the royalty right at June 30, 2016, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a two-year period. The discount rate utilized was approximately 15.0%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 5%, the fair value of this asset could decrease by $93,000 or increase by $103,000, respectively. Should the expected royalties increase or decrease by 5%, the fair value of the asset could increase by $105,000 or decrease by $105,000, respectively. Management considered the contractual minimum payments when developing its estimate of the expected future cash flows. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed in each reporting period.

As of June 30, 2016, the fair value of the royalty asset as reported in our Condensed Consolidated Balance Sheet was $2.1 million and the maximum loss exposure was $2.1 million.

The following tables summarize the changes in Level 3 assets and the gains and losses included in earnings for the six months ended June 30, 2016:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

(in thousands)	**Royalty Rights**	**Preferred Stock Warrants**
Fair value as of December 31, 2015	$ 399,204	$ —
Fair value of financial instruments purchased	—	797
Total net change in fair value for the period		
Change in fair value	(27,957)	(102)
Proceeds	(31,909)	—
Total net change in fair value for the period	(59,866)	(102)
Fair value as of June 30, 2016	$ 339,338	$ 695

Gains and losses included in earnings for each period are presented in "Royalty rights - change in fair value" as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2016	2015	2016	2015
Total change in fair value for the period included in earnings for assets held at the end of the reporting period	$ (855)	$ 12,216	$ (27,957)	$ 23,578

The following tables present the fair value of assets and liabilities not subject to fair value recognition by level within the valuation hierarchy:

	June 30, 2016			December 31, 2015		
	Carrying Value	Fair Value Level 2	Fair Value Level 3	Carrying Value	Fair Value Level 2	Fair Value Level 3
(In thousands)						
Assets:						
Wellstat Diagnostics note receivable	$ 50,191	$ —	$ 52,468	$ 50,191	$ —	$ 55,970
Hyperion note receivable	1,200	—	1,200	1,200	—	1,200
LENSAR note receivable	43,909	—	46,229	42,271	—	42,618
Direct Flow Medical note receivable	57,022	—	60,537	51,852	—	51,992
Paradigm Spine note receivable	54,332	—	54,450	53,973	—	54,250
kaléo note receivable	146,731	—	145,494	146,778	—	146,789
CareView note receivable	18,797	—	19,500	18,640	—	19,495
Total	$ 372,182	$ —	$ 379,878	$ 364,905	$ —	$ 372,314
Liabilities:						
February 2018 Notes	$ 232,847	$ 234,125	$ —	$ 228,862	$ 197,946	$ —
March 2015 Term Loan	—	—	—	24,966	—	25,000
Total	$ 232,847	$ 234,125	$ —	$ 253,828	$ 197,946	$ 25,000

As of June 30, 2016 and December 31, 2015, the estimated fair values of our Paradigm Spine note receivable, kaléo note receivable, Hyperion note receivable, Avinger note receivable, LENSAR note receivable, CareView note receivable and Direct Flow Medical note receivable were determined using one or more discounted cash flow models, incorporating expected payments and the interest rate extended on the notes receivable, with fixed interest rates and incorporating expected payments for notes receivable with a variable rate of return.

When deemed necessary we engage a third-party valuation expert to assist in evaluating our investments and the related inputs needed for us to estimate the fair value of certain investments. We determined our notes receivable assets are Level 3 assets as our valuations utilized significant unobservable inputs, including estimates of future revenues, discount rates, expectations about settlement, terminal values and required yield. To provide support for the estimated fair value measurements, we considered forward-looking performance related to the investment and current measures associated with high yield indices, and reviewed the terms and yields of notes placed by specialty finance and venture firms both across industries and in similar sectors.

The Wellstat Diagnostics Note Receivable and Credit Agreement, as amended and restated, is secured by substantially all assets and equity interests in Wellstat Diagnostics. In addition, the note is subject to a guaranty from the Wellstat Diagnostics Guarantors. The estimated fair value of the collateral assets was determined by using an asset approach and discounted cash flow model related to the underlying collateral and was adjusted to consider estimated costs to sell the assets.

On June 30, 2016, the carrying values of several of our notes receivable differed from their estimated fair value. This is the result of discount rates used when performing a discounted cash flow for fair value valuation purposes. We determined these notes receivable to be Level 3 assets, as our valuations utilized significant unobservable inputs, estimates of future revenues, expectations about settlement and required yield. To provide support for the fair value measurements, we considered forward-looking performance, and current measures associated with high yield and published indices, and reviewed the terms and yields of notes placed by specialty finance and venture firms both across industries and in a similar sector.

The fair values of our convertible notes were determined using quoted market pricing or dealer quotes.

Warrants

Warrants consist primarily of purchased call options to buy U.S. corporate equity holdings and derivative assets acquired as part of note receivable investments. The fair value of the warrants is estimated using recently quoted market prices or estimated fair value of the underlying equity security and the Black-Scholes option pricing model.

4. Cash, Cash Equivalents and Investments

As of June 30, 2016, and December 31, 2015, we had invested our excess cash balances primarily in money market funds, and a corporate equity security. Our securities are classified as available-for-sale and are carried at estimated fair value, with unrealized gains and losses reported in "Accumulated other comprehensive income" in stockholders' equity, net of estimated taxes. See Note 3 for fair value measurement information. The cost of securities sold is based on the specific identification method. To date, we have not experienced credit losses on investments in these instruments, and we do not require collateral for our investment activities.

The following tables summarize the Company's cash and available-for-sale securities' amortized cost, gross unrealized gains, gross unrealized losses, and fair value by significant investment category reported as cash and cash equivalents, short-term restricted cash, or short-term investments as of June 30, 2016, and December 31, 2015:

				Reported as:		
	Amortized Cost	Unrealized Gains	Estimated Fair Value	Cash and Cash Equivalents	Short-Term Restricted Cash	Short-Term Investments
(In thousands)						
June 30, 2016						
Cash	$ 162,162	$ —	$ 162,162	$ 56,224	$ 105,938	$ —
Money market funds	59,630	—	59,630	59,630	—	—
Total	$ 221,792	$ —	$ 221,792	$ 115,854	$ 105,938	$ —
December 31, 2015						
Cash	$ 124,082	$ —	$ 124,082	$ 124,082	$ —	$ —
Money market funds	94,801	—	94,801	94,801	—	—
Corporate securities	799	670	1,469	—	—	1,469
Total	$ 219,682	$ 670	$ 220,352	$ 218,883	$ —	$ 1,469

For the three and six months ended June 30, 2016, we recognized approximately $746,000 and $882,000, on sales of available-for-sale securities, respectively. No gains or losses on sales of available-for-sale securities were recognized for the three and six months ended June 30, 2015.

The unrealized gain on investments included in "Other comprehensive income (loss), net of tax" was approximately zero and $435,000 as of June 30, 2016, and December 31, 2015, respectively.

As of June 30, 2016, PDL held $105.9 million in short-term restricted cash, as designated for payment of the acquisition consideration to be paid on July 1, 2016 for the Noden transaction, and held $75.0 million in a long-term certificate of deposit,

which is designated as cash collateral for the letter of credit issued with respect to the first anniversary payment under the Noden Purchase Agreement described below.

5. Foreign Currency Hedging

We designate the foreign currency exchange contracts used to hedge our royalty revenues based on underlying Euro-denominated sales as cash flow hedges. Euro forward contracts are presented on a net basis on our Condensed Consolidated Balance Sheets as we have entered into a netting arrangement with the counterparty. As of December 31, 2015, all outstanding Euro forward contracts were classified as cash flow hedges. There were no Euro forward contracts outstanding as of June 30, 2016.

The notional amounts, Euro exchange rates and fair values of our Euro forward contracts designated as cash flow hedges were as follows:

Euro Forward Contracts			**December 31, 2015**	
			(In thousands)	
Currency	**Settlement Price ($ per Euro)**	**Type**	**Notional Amount**	**Fair Value**
Euro	1.260	Sell Euro	$ 16,500	$ 2,802

The location and fair values of our Euro forward contracts in our Condensed Consolidated Balance Sheets were as follows:

Cash Flow Hedge	**Location**	**December 31, 2015**
(In thousands)		
Euro forward contracts	Prepaid and other current assets	$ 2,802

The effect of our derivative instruments in our Condensed Consolidated Statements of Income and our Condensed Consolidated Statements of Comprehensive Income were as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2016	**2015**	**2016**	**2015**
(In thousands)				
Net gain (loss) recognized in OCI, net of tax [(1)]	$ —	$ (1,305)	$ —	$ 4,363
Gain (loss) reclassified from accumulated OCI into "Queen et al. royalty revenue," net of tax [(2)]	$ —	$ 1,739	$ 1,821	$ 2,408

(1) Net change in the fair value of cash flow hedges, net of tax.

(2) Effective portion classified as royalty revenue.

6. Notes and Other Long-Term Receivables

Notes and other long-term receivables included the following significant agreements:

Wellstat Diagnostics Note Receivable and Credit Agreement

In March 2012, the Company executed a $7.5 million two-year senior secured note receivable with the holders of the equity interests in Wellstat Diagnostics. In addition to bearing interest at 10% per annum, the note receivable gave PDL certain rights to negotiate for certain future financing transactions. In August 2012, PDL and Wellstat Diagnostics amended the note receivable, providing a senior secured note receivable of $10.0 million, bearing interest at 12% per annum, to replace the original $7.5 million note receivable. This $10.0 million note receivable was repaid on November 2, 2012, using the proceeds of the $40.0 million credit facility entered into with the Company on the same date.

On November 2, 2012, the Company and Wellstat Diagnostics entered into a $40.0 million credit agreement pursuant to which the Company was to accrue quarterly interest payments at the rate of 5% per annum (payable in cash or in kind). In addition, PDL was to receive quarterly royalty payments based on a low double-digit royalty rate of Wellstat Diagnostics' net revenues, generated by the sale, distribution or other use of Wellstat Diagnostics' products, if any, commencing upon the commercialization of its products.

In January 2013, the Company was informed that, as of December 31, 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. PDL sent Wellstat Diagnostics a notice of default on January 22, 2013, and accelerated the amounts owed under the credit agreement. In connection with the notice of default, PDL exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to PDL and applied the funds to amounts due under the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby PDL agreed to refrain from exercising additional remedies for 120 days while Wellstat Diagnostics raised funds to capitalize the business and the parties attempted to negotiate a revised credit agreement. PDL agreed to provide up to $7.9 million to Wellstat Diagnostics to fund the business for the 120-day forbearance period under the terms of the forbearance agreement. Following the conclusion of the forbearance period that ended on June 28, 2013, the Company agreed to forbear its exercise of remedies for additional periods of time to allow the owners and affiliates of Wellstat Diagnostics to complete a pending financing transaction. During such forbearance period, the Company provided approximately $1.3 million to Wellstat Diagnostics to fund ongoing operations of the business. During the year ended December 31, 2013, approximately $8.7 million was advanced pursuant to the forbearance agreement.

On August 15, 2013, the owners and affiliates of Wellstat Diagnostics completed a financing transaction to fulfill Wellstat Diagnostics' obligations under the forbearance agreement. On August 15, 2013, the Company entered into an amended and restated credit agreement with Wellstat Diagnostics. The Company determined that the new agreement should be accounted for as a modification of the existing agreement.

Except as otherwise described here, the material terms of the amended and restated credit agreement are substantially the same as those of the original credit agreement, including quarterly interest payments at the rate of 5% per annum (payable in cash or in kind). In addition, PDL was to continue to receive quarterly royalty payments based on a low double-digit royalty rate of Wellstat Diagnostics' net revenues. However, pursuant to the amended and restated credit agreement: (i) the principal amount was reset to approximately $44.1 million, which was comprised of approximately $33.7 million original loan principal and interest, $1.3 million term loan principal and interest and $9.1 million forbearance principal and interest; (ii) the specified internal rates of return increased; (iii) the default interest rate was increased; (iv) Wellstat Diagnostics' obligation to provide certain financial information increased in frequency to monthly; (v) internal financial controls were strengthened by requiring Wellstat Diagnostics to maintain an independent, third-party financial professional with control over fund disbursements; (vi) the Company waived the existing events of default; and (vii) the owners and affiliates of Wellstat Diagnostics were required to contribute additional capital to Wellstat Diagnostics upon the sale of an affiliate entity. The amended and restated credit agreement had an ultimate maturity date of December 31, 2021 (but has subsequently been accelerated as described below).

When the principal amount was reset, a $2.5 million reduction of the carrying value was recorded as a financing cost as a component of "Interest and other income, net". The new carrying value is lower as a function of the variable nature of the internal rate of return to be realized by the Company based on when the note was to be repaid. The internal rate of return calculation, although increased, was reset when the credit agreement was amended and restated.

In June of 2014, the Company received information from Wellstat Diagnostics that showed that it was generally unable to pay its debts as they became due. This constituted an event of default under the amended and restated credit agreement. Wellstat Diagnostics entered into a transaction involving another lender, pursuant to which Wellstat Diagnostics obtained additional short-term funding for its operations. At the same time, the Company entered into the first amendment to amended and restated credit agreement with Wellstat Diagnostics. The material terms of the amendment included the following: (1) Wellstat Diagnostics acknowledged that an event of default had occurred; (2) the Company agreed to forbear from immediately enforcing its rights for up to 60 days, so long as the other lender provided agreed levels of interim funding to Wellstat Diagnostics; and (3) the Company obtained specified additional information rights with regard to Wellstat Diagnostics’ financial matters and investment banking activities.

On August 5, 2014, the Company received notice that the short-term funding being provided pursuant to the agreement with the other lender entered into during June 2014, was being terminated. Wellstat Diagnostics remained in default because it was still unable to pay its debts as they became due. Accordingly, the Company delivered the Wellstat Diagnostics Borrower Notice. The Wellstat Diagnostics Borrower Notice accelerated all obligations under the amended and restated credit agreement and demanded immediate payment in full in an amount equal to approximately $53.9 million, (which amount, in accordance with the terms of the amended and restated credit agreement, included an amount that, together with interest and royalty payments

already made to the Company, would generate a specified internal rate of return to the Company), plus accruing fees, costs and interest, and demanded that Wellstat Diagnostics protect and preserve all collateral securing its obligations. On August 7, 2014, the Company delivered the Wellstat Diagnostics Guarantor Notice. The Wellstat Diagnostics Guarantor Notice included a demand that the guarantors remit payment to the Company in the amount of the outstanding obligations. The guarantors include certain affiliates and related companies of Wellstat Diagnostics, including Wellstat Therapeutics and Wellstat Diagnostics' stockholders.

On September 24, 2014, the Company filed the Wellstat Diagnostics Petition, which was granted on the same day. The order granting the Wellstat Diagnostics Petition authorizes the receiver to take immediate possession of the physical assets of Wellstat Diagnostics, with the purpose of holding, protecting, insuring, managing and preserving the business of Wellstat Diagnostics and the value of the Company's collateral. Wellstat Diagnostics has remained in operation during the period of the receivership with incremental additional funding from the Company.

On November 4, 2014, the Company entered into the third amendment to the amended and restated credit agreement with Wellstat Diagnostics. The amendment provides that additional funding, if any, to be made by the Company is conditioned upon the agreement by Wellstat Diagnostics to make certain operational changes within Wellstat Diagnostics, which the Company believes will allow the receiver to more efficiently optimize the value of the collateral.

During the second quarter of 2015, the receiver initiated a process for a public sale of the assets of Wellstat Diagnostics and retained the investment banking firm of Duff & Phelps to organize and manage the sale process. The receiver filed a "Motion For Approval of Sale Procedures" with the Circuit Court for Montgomery County, Maryland, which is the court having jurisdiction over the receivership and a hearing was held on July 22, 2015 at which time arguments were heard from interested parties regarding the sale procedures. No significant substantive disagreements between the parties regarding the sale procedures remained after the hearing and a decision approving the receiver's sale procedures was made in the third quarter of 2015. PDL submitted a credit bid for the Wellstat Diagnostic assets at a value corresponding to some portion of the outstanding amount due under the amended and restated credit agreement which is subject to court approval. A hearing was scheduled in the Maryland Circuit Court for April 13, 2016 to hear the Receiver's motion to approve the credit bid sale to PDL. However, on April 12, 2016, Wellstat Diagnostics changed its name to Defined Diagnostics, LLC and filed for bankruptcy under Chapter 11 in the United Stated Bankruptcy Court in the Southern District of New York. The filing of the bankruptcy case stays the proceedings in the Maryland Circuit Court pursuant to the automatic stay provisions of the Bankruptcy Code. On June 15, 2016, in response to a Motion to Dismiss filed by the Company alleging, inter alia, that the New York Bankruptcy Court is not a proper venue for Defined Diagnostics to file for bankruptcy under Chapter 11, the New York Bankruptcy Court dismissed and transferred the action to the United States Bankruptcy Court in Delaware. On August 2, 2016 the Delaware Bankruptcy Court announced its decision to grant the Company's motion to dismiss the chapter 11 petition with prejudice as a bad faith filing, which should result in the receivership sale in the Maryland Circuit Court proceeding promptly.

On September 4, 2015, PDL filed in the Supreme Court of New York a motion for summary judgment in lieu of complaint which requested that the court enter judgment against Wellstat Diagnostics Guarantors for the total amount due on the Wellstat Diagnostics debt, plus all costs and expenses including lawyers' fees incurred by the Company in enforcement of the related guarantees. On September 23, 2015, PDL filed in the same court an ex parte application for a temporary restraining order and order of attachment of the Wellstat Diagnostics Guarantors' assets. At a hearing on September 24, 2015, regarding the Company's request for a temporary restraining order, the court ordered that the Company's request for attachment and for summary judgment would be heard at a hearing on November 5, 2015. Although the court denied the Company's request for a temporary restraining order at the hearing on September 24, 2015, it ordered that assets of the Wellstat Diagnostics Guarantors should be held in *status quo ante* and only used in the normal course of business pending the outcome of the matters under consideration at the hearing.

On July 29, 2016, the Supreme Court of New York issued its Memorandum of Decision granting the Company's motion for summary judgment and denying the Wellstat Diagnostics Guarantors' cross-motion for summary judgment. The Supreme Court of New York held that the Wellstat Diagnostics Guarantors are liable for all "Obligations" owed by Wellstat Diagnostics to the Company. It did not set a specific dollar amount due, but ordered that a judicial hearing officer or special referee be designated to determine the amount of the Obligations owing, and awarded the Company its attorneys' fees and costs in an amount to be determined. The Supreme Court of New York has also set a hearing on August 23, 2016 to consider the implication of the *status quo ante* instruction on certain actions of the Wellstat Diagnostics Guarantors and whether to issue a writ of attachment.

On July 29, 2016, the Wellstat Diagnostics Guarantors filed a notice of appeal from the Memorandum of Decision. This appeal does not stay the Supreme Court of New York from entering a money judgment for the balance owing based on the decision of the judicial hearing officer or special referee to be designated to determine the amount of the Obligations owing pursuant to the Memorandum of Decision.

On October 22, 2015, the Wellstat Diagnostics Guarantors filed a complaint against the Company in the Supreme Court of New York seeking a declaratory judgment that certain contractual arrangements entered into between the parties subsequent to Wellstat Diagnostics' default, and which relate to a split of proceeds in the event that the Wellstat Diagnostics Guarantors voluntarily monetize any assets that are the Company's collateral, is of no force or effect.

Through the period ended June 30, 2016, PDL has advanced to Wellstat Diagnostics $16.2 million to fund the ongoing operations of the business and other associated costs. This funding has been expensed as incurred. As of June 30, 2016, PDL is owed $117.5 million, which includes unpaid principal, and interest and repayment of amounts funded for ongoing operations of Wellstat Diagnostics.

Effective April 1, 2014, and as a result of the event of default, we determined the loan to be impaired and we ceased to accrue interest revenue. At that time and as of June 30, 2016 it has been determined that an allowance on the carrying value of the note was not necessary as the Company believes the value of the collateral securing Wellstat Diagnostics' obligations exceeds the carrying value of the asset and is sufficient to enable the Company to recover the current carrying value of $50.2 million. The Company continues to closely monitor the timing and expected recovery of amounts due, including litigation and other matters related to Wellstat Diagnostics Guarantors' assets. There can be no assurance that an allowance on the carrying value of the notes receivable investment will not be necessary in a future period depending on future developments.

Hyperion Agreement

On January 27, 2012, PDL and Hyperion entered into an agreement whereby Hyperion sold to PDL the royalty streams due from SDK related to a certain patent license agreement between Hyperion and SDK dated December 31, 2008. The agreement assigned the patent license agreement royalty stream accruing from January 1, 2012, through December 31, 2013, to PDL in exchange for the lump sum payment to Hyperion of $2.3 million. In exchange for the lump sum payment, PDL was to receive two equal payments of $1.2 million on each of March 5, 2013 and 2014. The first payment of $1.2 million was paid on March 5, 2013, but Hyperion has not made the second payment that was due on March 5, 2014. The Company completed an impairment analysis as of June 30, 2016. Effective with this date and as a result of the event of default, we ceased to accrue interest revenue. As of June 30, 2016, the estimated fair value of the collateral was determined to be in excess of the carrying value. There can be no assurance that this will be true in the event of the Company's foreclosure on the collateral, nor can there be any assurance of realizing value from such collateral.

AxoGen Note Receivable and AxoGen Royalty Agreement

In October 2012, PDL entered into the AxoGen Royalty Agreement with AxoGen providing for the payment of specified royalties to PDL on AxoGen's net revenues (as defined in the AxoGen Royalty Agreement) generated by the sale, distribution or other use of AxoGen's products. The AxoGen Royalty Agreement had an eight-year term and provided PDL with royalties of 9.95% based on AxoGen's net revenues, subject to agreed-upon guaranteed quarterly minimum payments of approximately $1.3 million to $2.5 million, which began in the fourth quarter of 2014, and the right to require AxoGen to repurchase the royalties under the AxoGen Royalty Agreement at the end of the fourth year. AxoGen was granted certain rights to call the contract in years five through eight. The total consideration PDL paid to AxoGen for the royalty rights was $20.8 million, including an interim funding of $1.8 million in August 2012. AxoGen was required to use a portion of the proceeds from the AxoGen Royalty Agreement to pay the outstanding balance under its existing credit facility. The royalty rights were secured by the cash and accounts receivable of AxoGen.

On August 14, 2013, PDL purchased 1,166,666 shares of registered common stock of AxoGen (AXGN) at $3.00 per share, totaling $3.5 million. On December 22, 2014, PDL sold these shares at $3.03 per share, totaling approximately $3.5 million.

On November 13, 2014, the Company agreed to terminate the AxoGen Royalty Agreement in consideration for a payment of $30.3 million in cash, which was the sum of the outstanding principal, interest and embedded derivative. At the same time, the Company acquired 643,382 shares of registered common stock of AxoGen for approximately $1.7 million at a public offering price of $2.72 per share. The shares were classified as available for sale securities and recorded as short-term investments on the Condensed Consolidated Balance Sheets. In the third and fourth quarters of 2015, PDL sold 200,000 and 149,650 shares, respectively, at a price range between $5.46 and $5.69 per share, resulting in a gain totaling approximately $1.9 million. In the first and second quarters of 2016, PDL sold 50,000 and 243,732 shares, respectively, at a price range between $5.44 and $6.10 per share, resulting in a gain totaling approximately $882,000.

As of June 30, 2016, PDL held zero shares of AxoGen common stock.

Avinger Credit and Royalty Agreement

On April 18, 2013, PDL entered into the Avinger Credit and Royalty Agreement, under which we made available to Avinger up to $40.0 million to be used by Avinger in connection with the commercialization of its lumivascular catheter devices and the development of Avinger's lumivascular atherectomy device. Of the $40.0 million available to Avinger, we funded an initial $20.0 million, net of fees, at the close of the transaction. Outstanding borrowings under the initial loan bore interest at a stated rate of 12% per annum.

On September 22, 2015, Avinger elected to prepay the note receivable in whole for a payment of $21.4 million in cash, which was the sum of the outstanding principal, interest and a prepayment fee.

Under the terms of the Avinger Credit and Royalty Agreement, the Company receives a low, single-digit royalty on Avinger's net revenues until April 2018. Commencing in October 2015, after Avinger repaid the note receivable prior to its maturity date, the royalty on Avinger's net revenues reduced by 50%, subject to certain minimum payments from the prepayment date until April 2018. PDL has accounted for the royalty rights in accordance with the fair value option.

LENSAR Credit Agreement

On October 1, 2013, PDL entered into a credit agreement with LENSAR, under which PDL made available to LENSAR up to $60.0 million to be used by LENSAR in connection with the commercialization of its currently marketed LENSAR™ Laser System. Of the $60.0 million available to LENSAR, an initial $40.0 million, net of fees, was funded by the Company at the close of the transaction. The remaining $20.0 million in the form of a second tranche is no longer available to LENSAR under the terms of the credit agreement. Outstanding borrowings under the loans bore interest at the rate of 15.5% per annum, payable quarterly in arrears.

On May 12, 2015, PDL entered into a forbearance agreement with LENSAR under which PDL agreed to refrain from exercising certain remedies available to it resulting from the failure of LENSAR to comply with a liquidity covenant and make interest payments due under the credit agreement. Under the forbearance agreement, PDL agreed to provide LENSAR with up to an aggregate of $8.5 million in weekly increments through the period ended September 30, 2015 plus employee retention amounts of approximately $0.5 million in the form of additional loans subject to LENSAR meeting certain milestones related to LENSAR obtaining additional capital to fund the business or selling itself and repaying outstanding amounts under the credit agreement. In exchange for the forbearance, LENSAR agreed to additional reporting covenants, the engagement of a chief restructuring officer and an increase on the interest rate to 18.5%, applicable to all outstanding amounts under the credit agreement.

On September 30, 2015, PDL agreed to extend the forbearance agreement until October 9, 2015 and provide for up to an additional $0.8 million in funding while LENSAR negotiated a potential sale of its assets. On October 9, 2015, the forbearance agreement expired, but PDL agreed to fund LENSAR's operations while LENSAR continued to negotiate a potential sale of its assets.

On November 15, 2015, New LENSAR, a wholly owned subsidiary of Alphaeon, and LENSAR entered into the Asset Purchase Agreement whereby New LENSAR agreed to acquire substantially all the assets and assumed certain liabilities of LENSAR subject to the satisfaction of certain closing conditions. The acquisition was consummated on December 15, 2015.

In connection with the closing of the acquisition, New LENSAR entered into an amended and restated credit agreement with PDL, assuming $42.0 million in loans as part of the borrowings under PDL’s prior credit agreement with LENSAR. In addition, Alphaeon issued 1.7 million shares of its Class A common stock to PDL.

Under the terms of the amended and restated credit agreement, PDL has a first lien security interest in substantially all of the equity interests and assets of New LENSAR. The loans bear interest of 15.5% per annum, payable quarterly in arrears. New LENSAR may elect to pay in kind interest the first three interest payments in the form of additional principal amount added to the loans. The principal repayment will commence on the ninth interest payment date. The principal amount outstanding at commencement of repayment is to be repaid in equal installments until final maturity of the loans which is December 15, 2020.

PDL concluded that the amendment and restatement of the original LENSAR credit agreement shall be accounted for as a troubled debt restructuring due to the concession granted by PDL and LENSAR’s financial difficulties. PDL has recognized a loss on extinguishment of notes receivable of $4.0 million and expensed $3.0 million of closing fees as general & administrative costs as incurred at closing on December 15, 2015.

We have estimated a fair value of $3.84 per share for the 1.7 million shares of Alphaeon Class A common stock received in connection with the transactions and recognized this investment as a cost-method investment of $6.6 million included in other long-term asset. The Alphaeon Class A common stock is subject to other-than-temporary impairment assessments in future periods. There is no other-than-temporary impairment charge incurred as of June 30, 2016.

The Company completed an impairment analysis as of June 30, 2016. Effective as of this date and as a result of the non-compliance with certain covenants, we determined the loan to be impaired and we ceased to accrue interest revenue. As of June 30, 2016, the estimated fair value of the collateral underlying the LENSAR loan was determined to be in excess of the carrying value. In the event the Company was to foreclose on the collateral, there can be no assurance as to the accuracy of the estimated fair value of the collateral, nor can there be any assurance of realizing value from such collateral.

Direct Flow Medical Credit Agreement

On November 5, 2013, PDL entered into a credit agreement with Direct Flow Medical, under which PDL agreed to provide up to $50.0 million to Direct Flow Medical. Of the $50.0 million available to Direct Flow Medical, an initial $35.0 million (tranche one), net of fees, was funded by the Company at the close of the transaction. Pursuant to the original terms of the credit agreement the Company agreed to provide Direct Flow Medical with an additional $15.0 million tranche, net of fees, upon the attainment of a specified revenue milestone to be accomplished no later than December 31, 2014 (the tranche two milestone). Until the occurrence of the tranche two milestone, outstanding borrowings under tranche one bore interest at the rate of 15.5% per annum, payable quarterly in arrears.

On November 10, 2014, PDL and Direct Flow Medical agreed to an amendment to the credit agreement to permit Direct Flow Medical to borrow the $15.0 million second tranche upon receipt by Direct Flow Medical of a specified minimum amount of proceeds from an equity offering prior to December 31, 2014. In exchange, the parties amended the credit agreement to provide for additional fees associated with certain liquidity events, such as a change of control or the consummation of an initial public offering, and granted PDL certain board of director observation rights. On November 19, 2014, upon Direct Flow Medical satisfying the amended tranche two milestone, the Company funded the $15.0 million second tranche to Direct Flow Medical, net of fees. Upon occurrence of the borrowing of this second tranche, the interest rate applicable to all loans under the credit agreement was decreased to 13.5% per annum, payable quarterly in arrears.

Under the terms of the credit agreement, principal repayment will commence on the 12th interest payment date, September 30, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans mature on November 5, 2018. Direct Flow Medical may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Direct Flow Medical and any of its subsidiaries.

On December 21, 2015, Direct Flow Medical and PDL entered into a waiver to the credit agreement in anticipation of Direct Flow Medical being unable to comply with the liquidity covenant and make interest payments due under the credit agreement.

On January 14, 2016, both parties agreed to provide Direct Flow Medical with an extension to waive the liquidity covenant and delay the timing of the interest payments through the period ending September 30, 2016.

On January 28, 2016, PDL funded an additional $5.0 million to Direct Flow Medical in the form of a short-term secured promissory note.

On February 26, 2016, PDL and Direct Flow Medical entered into the fourth Amendment to the Credit Agreement that, among other things, (i) converted the $5.0 million short-term secured promissory note into a loan under the credit agreement with substantially the same interest and payment terms as the existing loans, (ii) added a conversion feature whereby the $5.0 million loan would convert into equity of Direct Flow Medical upon the occurrence of certain events and (iii) provided for a second $5.0 million convertible loan tranche commitment, to be funded at the option of PDL. The commitment for the second tranche was not funded and has since expired. In addition, (i) PDL agreed to waive the liquidity covenant and delay the timing of the unpaid interest payments until September 30, 2016 and (ii) Direct Flow Medical agreed to issue to PDL a specified amount of warrants to purchase shares of convertible preferred stock on the first day of each month for the duration of the waiver period at an exercise price of $0.01 per share. At June 30, 2016, we determined an estimated fair value of the warrants of $0.7 million.

On July 15, 2016, PDL and Direct Flow Medical entered into the Fifth Amendment and Limited Waiver to the Credit Agreement. PDL funded an additional $1.5 million to Direct Flow Medical in the form of a note with substantially the same interest and payment terms as the existing loans and a conversion feature whereby the $1.5 million loan would convert into

equity of Direct Flow Medical upon the occurrence of certain events. In addition, Direct Flow Medical agreed to issue to PDL warrants to purchase shares of convertible preferred stock at an exercise price of $0.01 per share.

The Company completed an impairment analysis as of June 30, 2016. Effective as of this date and as a result of the waived defaults, we determined the loan to be impaired and we ceased to accrue interest revenue. As of June 30, 2016, the estimated fair value of the collateral was determined to be in excess of the carrying value. In the event the Company was to foreclose on the collateral, there can be no assurance as to the accuracy of the estimated fair value of the collateral, nor can there be any assurance of realizing value from such collateral.

Paradigm Spine Credit Agreement

On February 14, 2014, the Company entered into the Paradigm Spine Credit Agreement, under which it made available to Paradigm Spine up to $75.0 million to be used by Paradigm Spine to refinance its existing credit facility and expand its domestic commercial operations. Of the $75.0 million available to Paradigm Spine, an initial $50.0 million, net of fees, was funded by the Company at the close of the transaction. The second and third tranches of up to an additional $25.0 million in the aggregate, net of fees, are no longer available under the terms of the Paradigm Spine Credit Agreement.

On October 27, 2015, PDL and Paradigm Spine entered into an amendment to the Paradigm Spine Credit Agreement to provide additional term loan commitments of up to $7.0 million payable in two tranches of $4.0 million and $3.0 million, of which the first tranche was drawn on the closing date of the amendment, net of fees. Paradigm Spine chose not to draw down the second tranche of $3.0 million and such tranche is no longer available.

Borrowings under the credit agreement bear interest at the rate of 13.0% per annum, payable quarterly in arrears.

Under the terms of the Paradigm Spine Credit Agreement, principal repayment will commence on the 12th interest payment date, December 31, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans mature on February 14, 2019. Paradigm Spine may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the Paradigm Spine Credit Agreement are secured by a pledge of substantially all of the assets of Paradigm Spine and its domestic subsidiaries and, initially, certain assets of Paradigm Spine’s German subsidiaries.

kaléo Note Purchase Agreement

On April 1, 2014, PDL entered into a note purchase agreement with Accel 300, a wholly-owned subsidiary of kaléo, pursuant to which the Company acquired $150.0 million of secured notes due 2029. The secured notes were issued pursuant to an indenture between Accel 300 and U.S. Bank, National Association, as trustee, and are secured by the kaléo Revenue Interests and a pledge of kaléo’s equity ownership in Accel 300.

The secured notes bear interest at 13% per annum, paid quarterly in arrears on principal outstanding. The principal balance of the secured notes is repaid to the extent that the kaléo Revenue Interests exceed the quarterly interest payment, as limited by a quarterly payment cap. The final maturity of the secured notes is June 2029. kaléo may redeem the secured notes at any time, subject to a redemption premium.

As of June 30, 2016, the Company determined that its royalty purchase interest in Accel 300 represented a variable interest in a variable interest entity. However, the Company does not have the power to direct the activities of Accel 300 that most significantly impact Accel 300's economic performance and is not the primary beneficiary of Accel 300; therefore, Accel 300 is not subject to consolidation by the Company.

On October 28, 2015, Sanofi US initiated a voluntary nationwide recall of all Auvi-Q® units effectively immediately. Sanofi is the exclusive licensee of kaléo for the manufacturing and commercialization of Auvi-Q. While Sanofi has not identified the reason for the recall, press reports indicate that a small number of units have failed to activate or delivered inadequate doses of epinephrine. Subsequent to the recall, kaléo made a full and timely payment of $9.5 million, which included all principal and interest due in the fourth quarter of 2015.

On February 18, 2016, PDL was advised that Sanofi and kaléo would terminate their license and development agreement at a future date. On March 31, 2016, PDL was informed by kaléo that the license and development agreement was terminated and that all U.S. and Canadian commercial and manufacturing rights to Auvi-Q® and Allerject® had been returned to kaléo. All manufacturing equipment had also been returned to kaléo, and kaléo is evaluating the timing and options for bringing Auvi-Q

and Allerject back to the market. As part of our financing transaction, kaléo was required to establish an interest reserve account of $20.0 million from the $150.0 million provided by PDL. The purpose of this interest reserve account is to cover any possible shortfalls in interest payments owed to PDL. While the interest reserve account was depleted in the second quarter of 2016, kaléo continues to make interest payments due to PDL under the note purchase agreement and we expect that kaléo will fund future interest payments with existing cash until Auvi-Q is returned to the market.

PDL will monitor the timing and options for bringing Auvi-Q back to the market and how it may impact the ability of kaléo to meet its obligations under the note purchase agreement, but as of June 30, 2016, it has been determined that there is no impairment.

CareView Credit Agreement

On June 26, 2015, PDL entered into a credit agreement with CareView, under which the Company made available to CareView up to $40.0 million in two tranches of $20.0 million each. Under the terms of the credit agreement, the first tranche of $20.0 million was to be funded by the Company upon CareView's attainment of a specified milestone relating to the placement of CareView Systems®, to be accomplished no later than October 31, 2015. The Company expects to fund CareView an additional $20.0 million upon CareView's attainment of specified milestones relating to the placement of CareView Systems and Consolidated EBITDA (as defined in the credit agreement), to be accomplished no later than June 30, 2017. Outstanding borrowings under the credit agreement will bear interest at the rate of 13.5% per annum and are payable quarterly in arrears.

As part of the transaction, the Company received a warrant to purchase approximately 4.4 million shares of common stock of CareView at the exercise price of $0.45 per share. We have accounted for the warrant as derivative asset with an offsetting credit as debt discount. At each reporting period the warrant is marked to market for changes in fair value.

On October 7, 2015, PDL and CareView entered into an amendment of the credit agreement to modify certain definitions related to the first and second tranche milestones. On this date, PDL also funded the first tranche of $20.0 million, net of fees, upon attainment of the modified first tranche milestone relating to the placement of CareView Systems. The additional $20.0 million in the form of a second tranche continues to be available upon CareView's attainment of specified milestones relating to the placement of CareView Systems and Consolidated EBITDA, to be accomplished no later than June 30, 2017 under the terms of the amended credit agreement.

In connection with the amendment of the credit agreement, PDL and CareView also agreed to amend the warrant to purchase common stock agreement by reducing the warrant's exercise price from $0.45 to $0.40 per share. At June 30, 2016, we determined an estimated fair value of the warrant of $0.3 million.

For carrying value and fair value information related to our Notes and Other Long-term Receivables, see Note 3.

7. Accrued Liabilities

Accrued liabilities consist of the following:

	June 30, 2016	December 31, 2015
(In thousands)		
Compensation	$ 3,861	$ 1,979
Interest	4,107	4,107
Deferred revenue	1,118	87
Dividend payable	168	184
Legal	1,423	730
Other	1,061	922
Total	$ 11,738	$ 8,009

8. Commitments and Contingencies

PDL BioPharma, Inc. v Merck Sharp & Dohme, Corp.

On October 28, 2015, the Company filed a Complaint against Merck Sharp & Dohme, Corp ("Merck") for patent infringement in the United States District Court for the District of Nevada. In the Complaint, the Company alleges that manufacture and sales of certain of Merck's Keytruda product infringes one or more claims of the Company's '761 Patent. The Company has requested judgment that Merck has infringed the '761 Patent, an award of damages due to the infringement, a finding that such infringement was willful and deliberate and trebling of damages therefore, and a declaration that the case is exceptional and warrants an award of attorney's fees and costs. Although the '761 Patent expired on December 2, 2014, the Company believes that Merck infringed the patent through, e.g., manufacture and/or sale of Keytruda prior to the expiration of the '761 Patent. On December 21, 2015, Merck filed a Motion to Dismiss for Lack of Personal Jurisdiction. In response to Merck's motion, on January 22, 2016, rather than dispute Merck's contentions regarding jurisdiction, the Company elected to dismiss the action in Nevada and refile the Complaint in its entirety in the District of New Jersey. On May 25, 2016, Merck filed a Motion to Bifurcate Discovery and Trial into Liability and Damages Phases. The Company filed an opposition to Merck's motion. The court has not yet ruled on the motion.

Wellstat Litigation

On September 4, 2015, PDL filed in the Supreme Court of New York a motion for summary judgment in lieu of complaint which requested that the court enter judgment against Wellstat Diagnostics Guarantors for the total amount due on the Wellstat Diagnostics debt, plus all costs and expenses including lawyers' fees incurred by the Company in enforcement of the related guarantees. On September 23, 2015, PDL filed in the same court an ex parte application for a temporary restraining order and order of attachment of the Wellstat Diagnostics Guarantors' assets. At a hearing on September 24, 2015, regarding the Company's request for a temporary restraining order, the court ordered that the Company's request for attachment and for summary judgment would be heard at a hearing on November 5, 2015. Although the court denied the Company's request for a temporary restraining order at the hearing on September 24, 2015, it ordered that assets of the Wellstat Diagnostics Guarantors should be held in *status quo ante* and only used in the normal course of business pending the outcome of the matters under consideration at the hearing. On July 29, 2016, the court issued its Memorandum of Decision granting the Company's motion for summary judgment and denying the Wellstat Diagnostics Guarantors' cross-motion for summary judgment. The Supreme Court of New York held that the Wellstat Diagnostics Guarantors are liable for all "Obligations" owed by Wellstat Diagnostics to the Company. It did not set a specific dollar amount due, but ordered that a judicial hearing officer or special referee be designated to determine the amount of the Obligations owing, and awarded the Company its attorneys' fees and costs in an amount to be determined. The Supreme Court of New York has also set a hearing on August 23, 2016 to consider the implication of the status quo ante instruction on certain actions of the Wellstat Diagnostics Guarantors and whether to issue a writ of attachment. On July 29, 2016, the Wellstat Diagnostics Guarantors filed a notice of appeal from the Memorandum of Decision. This appeal does not stay the Supreme Court of New York from entering a money judgment for the balance owing based on the decision of the judicial hearing officer or special referee to be designated to determine the amount of the Obligations owing pursuant to the Memorandum of Decision.

On October 22, 2015, the Wellstat Diagnostics Guarantors filed a complaint against the Company in the Supreme Court of New York seeking a declaratory judgment that certain contractual arrangements entered into between the parties subsequent to Wellstat Diagnostics' default, and which relate to a split of proceeds in the event that the Wellstat Diagnostics Guarantors voluntarily monetize any assets that are the Company's collateral, is of no force or effect.

Other Legal Proceedings

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

Lease Guarantee

In connection with the Spin-Off, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant, and a Co-Tenancy Agreement, under which Facet agreed to indemnify

us for all matters related to the leases attributable to the period after the Spin-Off date. Should Facet default under its lease obligations, we could be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of June 30, 2016, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $62.0 million. In April 2010, Abbott Laboratories acquired Facet and later renamed the entity AbbVie. If AbbVie were to default, we could also be responsible for lease-related costs including utilities, property taxes and common area maintenance, which may be as much as the actual lease payments.

We have recorded a liability of $10.7 million on our Condensed Consolidated Balance Sheets as of June 30, 2016, and December 31, 2015, related to this guarantee. In future periods, we may adjust this liability for any changes in the ultimate outcome of this matter that are both probable and estimable.

9. Convertible Notes and Term Loans

Description	Maturity Date	Principal Balance Outstanding June 30, 2016	Carrying Value June 30, 2016	Carrying Value December 31, 2015
(In thousands)				
Convertible Notes				
February 2018 Notes	February 1, 2018	$ 246,447	$ 232,847	$ 228,862
March 2015 Term Loan	February 15, 2016	$ —	—	24,966
Total			$ 232,847	$ 253,828

Series 2012 Notes

In January 2012, we issued and exchanged $169.0 million aggregate principal of Series 2012 Notes for an identical principal amount of the February 2015 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered, totaling approximately $845,000. The cash payment was allocated to deferred issue costs of $765,000, additional paid-in capital of $52,000 and deferred tax assets of $28,000. The deferred issue costs were recognized over the life of the Series 2012 Notes as interest expense. In February 2012, we entered into separate privately negotiated exchange agreements under which we issued and exchanged an additional $10.0 million aggregate principal amount of the Series 2012 Notes for an identical principal amount of the February 2015 Notes. In August 2013, the Company entered into a separate privately negotiated exchange agreement under which it retired the final $1.0 million aggregate principal amount of the outstanding February 2015 Notes. Pursuant to the exchange agreement, the holder of the February 2015 Notes received $1.0 million aggregate principal amount of the Series 2012 Notes. Immediately following the exchange, no principal amount of the February 2015 Notes remained outstanding and $180.0 million principal amount of the Series 2012 Notes is outstanding.

On February 6, 2014, the Company entered into exchange and purchase agreements with certain holders of approximately $131.7 million aggregate principal amount of outstanding Series 2012 Notes. The exchange agreement provided for the issuance by the Company of shares of common stock and a cash payment for the Series 2012 Notes being exchanged, and the purchase agreement provided for a cash payment for the Series 2012 Notes being repurchased. The total consideration given was approximately $191.8 million. The Company issued to the participating holders of the Series 2012 Notes a total of approximately 20.3 million shares of its common stock with a fair value of approximately $157.6 million and made an aggregate cash payment of approximately $34.2 million pursuant to the exchange and purchase agreements. Of the $34.2 million cash payment, $2.5 million is attributable to an inducement fee, $1.8 million is attributable to interest accrued through the date of settlement and $29.9 million is attributable to the repurchase of the Series 2012 Notes. It was determined that the exchange and purchase agreement represented an extinguishment of the related notes. As a result, a loss on extinguishment of $6.1 million was recorded. The $6.1 million loss on extinguishment included the de-recognition of the original issuance discount of $5.8 million and a $0.3 million charge resulting from the difference of the face value of the notes and the fair value of the notes. Immediately following the exchange, $48.3 million principal amount of the Series 2012 Notes was outstanding with approximately $2.1 million of remaining original issuance discount that was amortized over the remaining life of the Series 2012 Notes.

On October 20, 2014, the Company entered into a privately negotiated exchange agreement under which it retired approximately $26.0 million in principal of the outstanding Series 2012 Notes. The exchange agreement provided for the

issuance, by the Company, of shares of common stock and a cash payment for the Series 2012 Notes being exchanged. The Company issued approximately 1.8 million shares of its common stock and paid a cash payment of approximately $26.2 million. Immediately following the exchange, $22.3 million principal amount of the Series 2012 Notes was outstanding with approximately $0.1 million of remaining original issuance discount to be amortized over the remaining life of the Series 2012 Notes.

The Series 2012 Notes were due February 17, 2015, and bore interest at a rate of 2.875% per annum, payable semi-annually in arrears on February 15 and August 15 of each year. On February 17, 2015, the Company completed the retirement of the remaining $22.3 million of aggregate principal of its Series 2012 notes at their stated maturity for $22.3 million, plus approximately 1.34 million shares of its common stock.

Interest expense for our Series 2012 Notes on our Condensed Consolidated Statements of Income was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2016**	**2015**	**2016**	**2015**
Contractual coupon interest	$ —	$ —	$ —	$ 80
Amortization of debt issuance costs	—	—	—	13
Amortization of debt discount	—	—	—	76
Total	$ —	$ —	$ —	$ 169

May 2015 Notes

On May 16, 2011, we issued $155.3 million in aggregate principal amount, at par, of the May 2015 Notes in an underwritten public offering, for net proceeds of $149.7 million. The May 2015 Notes were due May 1, 2015, and we paid interest at 3.75% on the May 2015 Notes semiannually in arrears on May 1 and November 1 of each year, beginning November 1, 2011. Proceeds from the May 2015 Notes, net of amounts used for purchased call option transactions and provided by the warrant transactions described below, were used to redeem our 2012 Notes.

On May 1, 2015, the Company completed the retirement of the remaining $155.1 million of aggregate principal of its May 2015 Notes at their stated maturity for $155.1 million, plus approximately 5.2 million shares of its common stock for the excess conversion value.

Interest expense for the May 2015 Notes on the Condensed Consolidated Statements of Income was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2016**	**2015**	**2016**	**2015**
Contractual coupon interest	$ —	$ 484	$ —	$ 1,938
Amortization of debt issuance costs	—	109	—	435
Amortization of debt discount	—	458	—	1,815
Total	$ —	$ 1,051	$ —	$ 4,188

Purchased Call Options and Warrants

In connection with the issuance of our May 2015 Notes, we entered into purchased call option transactions with two hedge counterparties. We paid an aggregate amount of $20.8 million, plus legal fees, for the purchased call options with terms substantially similar to the embedded conversion options in our May 2015 Notes. We exercised the purchased call options upon conversion of our May 2015 Notes on May 1, 2015, which required the hedge counterparties to deliver shares to the Company. The hedge counterparties delivered to us approximately 5.2 million of PDL common shares, which was the amount equal to the shares required to be delivered by us to the note holders for the excess conversion value.

In addition, we sold to the hedge counterparties warrants exercisable, on a cashless basis, for the sale of rights to receive up to 27.5 million shares of common stock underlying our May 2015 Notes. We received an aggregate amount of $10.9 million for the sale from the two counterparties. Under the terms of the warrant agreement, the warrant counterparties had the option to exercise the warrants on their specified expiration dates through the 120 scheduled trading days beginning on July 30, 2015 and ended on January 20, 2016. Because the VWAP of our common stock never exceeded the strike price of the warrants, PDL did not deliver any common stock to the warrant counterparties.

The purchased call option transactions and warrant sales effectively served to reduce the potential dilution associated with conversion of our May 2015 Notes.

Because the share price was above $5.72, but below $6.73, upon conversion of the Company's May 2015 Notes, the purchased call options offset the share dilution, and the Company received shares on exercise of the purchased call options equal to the shares that the Company delivered to the note holders.

While the purchased call options reduced the potential equity dilution upon conversion of our May 2015 Notes, prior to the conversion or exercise, our May 2015 Notes and the warrants had a dilutive effect on the Company’s earnings per share to the extent that the price of the Company’s common stock during a given measurement period exceeds the respective exercise prices of those instruments.

February 2018 Notes

On February 12, 2014, we issued $300.0 million in aggregate principal amount, at par, of the February 2018 Notes in an underwritten public offering, for net proceeds of $290.2 million. The February 2018 Notes are due February 1, 2018, and we pay interest at 4.0% on the February 2018 Notes semiannually in arrears on February 1 and August 1 of each year, beginning August 1, 2014. A portion of the proceeds from the February 2018 Notes, net of amounts used for purchased call option transactions and provided by the warrant transactions described below, were used to redeem $131.7 million of the Series 2012 Notes. Upon the occurrence of a fundamental change, as defined in the indenture, holders have the option to require PDL to repurchase their February 2018 Notes at a purchase price equal to 100% of the principal, plus accrued interest.

On November 20, 2015, PDL's agent initiated the repurchase of $53.6 million in aggregate principal amount of its February 2018 Notes for $43.7 million in cash in four open market transactions. The closing of these transactions occurred on November 30, 2015.

It was determined that the repurchase of the principal amount shall be accounted for as an extinguishment. As a result, a gain on extinguishment of $6.5 million was recorded at closing of the transaction. The $6.5 million gain on extinguishment included the de-recognition of the original issuance discount of $3.1 million, outstanding deferred issuance costs of $0.9 million and agent fees of $0.1 million. Immediately following the repurchase, $246.4 million principal amount of the February 2018 Notes was outstanding with $14.1 million of remaining original issuance discount and $4.1 million of debt issuance costs to be amortized over the remaining life of the February 2018 Notes. As of June 30, 2016, our February 2018 Notes are not convertible. At June 30, 2016, the if-converted value of our February 2018 Notes did not exceed the principal amount.

In connection with the repurchase of the February 2018 Notes, the Company and the counterparties agreed to unwind a portion of the purchased call options. As a result of this unwinding, PDL received $270,000 in cash. The payments received have been recorded as an increase to APIC. In addition, the Company and the counterparties agreed to unwind a portion of the warrants for $170,000 in cash, payable by PDL. The payments have been recorded as a decrease to APIC. At June 30, 2016, PDL concluded that the remaining purchased call options and warrants continue to meet all criteria for equity classification.

The February 2018 Notes are convertible under any of the following circumstances:

- During any fiscal quarter ending after the quarter ended June 30, 2014, if the last reported sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price for the notes on the last day of such preceding fiscal quarter;
- During the five business-day period immediately after any five consecutive trading-day period, which we refer to as the measurement period, in which the trading price per $1,000 principal amount of notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the notes for each such day;
- Upon the occurrence of specified corporate events as described further in the indenture; or

- At any time on or after August 1, 2017.

The initial conversion rate for the February 2018 Notes is 109.1048 shares of the Company's common stock per $1,000 principal amount of February 2018 Notes, which is equivalent to an initial conversion price of approximately $9.17 per share of common stock, subject to adjustments upon the occurrence of certain specified events as set forth in the indenture. Upon conversion, the Company will be required to pay cash and, if applicable, deliver shares of the Company's common stock as described in the indenture.

In accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we were required to separately account for the liability component of the instrument in a manner that reflects the market interest rate for a similar nonconvertible instrument at the date of issuance. As a result, we separated the principal balance of the February 2018 Notes between the fair value of the debt component and the fair value of the common stock conversion feature. Using an assumed borrowing rate of 7.0%, which represents the estimated market interest rate for a similar nonconvertible instrument available to us on the date of issuance, we recorded a total debt discount of $29.7 million, allocated $19.3 million to additional paid-in capital and allocated $10.4 million to deferred tax liability. The discount is being amortized to interest expense over the term of the February 2018 Notes and increases interest expense during the term of the February 2018 Notes from the 4.0% cash coupon interest rate to an effective interest rate of 6.9%. As of June 30, 2016, the remaining discount amortization period is 1.6 years.

The carrying value and unamortized discount of the February 2018 Notes were as follows:

(In thousands)	**June 30, 2016**	**December 31, 2015**
Principal amount of the February 2018 Notes	$ 246,447	$ 246,447
Unamortized discount of liability component	(13,600)	(17,585)
Net carrying value of the February 2018 Notes	$ 232,847	$ 228,862

Interest expense for our February 2018 Notes on our Condensed Consolidated Statements of Income was as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(In thousands)	**2016**	**2015**	**2016**	**2015**
Contractual coupon interest	$ 2,464	$ 3,000	$ 4,928	$ 6,000
Amortization of debt issuance costs	442	546	880	1,089
Amortization of debt discount	1,555	1,776	3,105	3,523
Total	$ 4,461	$ 5,322	$ 8,913	$ 10,612

Purchased Call Options and Warrants

In connection with the issuance of the February 2018 Notes, we entered into purchased call option transactions with two hedge counterparties. We paid an aggregate amount of $31.0 million for the purchased call options with terms substantially similar to the embedded conversion options in the February 2018 Notes. The purchased call options cover, subject to anti-dilution and certain other customary adjustments substantially similar to those in the February 2018 Notes, approximately 32.7 million shares of our common stock. We may exercise the purchased call options upon conversion of the February 2018 Notes and require the hedge counterparty to deliver shares to the Company in an amount equal to the shares required to be delivered by the Company to the note holder for the excess conversion value. The purchased call options expire on February 1, 2018, or the last day any of the February 2018 Notes remain outstanding.

In addition, we sold to the hedge counterparties warrants exercisable, on a cashless basis, for the sale of rights to receive shares of common stock that will initially underlie the February 2018 Notes at a strike price of $10.3610 per share, which represents a premium of approximately 30% over the last reported sale price of the Company's common stock of $7.97 on February 6, 2014. The warrant transactions could have a dilutive effect to the extent that the market price of the Company's common stock exceeds the applicable strike price of the warrants on the date of conversion. We received an aggregate amount of $11.4 million for the sale from the two counterparties. The warrant counterparties may exercise the warrants on their specified expiration dates that occur over a period of time. If the VWAP of our common stock, as defined in the warrants, exceeds the strike price of

the warrants, we will deliver to the warrant counterparties shares equal to the spread between the VWAP on the date of exercise or expiration and the strike price. If the VWAP is less than the strike price, neither party is obligated to deliver anything to the other.

The purchased call option transactions and warrant sales effectively serve to reduce the potential dilution associated with conversion of the February 2018 Notes. The strike price is subject to further adjustment in the event that future quarterly dividends exceed $0.15 per share.

The purchased call options and warrants are considered indexed to PDL stock, require net-share settlement, and met all criteria for equity classification at inception and at June 30, 2016. The purchased call options cost of $31.0 million, less deferred taxes of $10.8 million, and the $11.4 million received for the warrants, was recorded as adjustments to additional paid-in capital. Subsequent changes in fair value will not be recognized as long as the purchased call options and warrants continue to meet the criteria for equity classification.

March 2015 Term Loan

On March 30, 2015, PDL entered into a credit agreement among the Company, the lenders party thereto and the Royal Bank of Canada, as administrative agent. The credit agreement consisted of a term loan of $100.0 million.

The interest rates per annum applicable to amounts outstanding under the term loan were, at the Company's option, either (a) the alternate base rate (as defined in the credit agreement) plus 0.75%, or (b) the adjusted Eurodollar rate (as defined in the credit agreement) plus 1.75% per annum. As of February 12, 2016, the interest rate, based upon the adjusted Eurodollar rate, was 2.17%. Interest payments under the credit agreement were due on the interest payment dates specified in the credit agreement.

The credit agreement required amortization of the term loan in the form of scheduled principal payments on June 15, September 15 and December 15 of 2015, with the remaining outstanding balance due on February 15, 2016. This principal balance and outstanding interest was paid in full on February 12, 2016.

10. Other Long-Term Liabilities

Other long-term liabilities consist of the following:

	June 30, 2016	December 31, 2015
(In thousands)		
Accrued lease liability	$ 10,700	$ 10,700
Long-term incentive accrual	2,966	1,318
Uncertain tax positions	41,141	38,467
Dividend payable	281	165
Total	$ 55,088	$ 50,650

In connection with the Spin-Off, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. Should Facet default under its lease obligations, we could be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of June 30, 2016, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $62.0 million. If Facet were to default, we could also be responsible for lease-related costs including utilities, property taxes and common area maintenance that may be as much as the actual lease payments. We have recorded a liability of $10.7 million on our Condensed Consolidated Balance Sheets as of June 30, 2016, and December 31, 2015, related to this guarantee.

11. Stock-Based Compensation

The Company grants restricted stock awards pursuant to a stockholder approved stock-based incentive plan. This incentive plan is described in further detail in Note 13, Stock-Based Compensation, of Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

The following table summarizes the Company's restricted stock award activity during the six months ended June 30, 2016:

		Restricted Stock Awards	
(In thousands except per share amounts)	**Shares Available for Grant**	**Number of Shares Outstanding**	**Weighted Average Grant-date Fair Value Per Share**
Balance at December 31, 2015	4,684	586	$ 7.13
Granted	(1,254)	1,254	$ 3.31
Shares released	—	(145)	$ 6.22
Balance at June 30, 2016	3,430	1,695	$ 4.38

12. Cash Dividends

On May 2, 2016, our board of directors declared a quarterly dividend of $0.05 per share of common stock to stockholders of record on June 6, 2016. On June 13, 2016, we paid $8.2 million in connection with such dividend payment. Unvested restricted stock awards ("RSAs") as of the record date are also entitled to dividends, which will only be paid when the RSAs vest and are released.

On January 26, 2016, our board of directors declared a quarterly dividend of $0.05 per share of common stock to stockholders of record on March 4, 2016. On March 11, 2016, we paid $8.2 million in connection with such dividend payment. Unvested RSAs as of the record date are also entitled to dividends, which will only be paid when the RSAs vest and are released.

On August 3, 2016, the PDL board of directors decided to eliminate the quarterly cash dividend payment.

13. Income Taxes

Income tax expense for the three months ended June 30, 2016 and 2015, was $2.7 million and $45.3 million, respectively, and for the six months ended June 30, 2016 and 2015, was $35.6 million and $94.3 million which resulted primarily from applying the federal statutory income tax rate to income before income taxes.

The uncertain tax positions increased during the three months ended June 30, 2016 and 2015, by $0.4 million and $2.2 million, respectively, and increased during the six months ended June 30, 2016 and 2015, by $1.6 million and $4.6 million, resulting from an increase in tax uncertainties and estimated tax liabilities.

In general, our income tax returns are subject to examination by U.S. federal, state and local tax authorities for tax years 1996 forward. In May 2012, PDL received a "no-change" letter from the IRS upon completion of an examination of the Company's 2008 federal tax return. We are currently under income tax examination in the state of California for the tax years 2009, 2010, 2011 and 2012. Although the timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year, we do not anticipate any material change to the amount of our unrecognized tax benefit over the next 12 months.

14. Accumulated Other Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (loss). We include unrealized net gains (losses) on investments held in our available-for-sale securities and unrealized gains (losses) on our cash flow hedges in other comprehensive income (loss), and present the amounts net of tax. Our other comprehensive income (loss) is included in our Condensed Consolidated Statements of Comprehensive Income.

The balance of accumulated other comprehensive income, net of tax, was as follows:

	Unrealized gains (losses) on available-for-sale securities	Unrealized gains on cash flow hedges	Total Accumulated Other Comprehensive Income
(In thousands)			
Beginning Balance at December 31, 2015	$ 435	$ 1,821	$ 2,256
Activity for the six months ended June 30, 2016	(435)	(1,821)	(2,256)
Ending Balance at June 30, 2016	$ —	$ —	$ —

15. Subsequent Events

Noden Transactions

On July 1, 2016, pursuant to the Noden Purchase Agreement, Noden, a newly-formed company organized under the laws of Ireland, purchased from Novartis the exclusive worldwide rights to manufacture, market, and sell the branded prescription medicine product sold under the name Tekturna® and Tekturna HCT® in the United States and Rasilez® and Rasilez HCT® in the rest of the world (collectively the "Noden Products") and certain related assets and will assume certain related liabilities in exchange for the following cash commitments: $110.0 million paid on July 1, 2016, the closing date of the acquisition, $89.0 million payable on the first anniversary of the closing date and up to $95.0 million of additional cash consideration contingent on achievement of sales targets and the date of the launch of a generic drug containing the pharmaceutical ingredient aliskiren. In accordance with ASC 805-10-55-11 through 15 the Company concluded that PDL is the acquirer of the Noden Products for accounting purposes.

On July 1, 2016, in connection with the closing of the Noden Purchase Agreement, PDL entered into the Noden Pharma DAC Investment and Stockholders' Agreement with Noden and certain members of Noden's management (the "Noden Stockholders' Agreement"). Under the Noden Stockholders' Agreement, the Company acquired an approximately 99% equity stake and obtained the majority voting power of Noden, for a total cash consideration of $75.0 million. It is expected that PDL's equity ownership stake shall be reduced to 88% upon the vesting of shares granted to Noden's noncontrolling interest holders.

Pursuant to the Noden Stockholders' Agreement, in addition to the initial $75.0 million cash equity contribution, the Company will make the following additional equity contributions to Noden and an affiliate: $32 million (and up to $89 million if Noden is unable to obtain debt financing) on July 1, 2017 to fund the anniversary payment under the Noden Purchase Agreement and at least $38.0 million to fund a portion of certain milestone payments under the Noden Purchase Agreement, subject to their occurrence. In exchange for such equity contributions, the Company was issued and will be issued ordinary shares and preferred shares. For a separate contribution, Elie Farah, chief executive officer of Noden was also issued preferred and ordinary shares subject to certain vesting restrictions.

In connection with the transaction, Noden and Novartis also entered into a supply agreement pursuant to which Novartis will manufacture and supply to Noden a finished form of the Noden Products and bulk drug form of the Noden Products for specified periods of time prior to the transfer of manufacturing responsibilities for the Noden Products to another manufacturer. Under the supply agreement, Novartis is also obligated to sell the Noden Products on a country by country basis during a specified time period prior to Noden's assumption of responsibility for sales of Noden Product in such country, and to share profits from such sales with Noden on a specified basis. The supply agreement may be terminated by either party for material breach that remains uncured for a specified time period. The supply agreement and Noden Purchase Agreement include other transitional activities to be performed by Novartis, the purpose of which is to effect a smooth transfer of the marketing authorizations necessary to complete the ownership transfer to Noden.

In accordance with the authoritative guidance for business combinations, the transaction with Novartis was determined to be a business combination and is expected to be accounted for using the acquisition method of accounting.

During the three and six month periods ended June 30, 2016, the Company recorded approximately $3.0 million in acquisition-related costs. Noden is expected to reimburse PDL as part of the intercompany arrangement for acquisition-related costs on or before December 31, 2016.

The Company has not yet finalized the purchase price allocation for this acquisition. The Company will include additional information about the fair value of acquired assets and assumed liabilities of the Noden Products in its Quarterly Report on Form 10-Q for the period ending September 30, 2016 and in the Company's Form 8-K/A due to be filed within 71 days of the filing date of the Form 8-K with respect to the closing of the Noden transaction that the Company filed on July 6, 2016.

Kybella Royalty Agreement

On July 8, 2016, PDL entered into a royalty purchase agreement with an individual, whereby the Company acquired that individual's rights to receive certain royalties on sales of Kybella® by Allergan, in exchange for a $9.5 million cash payment and up to $1.0 million in future milestone payments based upon product sales targets.

ARIAD Royalty Agreement Second Tranche Payment

On July 28, 2016, PDL funded the second tranche of $50.0 million due on the anniversary of the closing date under the terms of the ARIAD Royalty Agreement.

Direct Flow Medical Convertible Loan Payment

On July 15, 2016, PDL and Direct Flow Medical entered into the Fifth Amendment and Limited Waiver to the Credit Agreement. PDL funded an additional $1.5 million to Direct Flow Medical in the form of a note with substantially the same interest and payment terms as the existing loans and a conversion feature whereby the $1.5 million loan would convert into equity of Direct Flow Medical upon the occurrence of certain events. In addition, Direct Flow Medical agreed to issue to PDL warrants to purchase shares of convertible preferred stock at an exercise price of $0.01 per share.

Cash Dividend

On August 3, 2016, the PDL board of directors decided to eliminate the quarterly cash dividend payment.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts are "forward-looking statements" for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, including any statements concerning new licensing, any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as "may," "will," "intends," "plans," "believes," "anticipates," "expects," "estimates," "predicts," "potential," "continue" or "opportunity," or the negative thereof or other comparable terminology. Although we believe that the expectations presented in the forward-looking statements contained herein are reasonable at the time they were made, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including but not limited to the risk factors set forth below or incorporated by reference herein, and for the reasons described elsewhere in this Quarterly Report on Form 10-Q. All forward-looking statements and reasons why results may differ included in this Quarterly Report on Form 10-Q are made as of the date hereof, and we assume no obligation to update these forward-looking statements or reasons why actual results might differ.

OVERVIEW

PDL seeks to acquire pharmaceutical products through equity investments and also provide growth capital and financing solutions to late-stage public and private healthcare companies, including immediate financial monetization of royalty streams to companies, academic institutions, and inventors. PDL has committed over $1.4 billion and funded approximately $1.1 billion in these investments to date. PDL evaluates its investments based on the quality of the income generating assets and potential returns on investment. PDL is currently focused on acquiring and managing income generating assets, and maximizing value for its stockholders.

The Company was formerly known as Protein Design Labs, Inc. and changed its name to PDL BioPharma, Inc. in 2006. PDL was founded in 1986 and is headquartered in Incline Village, Nevada. PDL pioneered the humanization of monoclonal antibodies and, by doing so, enabled the discovery of a new generation of targeted treatments for cancer and immunologic diseases for which it has received significant royalty revenue.

Intellectual Property

Patents

We have been issued patents in the United States and elsewhere, covering the humanization of antibodies, which we refer to as our Queen et al. patents. Our Queen et al. patents, for which final patent expiry was in December 2014, covered, among other things, humanized antibodies, methods for humanizing antibodies, polynucleotide encoding in humanized antibodies and methods of producing humanized antibodies.

Our '761 Patent, which expired on December 2, 2014, covered methods and materials used in the manufacture of humanized antibodies. In addition to covering methods and materials used in the manufacture of humanized antibodies, coverage under our ‘761 Patent typically extended to the use or sale of compositions made with those methods and/or materials.

Our '216B Patent expired in Europe in December 2009. We have been granted SPCs for the Avastin®, Herceptin®, Lucentis®, Xolair® and Tysabri® products in many of the jurisdictions in the European Union in connection with the ‘216B Patent. The SPCs effectively extended our patent protection with respect to Avastin, Herceptin, Lucentis, Xolair and Tysabri generally until December 2014, except that the SPCs for Herceptin expired in July 2014. Because SPCs are granted on a jurisdiction-by-jurisdiction basis, the duration of the extension varies slightly in certain jurisdictions. We expect to receive royalties beyond expiration of our patents and SPCs based on the terms of our licenses and our legal settlements. The Company's revenue from payments made from the Queen et al. patents license and settlement materially decreased in the second quarter of 2016, with only revenue recognized from Tysabri.

Licensing Agreements

We have entered into licensing agreements under our Queen et al. patents with numerous entities that are independently developing or have developed humanized antibodies. Although the Queen et al. patents and related rights have expired, we are entitled under our license agreements to continue to receive royalties in certain instances based on net sales of products that were made prior to but sold after patent expiry. In addition, we are entitled to royalties based on know-how provided to a licensee, noted below with respect to Lilly. In general, these agreements cover antibodies targeting antigens specified in the license agreements. Under our licensing agreements, we are entitled to receive a flat-rate royalty based upon our licensees’ net sales of covered antibodies.

Our total revenues from licensees under our Queen et al. patents were $14.2 million and $116.9 million, net of rebates and foreign exchange hedge adjustments, for the three months ended June 30, 2016 and 2015, respectively, and $135.7 million and $244.7 million for the six months ended June 30, 2016 and 2015, respectively.

Licensing Agreements for Marketed Products

In the six months ended June 30, 2016 and 2015, we received royalties on sales of the ten humanized antibody products listed below, all of which are currently approved for use by the FDA and other regulatory agencies outside the United States.

Licensee	Product Names
Genentech	Avastin
	Herceptin
	Xolair
	Lucentis
	Perjeta®
	Kadcyla®
Biogen	Tysabri
Chugai	Actemra®
Roche	Gazyva®
Takeda	Entyvio®

Genentech

We entered into a master patent license agreement, effective September 25, 1998, under which we granted Genentech a license under our Queen et al. patents to make, use and sell certain antibody products.

On January 31, 2014, we entered into the Settlement Agreement with Genentech and Roche that resolved all existing legal disputes between the parties.

The Settlement Agreement precludes Genentech and Roche from challenging the validity of PDL's patents, including its SPCs in Europe, from contesting their obligation to pay royalties, from contesting patent coverage for Avastin, Herceptin, Lucentis, Xolair, Perjeta, Kadcyla and Gazyva and from assisting or encouraging any third party in challenging PDL's patents and SPCs. The Settlement Agreement further outlines the conduct of any audits initiated by PDL of the books and records of Genentech in an effort to ensure a full and fair audit procedure. Finally, the Settlement Agreement clarifies that the sales amounts from which the royalties are calculated do not include certain taxes and discounts. Under the terms of the Settlement Agreement, we ceased receiving any revenue from Genentech after the first quarter of 2016.

Biogen

We entered into a patent license agreement, effective April 24, 1998, under which we granted to Elan a license under our Queen et al. patents to make, use and sell antibodies that bind to the cellular adhesion molecule α4 in patients with multiple sclerosis. Under the agreement, we are entitled to receive a flat royalty rate in the low, single digits based on Elan's net sales of the Tysabri product. Our license agreement with Elan entitles us to royalties following the expiration of our patents with respect to sales of licensed product manufactured prior to patent expiry in jurisdictions providing patent protection. In April 2013, Biogen completed its purchase of Elan's interest in Tysabri. All obligations under our patent license agreement with Elan were assumed by Biogen.

Chugai

We entered into a patent license agreement, effective May 18, 2000, with Chugai, a majority owned subsidiary of Roche, under which we granted to Chugai a license under our Queen et al. patents to make, use and sell antibodies that bind to interleukin-6 receptors to prevent inflammatory cascades involving multiple cell types for the treatment of rheumatoid arthritis. Under the agreement, we are entitled to receive a flat royalty rate in the low, single digits based on net sales of the Actemra product manufactured in the United States prior to patent expiry. The agreement continued until the expiration of the last to expire of

our Queen et al. patents. Chugai was obligated to pay us royalties on net sales occurring prior to the expiration of any Queen et al. patent which covers the manufacture, use or sale of Actemra. Because the relevant patent rights expired in the fourth quarter of 2014, we did not receive any revenues from Actemra after the first quarter of 2015.

Licensing Agreements for Non-Marketed Products

Solanezumab is a Lilly-licensed monoclonal antibody for the treatment of Alzheimer's disease. If this antibody for Alzheimer's disease is approved, we would be entitled to receive a royalty based on a "know-how" license for technology provided in the design of this antibody. The 2% royalty payable for "know-how" runs for 12.5 years after the product's initial commercialization. It is currently in Phase 3 testing with results expected in late 2016. On March 15, 2016, Lilly announced a change to the primary endpoint of this trial. The original trial design included co-primary endpoints of cognition and function. Lilly amended the trial design to include a single primary endpoint of cognition. The functional outcomes will be measured as key secondary endpoints. Lilly explained that the change was prompted by emerging scientific evidence that cognitive declines precede and predict functional declines. The change in endpoints affects the study's data analysis but does not otherwise change the conduct of the study.

Income Generating Asset Acquisitions

The last of PDL's Queen et al. patents expired in December 2014, and we experienced a material decrease in payments related to the Queen et al. patents in the second quarter of 2016. Consequently, we have been acquiring income generating assets when such assets can be acquired on terms that allow us to increase the return to our stockholders. These income generating assets are typically in the form of notes receivables, royalty rights, hybrid notes/royalty receivables and, in some cases, equity. We primarily focus our income generating asset acquisition strategy on commercial-stage therapies and medical devices having strong economic fundamentals. However, we do not expect that our acquired income generating assets will, in the near term, replace completely the revenues we generated from our license agreements related to the Queen et al. patents. In the second quarter of 2016, our revenues materially decreased after we stopped receiving payments from certain Queen et al. patent licenses and legal settlements, which accounted for 82% of our 2015 revenues. The continued success of the Company is more dependent on the timing and our ability to acquire new income generating assets in order to provide recurring revenues going forward and to support our business model.

Notes and Other Long-Term Receivables

We enter into credit agreements with borrowers across the healthcare industry, under which PDL makes available cash advances to be used by the borrower. The obligations under the credit agreements are generally secured by a pledge of substantially all of the assets of the borrower and any of its subsidiaries.

At June 30, 2016, PDL had a total of six notes or notes/royalty (hybrid) receivable transactions outstanding, which are summarized below.

CareView

Deal Summary

In July 2015, PDL entered into a credit agreement with CareView, under which the Company made available to CareView up to $40.0 million in two tranches of $20.0 million each. Under the terms of the credit agreement each tranche has a five-year maturity and outstanding borrowings under the credit agreement will bear interest at the rate of 13.5% per annum and are payable quarterly in arrears. Principal repayment will commence on the ninth quarterly interest payment date of each tranche of loans. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. In addition, PDL has a security interest in substantially all of CareView's assets.

In October 2015, PDL funded the first tranche of $20.0 million. The additional $20.0 million in the form of a second tranche continues to be available upon CareView's attainment of specified milestones relating to the placement of CareView Systems and Consolidated EBITDA, to be accomplished no later than June 30, 2017.

Technology

CareView is a provider of products and on-demand application services for the healthcare industry by specializing in bedside video monitoring, archiving and patient care documentation systems and patient entertainment services.

kaléo

Deal Summary

In April 2014, PDL entered into a note purchase agreement with Accel 300, a wholly-owned subsidiary of kaléo, pursuant to which the Company acquired $150.0 million of secured notes due 2029. The secured notes were issued pursuant to an indenture between Accel 300 and U.S. Bank, National Association, as trustee, and are secured by the kaléo Revenue Interest and a pledge of kaléo's equity ownership in Accel 300.

The notes are backed by royalties in the form of 100% of the payments kaléo receives from its licensee or, if no licensee, from kaléo's commercialization efforts, based on net sales of kaléo's first approved product, Auvi-Q® (epinephrine auto-injection, USP) (known as Allerject® in Canada) and 10% of net sales of kaléo's second proprietary auto-injector based product, EVZIO® (naloxone hydrochloride injection). The notes carry interest at 13% per annum, paid quarterly in arrears on principal outstanding. kaléo may redeem the notes at any time, subject to a redemption premium.

On February 18, 2016, PDL was advised that Sanofi and kaléo would terminate their license and development agreement at a future date. On March 31, 2016, PDL was informed by kaléo that the license and development agreement was terminated and that all U.S. and Canadian commercial and manufacturing rights to Auvi-Q and Allerject had been returned to kaléo. All manufacturing equipment had also been returned to kaléo, and kaléo is evaluating the timing and options for bringing Auvi-Q and Allerject back to the market. As part of our financing transaction, kaléo was required to establish an interest reserve account of $20.0 million from the $150.0 million provided by PDL. The purpose of this interest reserve account is to cover any possible shortfalls in interest payments owed to PDL. While the interest reserve account was depleted in the second quarter of 2016, kaléo continues to make payments due to PDL under the note purchase agreement and we expect that kaléo will fund future interest payments with existing cash until Auvi-Q is returned to the market.

Technology

Auvi-Q is used to treat life-threatening allergic reactions (anaphylaxis) in people who are at risk for or have a history of these reactions.

EVZIO is approved for the emergency treatment of known or suspected opioid overdose, as manifested by respiratory and/or central nervous system depression.

Paradigm Spine

Deal Summary

In February 2014, the Company entered into the Paradigm Spine Credit Agreement, under which it made available to Paradigm Spine up to $75.0 million to be used by Paradigm Spine to refinance its existing credit facility and expand its domestic commercial operations. Of the $75.0 million available to Paradigm Spine, an initial $50.0 million, net of fees, was funded by the Company at the close of the transaction. The second and third tranches of up to an additional $25.0 million in the aggregate, net of fees, are no longer available under the terms of the Paradigm Spine Credit Agreement.

Subsequently, PDL and Paradigm Spine agreed to amend the credit agreement to provide additional term loan commitments of up to $7.0 million payable in two tranches of $4.0 million and $3.0 million, of which the first tranche was drawn on the closing date of the amendment, net of fees. Paradigm Spine chose not to draw down the second tranche of $3.0 million and such tranche is no longer available.

Borrowings under the credit agreement bear interest at the rate of 13.0% per annum, payable quarterly in arrears.

Under the terms of the Paradigm Spine Credit Agreement, principal repayment will commence on the twelfth interest payment date, December 31, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans mature on February 14, 2019. Paradigm Spine may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the Paradigm Spine Credit Agreement are secured by a pledge of substantially all of the assets of Paradigm Spine and its domestic subsidiaries and, initially, certain assets of Paradigm Spine's German subsidiaries.

Technology

Paradigm Spine's coflex® interlaminar stabilization device for patients with spinal stenosis was approved by the FDA in late 2012.

Direct Flow Medical

Deal Summary

In November 2013, PDL entered into a credit agreement with Direct Flow Medical, under which PDL agreed to provide up to $50.0 million to Direct Flow Medical, to be used to refinance its existing credit facility and fund the commercialization of its transcatheter aortic valve system used to treat aortic stenosis. An initial $35.0 million was provided at the close of the transaction, with the remaining $15.0 million to be funded upon the achievement of a specified milestone. PDL funded the $15.0 million second tranche to Direct Flow Medical, net of fees, in November 2014. Outstanding borrowings under the first tranche bore interest at the rate of 15.5% per annum, payable quarterly in arrears. Upon occurrence of the borrowing of this second tranche, the interest rate applicable to all loans under the credit agreement was decreased to 13.5% per annum, payable quarterly in arrears. The loans will mature on November 5, 2018. Direct Flow Medical may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans.

The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Direct Flow Medical and any of its subsidiaries.

On February 26, 2016, PDL and Direct Flow Medical entered into the fourth Amendment to the Credit Agreement that, among other things, (i) converted the $5.0 million short-term secured promissory note into a loan under the credit agreement with substantially the same interest and payment terms as the existing loans, (ii) added a conversion feature whereby the $5.0 million loan would convert into equity of Direct Flow Medical upon the occurrence of certain events and (iii) provided for a second $5.0 million convertible loan tranche commitment, to be funded at the option of PDL. The commitment for the second tranche was not funded and has since expired. In addition, (i) PDL agreed to waive the liquidity covenant and delay the timing of the unpaid interest payments until September 30, 2016 and (ii) Direct Flow Medical agreed to issue to PDL a specified amount of warrants to purchase shares of convertible preferred stock on the first day of each month for the duration of the waiver period at an exercise price of $0.01 per share. At June 30, 2016, we determined an estimated fair value of the warrants of $0.7 million.

On July 15, 2016, PDL and Direct Flow Medical entered into the Fifth Amendment and Limited Waiver to the Credit Agreement. PDL funded an additional $1.5 million to Direct Flow Medical in the form of a note with substantially the same interest and payment terms as the existing loans and a conversion feature whereby the $1.5 million loan would convert into equity of Direct Flow Medical upon the occurrence of certain events. In addition, Direct Flow Medical agreed to issue to PDL warrants to purchase shares of convertible preferred stock at an exercise price of $0.01 per share.

Technology

The Direct Flow Medical develops transcatheter heart technologies, including its Transcatheter Aortic Valve System® that is designed to treat aoritic stenosis.

LENSAR

Deal Summary

In October 2013, PDL entered into a credit agreement with LENSAR, under which PDL made available to LENSAR up to $60.0 million to be used by LENSAR in connection with the commercialization of its currently marketed LENSAR™ Laser System®. Of the $60.0 million available to LENSAR, an initial $40.0 million was funded by the Company at the close of the transaction. The remaining $20.0 million in the form of a second tranche is no longer available to LENSAR under the terms of the credit agreement. Outstanding borrowings under the loans bore interest at the rate of 15.5% per annum, payable quarterly in arrears. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of LENSAR.

In May 2015, PDL and LENSAR entered into a forbearance agreement as a result of LENSAR's failure to comply with a liquidity covenant and make interest payments due under the credit agreement. Between May and December 2015, PDL provided additional funding to LENSAR.

In December 2015, New LENSAR, a wholly owned subsidiary of Alphaeon assumed $42.0 million in loans as part of the borrowings under PDL's original credit agreement with LENSAR in connection with Alphaeon's acquisition of substantially all of the assets of LENSAR. In addition, Alphaeon issued 1.7 million shares of its Class A common stock to PDL. Under the terms of the amended and restated credit agreement, PDL has a first lien security interest in substantially all of the equity interests and assets of New LENSAR. The loans bear interest of 15.5% per annum, payable quarterly in arrears. New LENSAR may elect to pay in kind interest the first three interest payments in the form of additional principal amount added to the loans. The principal repayment will commence on the ninth quarterly interest payment date. The principal amount of outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans, which is December 15, 2020.

Technology

The LENSAR Laser System is approved by the FDA to perform both corneal and arcuate incisions, as well as lens fragmentation and anterior capsulotomy (with or without phacofragmentation), during cataract surgery.

Wellstat

Deal Summary

In March 2012, the Company executed a $7.5 million two-year senior secured note receivable with the holders of the equity interests in Wellstat Diagnostics. In August 2012, PDL and Wellstat Diagnostics amended the note receivable, providing a senior secured note receivable of $10.0 million, bearing interest at 12% per annum, to replace the original $7.5 million note receivable. This $10.0 million note receivable was repaid on November 2, 2012, using the proceeds of the $40.0 million credit facility entered into with the Company on the same date.

In November 2012, the Company and Wellstat Diagnostics entered into a $40.0 million credit agreement pursuant to which the Company was to accrue quarterly interest payments at the rate of 5% per annum. In January 2013, Wellstat defaulted on the credit agreement, as a result both parties agreed to enter into a forbearance agreement whereby PDL agreed to provide additional funding. In August 2013, the Company entered into an amended and restated credit agreement with terms substantially the same as those of the original credit agreement. However, pursuant to the amended and restated credit agreement: (i) the principal amount was reset to approximately $44.1 million, which was comprised of approximately $33.7 million original loan principal and interest, $1.3 million term loan principal and interest and $9.1 million forbearance principal and interest; (ii) the specified internal rates of return increased; (iii) the default interest rate was increased; (iv) Wellstat Diagnostics' obligation to provide certain financial information increased in frequency to monthly; (v) internal financial controls were strengthened by requiring Wellstat Diagnostics to maintain an independent, third-party financial professional with control over fund disbursements; (vi) the Company waived the existing events of default; and (vii) the owners and affiliates of Wellstat Diagnostics were required to contribute additional capital to Wellstat Diagnostics upon the sale of an affiliate entity. The amended and restated credit agreement had an ultimate maturity date of December 31, 2021.

In August 2014, the Company delivered the Wellstat Diagnostics Borrower Notice which accelerated all obligations under the amended and restated credit agreement and demanded immediate payment in full in an amount equal to approximately $53.9 million. As of June 30, 2016, PDL is legally owed $117.5 million, which includes principal, un-accrued interest, and funded with respect to operations of Wellstat Diagnostics.

Technology

Wellstat Diagnostics, LLC is a private company dedicated to the development, manufacture, sale and distribution of small point of care diagnostic systems that can perform a wide variety of tests targeting the clinical diagnostics market.

Royalty Rights - At Fair Value

We enter into various royalty agreements with different counterparties, whereby the counterparty conveys to PDL the right to receive royalties that are typically payable on sales generated by the sale, distribution or other use of the counterparties' products. Certain of our royalty agreements provide the counterparty with the right to repurchase the royalty rights at any time for a specified amount.

PDL records the royalty rights at fair value using discounted cash flows related to the expected future cash flows to be received. We use significant judgment in determining our valuation inputs, including estimates as to the probability and timing of future sales of the licensed product. A third-party expert is generally engaged to assist management with the development of its

estimate of the expected future cash flows. The estimated fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. At each reporting period, an evaluation is performed to assess those estimates, discount rates utilized and general market conditions affecting fair market value.

At June 30, 2016, PDL had a total of five royalty rights transactions outstanding, the most significant royalty transactions are summarized below.

AcelRx

Deal Summary

In September 2015, PDL entered into the AcelRx Royalty Agreement with ARPI LLC, a wholly owned subsidiary of AcelRx, whereby PDL acquired a portion of the royalties on expected sales of Zalviso® (sufentanil sublingual tablet system) in the European Union, Switzerland and Australia by its commercial partner, Grünenthal. Under the terms of the agreement, PDL paid AcelRx $65.0 million, and in exchange, PDL will receive 75% of the royalties AcelRx receives from Grünenthal as well as 80% of the first four commercial milestones subject to a capped amount until the earlier of occur of (i) receipt by PDL of payments equal to three times the cash payments made to AcelRx and (ii) the expiration of the licensed patents.

Technology

Zalviso is a combination drug and device product which, using a patient controlled dispenser, delivers a sub-lingual formulation of sufentanil, an opioid with a high therapeutic index. Zalviso is approved in the European Union. Grünenthal launched Zalviso on a country by country basis in the European Union in the second quarter of 2016 and PDL expects to begin receiving royalties in the third quarter of 2016.

ARIAD

Deal Summary

In July 2015, PDL entered into the ARIAD Royalty Agreement, whereby PDL agreed to provide ARIAD with up to $200.0 million in revenue interest financing in exchange for royalties based on the net revenues of Iclusig® (ponatinib). Funding of the first $50.0 million occurred on the closing date of the agreement and an additional $50.0 million is to be funded on the first anniversary of the closing date. In addition, ARIAD had an option to draw up to an additional $100.0 million at any time between six and twelve months after the closing date.

Under the terms of the ARIAD Royalty Agreement, PDL will initially receive 2.5% of the worldwide net revenues of Iclusig until the one-year anniversary of the closing date, at which time the royalty increases to 5.0% of the U.S. and European net revenues of Iclusig and 5.0% of the payments ARIAD receives elsewhere in the world from Iclusig. Beginning January 1, 2019 and thereafter, the royalty rate will increase to 6.5%. If PDL does not receive payments equal to or greater than the total amount funded on or before the fifth anniversary of each of the respective fundings, ARIAD will pay PDL the difference between the amounts funded by PDL and the amounts paid to such date. In addition, PDL may receive royalties on a product currently in development at ARIAD in the event of certain shortfalls. PDL has a put option based upon certain events and ARIAD has a call option to repurchase the revenue interest at any time. Both the put and call prices have been pre-determined.

On May 9, 2016, ARIAD entered into a share purchase agreement with Incyte, pursuant to which ARIAD agreed to sell to Incyte all of the outstanding shares of ARIAD Pharmaceuticals (Luxembourg) S.a.r.l., which is the parent company of ARIAD's European subsidiaries responsible for the commercialization of Iclusig in the European Union and certain other countries, subject to satisfaction of customary closing conditions.

On May 9, 2016, the Company and ARIAD agreed to amend the ARIAD Royalty Agreement to, among other things, include in the Iclusig Net Revenues calculation payable to the Company by ARIAD under the ARIAD Royalty Agreement, net sales of Iclusig made by Incyte once it takes over ARIAD's commercialization operations with respect to Iclusig in the European Union and certain other countries. In addition, the Company and ARIAD agreed to restructure future funding under the ARIAD Royalty Agreement such that ARIAD's option to draw up to an additional $100.0 million between January and July of 2016 was reduced to a maximum amount of up to an additional $40.0 million, which will be funded at ARIAD's option in July of 2017 upon 90 days' written notice to the Company. The amendment to the ARIAD Royalty Agreement did not affect the Company's obligation to fund the second tranche of $50.0 million on the first anniversary of the ARIAD Royalty Agreement, which was funded on July 28, 2016.

Technology

Iclusig is approved in the United States, European Union, Australia, Israel, Canada and Switzerland. In the United States, Iclusig is a kinase inhibitor indicated for the:

- treatment of adult patients with T315I-positive chronic myeloid leukemia (chronic phase, accelerated phase, or blast phase) or T315I-positive Philadelphia chromosome positive acutelymphoblastic leukemia (Ph+ ALL).
- treatment of adult patients with chronic phase, accelerated phase, or blast phase chronic myeloid leukemia or Ph+ ALL for whom no other tyrosine kinase inhibitor (TKI) therapy is indicated.

U-M

Deal Summary

In November 2014, PDL acquired a portion of the U-M worldwide royalty interest in Cerdelga® (eliglustat) for $65.6 million. Cerdelga was approved in the US in August 2014, in the European Union in January 2015 and in Japan in March 2015. Under the terms of the Michigan Royalty Agreement, PDL will receive 75% of all royalty payments due under U-M's license agreement with Genzyme until expiration of the licensed patents, excluding any patent term extension. The royalty rate used to calculate the royalties to be paid by Genzyme to U-M was not disclosed by the parties.

Technology

Cerdelga, an oral therapy for adult patients with Gaucher disease type 1, was developed by Genzyme, a Sanofi company. Cerdelga was approved by the FDA on August 19, 2014.

VB

Deal Summary

In June 2014, PDL entered into the VB Royalty Agreement, whereby PDL acquired the right to receive royalties on net sales of a pre-market approved spinal implant held by VB in exchange for $15.5 million cash payment. The royalty rights acquired include royalties accruing from and after April 1, 2014. PDL receives all royalty payments due to VB pursuant to certain technology transfer agreements between VB and Paradigm Spine until PDL has received payments equal to two and three tenths times the cash payment it made to VB, after which all payment rights will be returned to VB. VB may repurchase the royalty right at any time on or before June 26, 2018, for a specified amount. The chief executive officer of Paradigm Spine is one of the owners of VB. The Paradigm Spine Credit Agreement and the VB Royalty Agreement were negotiated separately.

Technology

The coflex® Interlaminar Technology is an Interlaminar Stabilization® device indicated for use in one or two level lumbar stenosis from L1-L5 in skeletally mature patients with at least moderate impairment in function.

Depomed

Deal Summary

In October 2013, PDL entered into the Depomed Royalty Agreement, whereby PDL acquired the rights to receive royalties and milestones payable on sales of five Type 2 diabetes products licensed by Depomed in exchange for a $240.5 million cash payment.

Under the terms of the Depomed Royalty Agreement, the Company receives all royalty and milestone payments due under license agreements between Depomed and its licensees until the Company has received payments equal to two times the cash payment it made to Depomed, after which all net payments received by Depomed will be shared evenly between the Company and Depomed.

The Depomed Royalty Agreement terminates on the third anniversary following the date upon which the later of the following occurs: (a) October 25, 2021, or (b) at such time as no royalty payments remain payable under any license agreement and each of the license agreements has expired by its terms.

Technology

The rights acquired include Depomed's royalty and milestone payments accruing from and after October 1, 2013: (a) from Valeant with respect to sales of Glumetza® (metformin HCL extended-release tablets) in the United States; (b) from Merck with respect to sales of Janumet® XR (sitagliptin and metformin HCL extended-release); (c) from Janssen Pharmaceutica N.V. with respect to potential future development milestones and sales of its investigational fixed-dose combination of Invokana® (canagliflozin) and extended-release metformin; (d) from Boehringer Ingelheim with respect to potential future development milestones and sales of the investigational fixed-dose combinations of drugs and extended-release metformin subject to Depomed's license agreement with Boehringer Ingelheim; and (e) from LG Life Sciences and Valeant Pharmaceuticals for sales of extended-release metformin in Korea and Canada, respectively.

Economic and Industry-wide Factors

Various economic and industry-wide factors are relevant to us and could affect our business, including changes to laws and interpretation of those laws that protect our intellectual property rights, our licensees ability to obtain or retain regulatory approval for products licensed under our patents, fluctuations in foreign currency exchange rates, the ability to attract, retain and integrate qualified personnel, as well as overall global economic conditions. We actively monitor economic, industry and market factors affecting our business; however, we cannot predict the impact such factors may have on our future results of operations, liquidity and cash flows. See also the risk factors included in our Annual Report on form 10-K for the fiscal year ended December 31, 2015 for additional factors that may impact our business and results of operations.

Dividend Payment

On August 3, 2016, the PDL board of directors decided to eliminate the quarterly cash dividend payment.

On May 2, 2016, our board of directors declared a quarterly dividend of $0.05 per share of common stock to stockholders of record on June 6, 2016. On June 13, 2016, we paid $8.2 million in connection with such dividend payment. Unvested restricted stock awards ("RSAs") as of the record date are also entitled to dividends, which will only be paid when the RSAs vest and are released.

On January 26, 2016, our board of directors declared a quarterly dividend of $0.05 per share of common stock to stockholders of record on March 4, 2016. On March 11, 2016, we paid $8.2 million in connection with such dividend payment. Unvested RSAs as of the record date are also entitled to dividends, which will only be paid when the RSAs vest and are released.

Critical Accounting Policies and Uses of Estimates

During the six months ended June 30, 2016, there have been no significant changes to our critical accounting policies since those presented in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Operating Results

Three and six months ended June 30, 2016, compared to three and six months ended June 30, 2015

Revenues

	Three Months Ended June 30,		Change from Prior	Six Months Ended June 30,		Change from Prior
	2016	2015	Year %	2016	2015	Year %
(Dollars in thousands)						
Revenues						
Royalties from Queen et al. patents	$ 14,232	$ 116,884	(88%)	$ 135,687	$ 244,694	(45%)
Royalty rights - change in fair value	(855)	12,216	(107%)	(27,957)	23,578	(219%)
Interest revenue	7,343	8,966	(18%)	16,307	19,500	(16%)
License and other	327	—	*N/M*	134	—	*N/M*
Total revenues	$ 21,047	$ 138,066	(85%)	$ 124,171	$ 287,772	(57%)

N/M = Not meaningful

Total revenues were $21.0 million for the three months ended June 30, 2016, compared with $138.0 million for the three months ended June 30, 2015. Our total revenues declined by 85% or $117.0 million for the three months ended June 30, 2016, when compared to the same period in 2015, primarily due to the reduction in Queen et al. royalties from $116.9 million to $14.2 million because PDL ceased receiving any revenue from Genentech after the first quarter of 2016. In addition, royalty rights - change in fair value was negative $0.9 million for the three months ended June 30, 2016, primarily as result of a $7.4 million and $7.6 million reduction in estimated fair value of the Depomed and University of Michigan royalty rights, respectively, offset by $14.7 million net cash royalty payments during the second quarter of 2016. The reduction in Depomed's and the University of Michigan's royalty rights are primarily due to the reduction in future cash projections as a result of the net pricing deterioration and higher erosion of Glumetza's market share and the delay in pricing and reimbursement decisions for Cerdelga in the European Union and Japan, respectively. The decrease in interest revenue for the three months ended June 30, 2016, when compared to the same period in 2015 was primarily due to ceasing to accrue interest due from Direct Flow Medical as a result of the loan being impaired.

Total revenues were $124.2 million for the six months ended June 30, 2016, compared with $287.8 million for the six months ended June 30, 2015. Our total revenues declined by 57% or $163.6 million for the six months ended June 30, 2016, when compared to the same period in 2015, primarily due to the reduction in Queen et al. royalties from $244.7 million to $135.7 million because PDL ceased receiving any revenue from Genentech after the first quarter of 2016. In addition, royalty rights - change in fair value was negative $28.0 million for the six months ended June 30, 2016, primarily as result of a $55.3 million and $6.0 million reductions in estimated fair value of the Depomed and University of Michigan royalty rights, respectively, offset by $31.9 million net cash royalty payments during the second quarter of 2016. The reductions in Depomed's and the University of Michigan's royalty rights are primarily due to the reduction in future cash projections as a result of the net pricing deterioration and higher erosion of Glumetza's market share and the delay in pricing and reimbursement decisions for Cerdelga in the European Union and Japan, respectively. The decrease in interest revenue for the six months ended June 30, 2016, when compared to the same period in 2015 was primarily due to reduced interest revenue from Direct Flow Medical.

The following table summarizes the percentage of our total revenues earned from our licensees' net product sales that individually accounted for 10% or more of our total revenues for the three and six months ended June 30, 2016 and 2015:

		Three Months Ended June 30,		Six Months Ended June 30,	
Licensee	**Product Name**	**2016**	**2015**	**2016**	**2015**
Genentech	*Avastin*	0%	28%	31%	27%
	Herceptin	0%	29%	31%	27%
	Xolair	0%	8%	10%	8%
Biogen	*Tysabri*	68%	10%	23%	10%
Depomed	*Glumetza, Janumet and Jentadueto*	20%	7%	*N/M*	6%
AcelRx	*Zalviso*	10%	0%	3%	0%
kaléo	*Interest revenues*	22%	4%	8%	3%

N/M = Not meaningful

Foreign currency exchange rates also impact our reported revenues, primarily from licenses of the Queen et al. patents. Our revenues may fluctuate due to changes in foreign currency exchange rates and are subject to foreign currency exchange risk. While foreign currency conversion terms vary by license agreement, generally most agreements require that royalties first be calculated in the currency of sale and then converted into U.S. dollars using the average daily exchange rates for that currency for a specified period at the end of the calendar quarter. Accordingly, when the U.S. dollar weakens against other currencies, the converted amount is greater than it would have been had the U.S. dollar not weakened. For example, in a quarter in which we generate $10.0 million in royalty revenues, and when approximately $5.0 million is based on sales in currencies other than U.S. dollar, if the U.S. dollar strengthens across all currencies by 10% during the reporting period for that quarter, when compared to the same amount of local currency royalties for the prior year, U.S. dollar converted royalties will be approximately $0.5 million less in the current quarter than in the prior year's quarter.

For the three and six months ended June 30, 2016 and 2015, we hedged certain Euro-denominated currency exposures related to our licensees' product sales with Euro forward contracts. We designated foreign currency exchange contracts used to hedge royalty revenues based on underlying Euro-denominated sales as cash flow hedges. The aggregate unrealized gain or loss, net of tax, on the effective portion of the hedge was recorded in stockholders' equity as "Accumulated other comprehensive income". Realized gains or losses on cash flow hedges were recognized as an adjustment to royalty revenue in the same period that the hedged transaction impacts earnings. For the three months ended June 30, 2016 and 2015, we recognized zero and $2.7 million, respectively, and for the six months ended June 30, 2016 and 2015, we recognized $2.8 million and $3.7 million, respectively, as additions in royalty revenues from our Euro forward contracts.

Operating Expenses

	Three Months Ended June 30,		Change from Prior	Six Months Ended June 30,		Change from Prior
	2016	**2015**	**Year %**	**2016**	**2015**	**Year %**
(In thousands)						
General and administrative	$ 6,951	$ 7,429	(6)%	$ 16,797	$ 15,095	11%
Acquisition-related costs	2,959	—	*N/M*	2,959	—	*N/M*
Total operating expenses	$ 9,910	$ 7,429	33%	$ 19,756	$ 15,095	31%
Percentage of total revenues	47%	5%		16%	5%	

N/M = Not meaningful

The decrease in general and administrative expenses for the three months ended June 30, 2016, as compared to the same period in 2015, was a result of a decrease in general and administrative expenses of $2.4 million for professional services mostly related to the asset management of Wellstat Diagnostics, partially offset by increases of $1.2 million for compensation, including stock-based compensation expenses and an increase in general and administrative expenses of $0.9 million for legal services mostly related to ongoing legal proceedings. In the three months ended June 30, 2016, PDL had $3.0 million in acquisition-related costs. These acquisition-related costs consist primarily of legal, accounting, valuation, advisory and other professional fees related to the Noden transaction. Noden is expected to reimburse PDL as part of the intercompany arrangement for all acquisition-related costs on or before December 31, 2016.

The increase in general and administrative expenses for the six months ended June 30, 2016, as compared to the same period in 2015, was a result of an increase in general and administrative expenses of $2.4 million for legal services mostly related to ongoing legal proceedings and an increase of $2.1 million for compensation, including stock-based compensation expenses, partially offset by the decrease in general and administrative expenses of $2.8 million for professional services mostly related to the asset management of Wellstat Diagnostics. In the six months ended June 30, 2016, PDL had $3.0 million in acquisition-related costs. These acquisition-related costs consist primarily of legal, accounting, valuation, advisory and other professional fees related to the Noden transaction.

Non-operating Expense, Net

Non-operating expense, net, decreased, in part, primarily due to the decrease in interest expense from the expiration of the Series 2012 Notes and May 2015 Notes during the three and six months ended June 30, 2015. The decrease in interest expense for the three and six-months ended June 30, 2016, as compared to the same periods in 2015, consisted primarily of non-cash interest expense as we are required to compute interest expense using the interest rate for similar nonconvertible instruments in accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion.

Income Taxes

Income tax expense for the three months ended June 30, 2016 and 2015, was $2.7 million and $45.3 million, respectively, and for the six months ended June 30, 2016 and 2015, was $35.6 million and $94.3 million which resulted primarily from applying the federal statutory income tax rate to income before income taxes.

The uncertain tax positions increased during the three months ended June 30, 2016 and 2015, by $0.4 million and $2.2 million, respectively, and increased during the six months ended June 30, 2016 and 2015, by $1.6 million and $4.6 million, resulting from an increase in tax uncertainties and estimated tax liabilities.

In general, our income tax returns are subject to examination by U.S. federal, state and local tax authorities for tax years 1996 forward. In May 2012, PDL received a “no-change” letter from the IRS upon completion of an examination of the Company's 2008 federal tax return. We are currently under income tax examination in the state of California for the tax years 2009, 2010, 2011 and 2012. Although the timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year, we do not anticipate any material change to the amount of our unrecognized tax benefit over the next 12 months.

Net Income per Share

Net income per share for the three and six months ended June 30, 2016 and 2015, is presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Net income per share - basic	$ 0.03	$ 0.48	$ 0.37	$ 1.00
Net income per share - diluted	$ 0.03	$ 0.47	$ 0.37	$ 0.97

Liquidity and Capital Resources

We finance our operations primarily through royalty and other license-related revenues, public and private placements of debt and equity securities and interest income on invested capital. We currently have one part-time and ten full-time employees managing our intellectual property, our asset acquisitions and other corporate activities as well as providing for certain essential reporting and management functions of a public company.

We had cash, cash equivalents and short-term investments in the aggregate of $115.9 million and $220.4 million at June 30, 2016, and December 31, 2015, respectively. The decrease was primarily attributable to the restriction of $105.9 million in cash for the Noden transaction, which was paid out on July 1, 2016, a $75.0 million purchase of a certificate of deposit in connection with the letter of credit issued to Novartis under the Noden Purchase Agreement, repayment of the March 2015 Term Loan for $25.0 million, payment of dividends of $16.4 million, and an additional note receivable purchase of $5.0 million, partially offset by proceeds from royalty right payments of $31.9 million and cash generated by operating activities of $94.8 million.

On July 28, 2016, PDL funded the second tranche of $50.0 million due on the first anniversary of the closing date under the terms of the ARIAD Royalty Agreement.

Although the last of our Queen et al. patents expired in December 2014, we have received royalties beyond expiration based on the terms of our licenses and our legal settlements. We believe that cash from future revenues from acquired income generating assets, net of operating expenses, debt service and income taxes, plus cash on hand, will be sufficient to fund our operations over the next several years. However, we do not expect that our acquired income generating assets will result in cash flows to us, in the near term, that will replace the cashflows we received from our license agreements related to the Queen et al. patents. In the second quarter of 2016, our cashflows materially decreased after we stopped receiving payments from certain of the Queen et al. patent licenses and our legal settlements. The continued success of the Company is more dependent on the timing and our ability to acquire new income generating assets in order to provide recurring cash flows going forward and to support our business model, and to pay amounts due on our debt as they become due.

We continuously evaluate alternatives to increase return for our stockholders by, for example, purchasing income generating assets, selling discreet assets, buying back our convertible notes, repurchasing our common stock, paying dividends and selling the Company. On May 2, 2016, our board of directors declared a quarterly dividend of $0.05 per share of common stock, payable on June 13, 2016 to stockholders of record on June 6, 2016, the record date for the dividend payments.

We may consider additional debt or equity financings to support the growth of our business if cash flows from existing investments are not sufficient to fund future potential investment opportunities and acquisitions.

Notes and Other Long-Term Receivables

Wellstat Diagnostics Note Receivable and Credit Agreement

In March 2012, the Company executed a $7.5 million two-year senior secured note receivable with the holders of the equity interests in Wellstat Diagnostics. In addition to bearing interest at 10% per annum, the note receivable gave PDL certain rights to negotiate for certain future financing transactions. In August 2012, PDL and Wellstat Diagnostics amended the note receivable, providing a senior secured note receivable of $10.0 million, bearing interest at 12% per annum, to replace the original $7.5 million note receivable. This $10.0 million note receivable was repaid on November 2, 2012, using the proceeds of the $40.0 million credit facility entered into with the Company on the same date.

On November 2, 2012, the Company and Wellstat Diagnostics entered into a $40.0 million credit agreement pursuant to which the Company was to accrue quarterly interest payments at the rate of 5% per annum (payable in cash or in kind). In addition, PDL was to receive quarterly royalty payments based on a low double-digit royalty rate of Wellstat Diagnostics' net revenues, generated by the sale, distribution or other use of Wellstat Diagnostics' products, if any, commencing upon the commercialization of its products.

In January 2013, the Company was informed that, as of December 31, 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. PDL sent Wellstat Diagnostics a notice of default on January 22, 2013, and accelerated the amounts owed under the credit agreement. In connection with the notice of default, PDL exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to PDL and applied the funds to amounts due under the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby PDL agreed to refrain from exercising additional remedies for 120 days while Wellstat Diagnostics raised funds to capitalize the business and the parties attempted to negotiate a

revised credit agreement. PDL agreed to provide up to $7.9 million to Wellstat Diagnostics to fund the business for the 120-day forbearance period under the terms of the forbearance agreement. Following the conclusion of the forbearance period that ended on June 28, 2013, the Company agreed to forbear its exercise of remedies for additional periods of time to allow the owners and affiliates of Wellstat Diagnostics to complete a pending financing transaction. During such forbearance period, the Company provided approximately $1.3 million to Wellstat Diagnostics to fund ongoing operations of the business. During the year ended December 31, 2013, approximately $8.7 million was advanced pursuant to the forbearance agreement.

On August 15, 2013, the owners and affiliates of Wellstat Diagnostics completed a financing transaction to fulfill Wellstat Diagnostics' obligations under the forbearance agreement. On August 15, 2013, the Company entered into an amended and restated credit agreement with Wellstat Diagnostics. The Company determined that the new agreement should be accounted for as a modification of the existing agreement.

Except as otherwise described here, the material terms of the amended and restated credit agreement are substantially the same as those of the original credit agreement, including quarterly interest payments at the rate of 5% per annum (payable in cash or in kind). In addition, PDL was to continue to receive quarterly royalty payments based on a low double-digit royalty rate of Wellstat Diagnostics' net revenues. However, pursuant to the amended and restated credit agreement: (i) the principal amount was reset to approximately $44.1 million, which was comprised of approximately $33.7 million original loan principal and interest, $1.3 million term loan principal and interest and $9.1 million forbearance principal and interest; (ii) the specified internal rates of return increased; (iii) the default interest rate was increased; (iv) Wellstat Diagnostics' obligation to provide certain financial information increased in frequency to monthly; (v) internal financial controls were strengthened by requiring Wellstat Diagnostics to maintain an independent, third-party financial professional with control over fund disbursements; (vi) the Company waived the existing events of default; and (vii) the owners and affiliates of Wellstat Diagnostics were required to contribute additional capital to Wellstat Diagnostics upon the sale of an affiliate entity. The amended and restated credit agreement had an ultimate maturity date of December 31, 2021 (but has subsequently been accelerated as described below).

When the principal amount was reset, a $2.5 million reduction of the carrying value was recorded as a financing cost as a component of "Interest and other income, net". The new carrying value is lower as a function of the variable nature of the internal rate of return to be realized by the Company based on when the note was to be repaid. The internal rate of return calculation, although increased, was reset when the credit agreement was amended and restated.

In June of 2014, the Company received information from Wellstat Diagnostics that showed that it was generally unable to pay its debts as they became due. This constituted an event of default under the amended and restated credit agreement. Wellstat Diagnostics entered into a transaction involving another lender, pursuant to which Wellstat Diagnostics obtained additional short-term funding for its operations. At the same time, the Company entered into the first amendment to amended and restated credit agreement with Wellstat Diagnostics. The material terms of the amendment included the following: (1) Wellstat Diagnostics acknowledged that an event of default had occurred; (2) the Company agreed to forbear from immediately enforcing its rights for up to 60 days, so long as the other lender provided agreed levels of interim funding to Wellstat Diagnostics; and (3) the Company obtained specified additional information rights with regard to Wellstat Diagnostics’ financial matters and investment banking activities.

On August 5, 2014, the Company received notice that the short-term funding being provided pursuant to the agreement with the other lender entered into during June 2014, was being terminated. Wellstat Diagnostics remained in default because it was still unable to pay its debts as they became due. Accordingly, the Company delivered the Wellstat Diagnostics Borrower Notice. The Wellstat Diagnostics Borrower Notice accelerated all obligations under the amended and restated credit agreement and demanded immediate payment in full in an amount equal to approximately $53.9 million, (which amount, in accordance with the terms of the amended and restated credit agreement, included an amount that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company), plus accruing fees, costs and interest, and demanded that Wellstat Diagnostics protect and preserve all collateral securing its obligations. On August 7, 2014, the Company delivered the Wellstat Diagnostics Guarantor Notice. The Wellstat Diagnostics Guarantor Notice included a demand that the guarantors remit payment to the Company in the amount of the outstanding obligations. The guarantors include certain affiliates and related companies of Wellstat Diagnostics, including Wellstat Therapeutics and Wellstat Diagnostics’ stockholders.

On September 24, 2014, the Company filed the Wellstat Diagnostics Petition, which was granted on the same day. The order granting the Wellstat Diagnostics Petition authorizes the receiver to take immediate possession of the physical assets of Wellstat Diagnostics, with the purpose of holding, protecting, insuring, managing and preserving the business of Wellstat Diagnostics and the value of the Company’s collateral. Wellstat Diagnostics has remained in operation during the period of the receivership with incremental additional funding from the Company.

On November 4, 2014, the Company entered into the third amendment to the amended and restated credit agreement with Wellstat Diagnostics. The amendment provides that additional funding, if any, to be made by the Company is conditioned upon the agreement by Wellstat Diagnostics to make certain operational changes within Wellstat Diagnostics, which the Company believes will allow the receiver to more efficiently optimize the value of the collateral.

During the second quarter of 2015, the receiver initiated a process for a public sale of the assets of Wellstat Diagnostics and retained the investment banking firm of Duff & Phelps to organize and manage the sale process. The receiver filed a "Motion For Approval of Sale Procedures" with the Circuit Court for Montgomery County, Maryland, which is the court having jurisdiction over the receivership and a hearing was held on July 22, 2015 at which time arguments were heard from interested parties regarding the sale procedures. No significant substantive disagreements between the parties regarding the sale procedures remained after the hearing and a decision approving the receiver's sale procedures was made in the third quarter of 2015. PDL submitted a credit bid for the Wellstat Diagnostic assets at a value corresponding to some portion of the outstanding amount due under the amended and restated credit agreement which is subject to court approval. A hearing was scheduled in the Maryland Circuit Court for April 13, 2016 to hear the Receiver's motion to approve the credit bid sale to PDL. However, on April 12, 2016, Wellstat Diagnostics changed its name to Defined Diagnostics, LLC and filed for bankruptcy under Chapter 11 in the United Stated Bankruptcy Court in the Southern District of New York. The filing of the bankruptcy case stays the proceedings in the Maryland Circuit Court pursuant to the automatic stay provisions of the Bankruptcy Code. On June 15, 2016, in response to a Motion to Dismiss filed by the Company alleging, inter alia, that the New York Bankruptcy Court is not a proper venue for Defined Diagnostics to file for bankruptcy under Chapter 11, the New York Bankruptcy Court dismissed and transferred the action to the United States Bankruptcy Court in Delaware. On August 2, 2016 the Delaware Bankruptcy Court announced its decision to grant the Company's motion to dismiss the chapter 11 petition with prejudice as a bad faith filing, which should result in the receivership sale in the Maryland Circuit Court proceeding promptly.

On September 4, 2015, PDL filed in the Supreme Court of New York a motion for summary judgment in lieu of complaint which requested that the court enter judgment against Wellstat Diagnostics Guarantors for the total amount due on the Wellstat Diagnostics debt, plus all costs and expenses including lawyers' fees incurred by the Company in enforcement of the related guarantees. On September 23, 2015, PDL filed in the same court an ex parte application for a temporary restraining order and order of attachment of the Wellstat Diagnostics Guarantors' assets. At a hearing on September 24, 2015, regarding the Company's request for a temporary restraining order, the court ordered that the Company's request for attachment and for summary judgment would be heard at a hearing on November 5, 2015. Although the court denied the Company's request for a temporary restraining order at the hearing on September 24, 2015, it ordered that assets of the Wellstat Diagnostics Guarantors should be held in *status quo ante* and only used in the normal course of business pending the outcome of the matters under consideration at the hearing.

On July 29, 2016, the Supreme Court of New York issued its Memorandum of Decision granting the Company's motion for summary judgment and denying the Wellstat Diagnostics Guarantors' cross-motion for summary judgment. The Supreme Court of New York held that the Wellstat Diagnostics Guarantors are liable for all "Obligations" owed by Wellstat Diagnostics to the Company. It did not set a specific dollar amount due, but ordered that a judicial hearing officer or special referee be designated to determine the amount of the Obligations owing, and awarded the Company its attorneys' fees and costs in an amount to be determined. The Supreme Court of New York has also set a hearing on August 23, 2016 to consider the implication of the *status quo ante* instruction on certain actions of the Wellstat Diagnostics Guarantors and whether to issue a writ of attachment.

On July 29, 2016, the Wellstat Diagnostics Guarantors filed a notice of appeal from the Memorandum of Decision. This appeal does not stay the Supreme Court of New York from entering a money judgment for the balance owing based on the decision of the judicial hearing officer or special referee to be designated to determine the amount of the Obligations owing pursuant to the Memorandum of Decision.

On October 22, 2015, the Wellstat Diagnostics Guarantors filed a complaint against the Company in the Supreme Court of New York seeking a declaratory judgment that certain contractual arrangements entered into between the parties subsequent to Wellstat Diagnostics' default, and which relate to a split of proceeds in the event that the Wellstat Diagnostics Guarantors voluntarily monetize any assets that are the Company's collateral, is of no force or effect.

Through the period ended June 30, 2016, PDL has advanced to Wellstat Diagnostics $16.2 million to fund the ongoing operations of the business and other associated costs. This funding has been expensed as incurred. As of June 30, 2016, PDL is owed $117.5 million, which includes unpaid principal and interest and repayment of amounts funded for ongoing operations of Wellstat Diagnostics.

Effective April 1, 2014, and as a result of the event of default, we determined the loan to be impaired and we ceased to accrue interest revenue. At that time and as of June 30, 2016 it has been determined that an allowance on the carrying value of the note

was not necessary as the Company believes the value of the collateral securing Wellstat Diagnostics' obligations exceeds the carrying value of the asset and is sufficient to enable the Company to recover the current carrying value of $50.2 million. The Company continues to closely monitor the timing and expected recovery of amounts due, including litigation and other matters related to the Wellstat Diagnostics Guarantors' assets. There can be no assurance that an allowance on the carrying value of the notes receivable investment will not be necessary in a future period depending on future developments.

Hyperion Agreement

On January 27, 2012, PDL and Hyperion entered into an agreement whereby Hyperion sold to PDL the royalty streams due from SDK related to a certain patent license agreement between Hyperion and SDK dated December 31, 2008. The agreement assigned the patent license agreement royalty stream accruing from January 1, 2012, through December 31, 2013, to PDL in exchange for the lump sum payment to Hyperion of $2.3 million. In exchange for the lump sum payment, PDL was to receive two equal payments of $1.2 million on each of March 5, 2013 and 2014. The first payment of $1.2 million was paid on March 5, 2013, but Hyperion has not made the second payment that was due on March 5, 2014. The Company completed an impairment analysis as of June 30, 2016. Effective with this date and as a result of the event of default, we ceased to accrue interest revenue. As of June 30, 2016, the estimated fair value of the collateral was determined to be in excess of the carrying value. There can be no assurance that this will be true in the event of the Company's foreclosure on the collateral, nor can there be any assurance of realizing value from such collateral.

AxoGen Note Receivable and AxoGen Royalty Agreement

In October 2012, PDL entered into the AxoGen Royalty Agreement with AxoGen providing for the payment of specified royalties to PDL on AxoGen's net revenues (as defined in the AxoGen Royalty Agreement) generated by the sale, distribution or other use of AxoGen's products. The AxoGen Royalty Agreement had an eight-year term and provided PDL with royalties of 9.95% based on AxoGen's net revenues, subject to agreed-upon guaranteed quarterly minimum payments of approximately $1.3 million to $2.5 million, which began in the fourth quarter of 2014, and the right to require AxoGen to repurchase the royalties under the AxoGen Royalty Agreement at the end of the fourth year. AxoGen was granted certain rights to call the contract in years five through eight. The total consideration PDL paid to AxoGen for the royalty rights was $20.8 million, including an interim funding of $1.8 million in August 2012. AxoGen was required to use a portion of the proceeds from the AxoGen Royalty Agreement to pay the outstanding balance under its existing credit facility. The royalty rights were secured by the cash and accounts receivable of AxoGen.

On August 14, 2013, PDL purchased 1,166,666 shares of registered common stock of AxoGen (AXGN) at $3.00 per share, totaling $3.5 million. On December 22, 2014, PDL sold these shares at $3.03 per share, totaling approximately $3.5 million.

On November 13, 2014, the Company agreed to terminate the AxoGen Royalty Agreement in consideration for a payment of $30.3 million in cash, which was the sum of the outstanding principal, interest and embedded derivative. At the same time, the Company acquired 643,382 shares of registered common stock of AxoGen for approximately $1.7 million at a public offering price of $2.72 per share. The shares were classified as available for sale securities and recorded as short-term investments on the Condensed Consolidated Balance Sheets. In the third and fourth quarters of 2015, PDL sold 200,000 and 149,650 shares, respectively, at a price range between $5.46 and $5.69 per share, resulting in a gain totaling approximately $1.9 million. In first and second quarters of 2016, PDL sold 50,000 and 243,732 shares, respectively, at a price range between $5.44 and $6.10 per share, resulting in a gain totaling approximately $882,000.

As of June 30, 2016, PDL held zero shares of AxoGen common stock.

Avinger Credit and Royalty Agreement

On April 18, 2013, PDL entered into the Avinger Credit and Royalty Agreement, under which we made available to Avinger up to $40.0 million to be used by Avinger in connection with the commercialization of its lumivascular catheter devices and the development of Avinger's lumivascular atherectomy device. Of the $40.0 million available to Avinger, we funded an initial $20.0 million, net of fees, at the close of the transaction. Outstanding borrowings under the initial loan bore interest at a stated rate of 12% per annum.

On September 22, 2015, Avinger elected to prepay the note receivable in whole for a payment of $21.4 million in cash, which was the sum of the outstanding principal, interest and a prepayment fee.

Under the terms of the Avinger Credit and Royalty Agreement, the Company receives a low, single-digit royalty on Avinger's net revenues until April 2018. Commencing in October 2015, after Avinger repaid the note receivable prior to its maturity date,

the royalty on Avinger's net revenues reduced by 50%, subject to certain minimum payments from the prepayment date until April 2018. PDL has accounted for the royalty rights in accordance with the fair value option.

LENSAR Credit Agreement

On October 1, 2013, PDL entered into a credit agreement with LENSAR, under which PDL made available to LENSAR up to $60.0 million to be used by LENSAR in connection with the commercialization of its currently marketed LENSAR™ Laser System. Of the $60.0 million available to LENSAR, an initial $40.0 million, net of fees, was funded by the Company at the close of the transaction. The remaining $20.0 million in the form of a second tranche is no longer available to LENSAR under the terms of the credit agreement. Outstanding borrowings under the loans bore interest at the rate of 15.5% per annum, payable quarterly in arrears.

On May 12, 2015, PDL entered into a forbearance agreement with LENSAR under which PDL agreed to refrain from exercising certain remedies available to it resulting from the failure of LENSAR to comply with a liquidity covenant and make interest payments due under the credit agreement. Under the forbearance agreement, PDL agreed to provide LENSAR with up to an aggregate of $8.5 million in weekly increments through the period ended September 30, 2015 plus employee retention amounts of approximately $0.5 million in the form of additional loans subject to LENSAR meeting certain milestones related to LENSAR obtaining additional capital to fund the business or selling itself and repaying outstanding amounts under the credit agreement. In exchange for the forbearance, LENSAR agreed to additional reporting covenants, the engagement of a chief restructuring officer and an increase on the interest rate to 18.5%, applicable to all outstanding amounts under the credit agreement.

On September 30, 2015, PDL agreed to extend the forbearance agreement until October 9, 2015 and provide for up to an additional $0.8 million in funding while LENSAR negotiated a potential sale of its assets. On October 9, 2015, the forbearance agreement expired, but PDL agreed to fund LENSAR's operations while LENSAR continued to negotiate a potential sale of its assets.

On November 15, 2015, New LENSAR, a wholly owned subsidiary of Alphaeon, and LENSAR entered into the Asset Purchase Agreement whereby New LENSAR agreed to acquire substantially all the assets and assumed certain liabilities of LENSAR subject to the satisfaction of certain closing conditions. The acquisition was consummated on December 15, 2015.

In connection with the closing of the acquisition, New LENSAR entered into an amended and restated credit agreement with PDL, assuming $42.0 million in loans as part of the borrowings under PDL’s prior credit agreement with LENSAR. In addition, Alphaeon issued 1.7 million shares of its Class A common stock to PDL.

Under the terms of the amended and restated credit agreement, PDL has a first lien security interest in substantially all of the equity interests and assets of New LENSAR. The loans bear interest of 15.5% per annum, payable quarterly in arrears. New LENSAR may elect to pay in kind interest the first three interest payments in the form of additional principal amount added to the loans. The principal repayment will commence on the ninth interest payment date. The principal amount outstanding at commencement of repayment is to be repaid in equal installments until final maturity of the loans which is December 15, 2020.

PDL concluded that the amendment and restatement of the original LENSAR credit agreement shall be accounted for as a troubled debt restructuring due to the concession granted by PDL and LENSAR’s financial difficulties. PDL has recognized a loss on extinguishment of notes receivable of $4.0 million and expensed $3.0 million of closing fees as general & administrative costs as incurred at closing on December 15, 2015.

We have estimated a fair value of $3.84 per share for the 1.7 million shares of Alphaeon Class A common stock received in connection with the transactions and recognized this investment as a cost-method investment of $6.6 million included in other long-term asset. The Alphaeon Class A common stock is subject to other-than-temporary impairment assessments in future periods. There is no other-than-temporary impairment charge incurred as of June 30, 2016.

The Company completed an impairment analysis as of June 30, 2016. Effective as of this date and as a result of the non-compliance with certain covenants, we determined the loan to be impaired and we ceased to accrue interest revenue. As of June 30, 2016, the estimated fair value of the collateral underlying the LENSAR loan was determined to be in excess of the carrying value. In the event the Company was to foreclose on the collateral, there can be no assurance as to the accuracy of the estimated fair value of the collateral, nor can there be any assurance of realizing value from such collateral.

Direct Flow Medical Credit Agreement

On November 5, 2013, PDL entered into a credit agreement with Direct Flow Medical, under which PDL agreed to provide up to $50.0 million to Direct Flow Medical. Of the $50.0 million available to Direct Flow Medical, an initial $35.0 million (tranche one), net of fees, was funded by the Company at the close of the transaction. Pursuant to the original terms of the credit agreement the Company agreed to provide Direct Flow Medical with an additional $15.0 million tranche, net of fees, upon the attainment of a specified revenue milestone to be accomplished no later than December 31, 2014 (the tranche two milestone). Until the occurrence of the tranche two milestone, outstanding borrowings under tranche one bore interest at the rate of 15.5% per annum, payable quarterly in arrears.

On November 10, 2014, PDL and Direct Flow Medical agreed to an amendment to the credit agreement to permit Direct Flow Medical to borrow the $15.0 million second tranche upon receipt by Direct Flow Medical of a specified minimum amount of proceeds from an equity offering prior to December 31, 2014. In exchange, the parties amended the credit agreement to provide for additional fees associated with certain liquidity events, such as a change of control or the consummation of an initial public offering, and granted PDL certain board of director observation rights. On November 19, 2014, upon Direct Flow Medical satisfying the amended tranche two milestone, the Company funded the $15.0 million second tranche to Direct Flow Medical, net of fees. Upon occurrence of the borrowing of this second tranche, the interest rate applicable to all loans under the credit agreement was decreased to 13.5% per annum, payable quarterly in arrears.

Under the terms of the credit agreement, principal repayment will commence on the 12th interest payment date, September 30, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans mature on November 5, 2018. Direct Flow Medical may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Direct Flow Medical and any of its subsidiaries.

On December 21, 2015, Direct Flow Medical and PDL entered into a waiver to the credit agreement in anticipation of Direct Flow Medical being unable to comply with the liquidity covenant and make interest payments due under the credit agreement.

On January 14, 2016, both parties agreed to provide Direct Flow Medical with an extension to waive the liquidity covenant and delay the timing of the interest payments through the period ending September 30, 2016.

On January 28, 2016, PDL funded an additional $5.0 million to Direct Flow Medical in the form of a short-term secured promissory note.

On February 26, 2016, PDL and Direct Flow Medical entered into the fourth Amendment to the Credit Agreement that, among other things, (i) converted the $5.0 million short-term secured promissory note into a loan under the credit agreement with substantially the same interest and payment terms as the existing loans, (ii) added a conversion feature whereby the $5.0 million loan would convert into equity of Direct Flow Medical upon the occurrence of certain events and (iii) provided for a second $5.0 million convertible loan tranche commitment, to be funded at the option of PDL. The commitment for the second tranche was not funded and has since expired. In addition, (i) PDL agreed to waive the liquidity covenant and delay the timing of the unpaid interest payments until September 30, 2016 and (ii) Direct Flow Medical agreed to issue to PDL a specified amount of warrants to purchase shares of convertible preferred stock on the first day of each month for the duration of the waiver period at an exercise price of $0.01 per share. At June 30, 2016, we determined an estimated fair value of the warrants of $0.7 million.

On July 15, 2016, PDL and Direct Flow Medical entered into the Fifth Amendment and Limited Waiver to the Credit Agreement. PDL funded an additional $1.5 million to Direct Flow Medical in the form of a note with substantially the same interest and payment terms as the existing loans and a conversion feature whereby the $1.5 million loan would convert into equity of Direct Flow Medical upon the occurrence of certain events. In addition, Direct Flow Medical agreed to issue to PDL warrants to purchase shares of convertible preferred stock at an exercise price of $0.01 per share.

The Company completed an impairment analysis as of June 30, 2016. Effective as of this date and as a result of the waived defaults, we determined the loan to be impaired and we ceased to accrue interest revenue. As of June 30, 2016, the estimated fair value of the collateral was determined to be in excess of the carrying value. In the event the Company was to foreclose on the collateral, there can be no assurance as to the accuracy of the estimated fair value of the collateral, nor can there be any assurance of realizing value from such collateral.

Paradigm Spine Credit Agreement

On February 14, 2014, the Company entered into the Paradigm Spine Credit Agreement, under which it made available to Paradigm Spine up to $75.0 million to be used by Paradigm Spine to refinance its existing credit facility and expand its domestic commercial operations. Of the $75.0 million available to Paradigm Spine, an initial $50.0 million, net of fees, was funded by the Company at the close of the transaction. The second and third tranches of up to an additional $25.0 million in the aggregate, net of fees, are no longer available under the terms of the Paradigm Spine Credit Agreement.

On October 27, 2015, PDL and Paradigm Spine entered into an amendment to the Paradigm Spine Credit Agreement to provide additional term loan commitments of up to $7.0 million payable in two tranches of $4.0 million and $3.0 million, of which the first tranche was drawn on the closing date of the amendment, net of fees. Paradigm Spine chose not to draw down the second tranche of $3.0 million and such tranche is no longer available.

Borrowings under the credit agreement bear interest at the rate of 13.0% per annum, payable quarterly in arrears.

Under the terms of the Paradigm Spine Credit Agreement, principal repayment will commence on the 12th interest payment date, December 31, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans mature on February 14, 2019. Paradigm Spine may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the Paradigm Spine Credit Agreement are secured by a pledge of substantially all of the assets of Paradigm Spine and its domestic subsidiaries and, initially, certain assets of Paradigm Spine’s German subsidiaries.

kaléo Note Purchase Agreement

On April 1, 2014, PDL entered into a note purchase agreement with Accel 300, a wholly-owned subsidiary of kaléo, pursuant to which the Company acquired $150.0 million of secured notes due 2029. The secured notes were issued pursuant to an indenture between Accel 300 and U.S. Bank, National Association, as trustee, and are secured by the kaléo Revenue Interests and a pledge of kaléo’s equity ownership in Accel 300.

The secured notes bear interest at 13% per annum, paid quarterly in arrears on principal outstanding. The principal balance of the secured notes is repaid to the extent that the kaléo Revenue Interests exceed the quarterly interest payment, as limited by a quarterly payment cap. The final maturity of the secured notes is June 2029. kaléo may redeem the secured notes at any time, subject to a redemption premium.

As of June 30, 2016, the Company determined that its royalty purchase interest in Accel 300 represented a variable interest in a variable interest entity. However, the Company does not have the power to direct the activities of Accel 300 that most significantly impact Accel 300's economic performance and is not the primary beneficiary of Accel 300; therefore, Accel 300 is not subject to consolidation by the Company.

On October 28, 2015, Sanofi US initiated a voluntary nationwide recall of all Auvi-Q® units effectively immediately. Sanofi is the exclusive licensee of kaléo for the manufacturing and commercialization of Auvi-Q. While Sanofi has not identified the reason for the recall, press reports indicate that a small number of units have failed to activate or delivered inadequate doses of epinephrine. Subsequent to the recall, kaléo made a full and timely payment of $9.5 million, which included all principal and interest due in the fourth quarter of 2015.

On February 18, 2016, PDL was advised that Sanofi and kaléo would terminate their license and development agreement at a future date. On March 31, 2016, PDL was informed by kaléo that the license and development agreement was terminated and that all U.S. and Canadian commercial and manufacturing rights to Auvi-Q and Allerject® had been returned to kaléo. All manufacturing equipment had also been returned to kaléo, and kaléo is evaluating the timing and options for bringing Auvi-Q and Allerject back to the market. As part of our financing transaction, kaléo was required to establish an interest reserve account of $20.0 million from the $150.0 million provided by PDL. The purpose of this interest reserve account is to cover any possible shortfalls in interest payments owed to PDL. While the interest reserve account was depleted in the second quarter of 2016, kaléo continues to make interest payments due to PDL under the note purchase agreement and we expect that kaléo will fund future interest payments with existing cash until Auvi-Q is returned to the market.

PDL will monitor the timing and options for bringing Auvi-Q back to the market and how it may impact the ability of kaléo to meet its obligations under the note purchase agreement, but as of June 30, 2016, it has been determined that there is no impairment.

CareView Credit Agreement

On June 26, 2015, PDL entered into a credit agreement with CareView, under which the Company made available to CareView up to $40.0 million in two tranches of $20.0 million each. Under the terms of the credit agreement, the first tranche of $20.0 million was to be funded by the Company upon CareView's attainment of a specified milestone relating to the placement of CareView Systems®, to be accomplished no later than October 31, 2015. The Company expects to fund CareView an additional $20.0 million upon CareView's attainment of specified milestones relating to the placement of CareView Systems and Consolidated EBITDA (as defined in the credit agreement), to be accomplished no later than June 30, 2017. Outstanding borrowings under the credit agreement will bear interest at the rate of 13.5% per annum and are payable quarterly in arrears.

As part of the transaction, the Company received a warrant to purchase approximately 4.4 million shares of common stock of CareView at the exercise price of $0.45 per share. We have accounted for the warrant as derivative asset with an offsetting credit as debt discount. At each reporting period the warrant is marked to market for changes in fair value.

On October 7, 2015, PDL and CareView entered into an amendment of the credit agreement to modify certain definitions related to the first and second tranche milestones. On this date, PDL also funded the first tranche of $20.0 million, net of fees, upon attainment of the modified first tranche milestone relating to the placement of CareView Systems. The additional $20.0 million in the form of a second tranche continues to be available upon CareView's attainment of specified milestones relating to the placement of CareView Systems and Consolidated EBITDA, to be accomplished no later than June 30, 2017 under the terms of the amended credit agreement.

In connection with the amendment of the credit agreement, PDL and CareView also agreed to amend the warrant to purchase common stock agreement by reducing the warrant's exercise price from $0.45 to $0.40 per share. At June 30, 2016, we determined an estimated fair value of the warrant of $0.3 million.

Royalty Rights - At Fair Value

Depomed Royalty Agreement

On October 18, 2013, PDL entered into the Depomed Royalty Agreement, whereby the Company acquired the rights to receive royalties and milestones payable on sales of Type 2 diabetes products licensed by Depomed in exchange for a $240.5 million cash payment. Total arrangement consideration was $241.3 million, which was comprised of the $240.5 million cash payment to Depomed and $0.8 million in transaction costs.

The rights acquired include Depomed's royalty and milestone payments accruing from and after October 1, 2013: (a) from Santarus (which was subsequently acquired by Salix, which itself was recently acquired by Valeant Pharmaceuticals) with respect to sales of Glumetza (metformin HCL extended-release tablets) in the United States; (b) from Merck with respect to sales of Janumet® XR (sitagliptin and metformin HCL extended-release tablets); (c) from Janssen Pharmaceutica N.V. with respect to potential future development milestones and sales of its investigational fixed-dose combination of Invokana® (canagliflozin) and extended-release metformin tablets; (d) from Boehringer Ingelheim with respect to potential future development milestones and sales of the investigational fixed-dose combinations of drugs and extended-release metformin subject to Depomed's license agreement with Boehringer Ingelheim; and (e) from LG Life Sciences and Valeant Pharmaceuticals for sales of extended-release metformin tablets in Korea and Canada, respectively.

Under the terms of the Depomed Royalty Agreement, the Company receives all royalty and milestone payments due under license agreements between Depomed and its licensees until the Company has received payments equal to two times the cash payment it made to Depomed, after which all net payments received by Depomed will be shared evenly between the Company and Depomed.

The Depomed Royalty Agreement terminates on the third anniversary following the date upon which the later of the following occurs: (a) October 25, 2021, or (b) at such time as no royalty payments remain payable under any license agreement and each of the license agreements has expired by its terms.

As of June 30, 2016, and December 31, 2015, the Company determined that its royalty purchase interest in Depo DR Sub represented a variable interest in a variable interest entity. However, the Company does not have the power to direct the activities of Depo DR Sub that most significantly impact Depo DR Sub's economic performance and is not the primary beneficiary of Depo DR Sub; therefore, Depo DR Sub is not subject to consolidation by the Company.

The financial asset acquired represents a single unit of accounting. The fair value of the financial asset acquired was determined by using a discounted cash flow analysis related to the expected future cash flows to be generated by each licensed product. This financial asset is classified as a Level 3 asset within the fair value hierarchy, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future commercialization for products not yet approved by the FDA or other regulatory agencies. The discounted cash flows are based upon expected royalties from sales of licensed products over a ten-year period. The discount rates utilized range from approximately 15% to 25%. Significant judgment is required in selecting appropriate discount rates. At June 30, 2016, an evaluation was performed to assess those rates and general market conditions potentially affecting the fair market value. Should these discount rates increase or decrease by 2.5%, the fair value of the asset could decrease by $8.4 million or increase by $9.4 million, respectively. A third-party expert was engaged to help management develop its original estimate of the expected future cash flows. The estimated fair value of the asset is subject to variation should those cash flows vary significantly from those estimates. We periodically assess the expected future cash flows and to the extent such payments are greater or less than our initial estimates, or the timing of such payments is materially different than our original estimates, we will adjust the estimated fair value of the asset. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $3.4 million or decrease by $3.4 million, respectively.

When PDL acquired the Depomed royalty rights, Glumetza was marketed by Santarus. In January 2014, Salix acquired Santarus and assumed responsibility for commercializing Glumetza, which was generally perceived to be a positive development because of Salix's larger sales force and track record in the successful commercialization of therapies. In late 2014, Salix made a number of disclosures relating to an excess of supply at the distribution level of Glumetza and other drugs that it commercialized, the practices leading to this excess of supply which were under review by Salix's audit committee in relation to the related accounting practices. Because of these disclosures and PDL's lack of direct access to information as to the levels of inventory of Glumetza in the distribution channels, PDL commenced a review of all public statements by Salix, publicly available historical third-party prescription data, analyst reports and other relevant data sources. PDL also engaged a third-party expert to specifically assess estimated inventory levels of Glumetza in the distribution channel and to ascertain the potential effects those inventory levels may have on expected future cash flows. Salix was acquired by Valeant Pharmaceuticals in early April 2015. In mid-2015, Valeant Pharmaceuticals implemented two price increases on Glumetza. At year-end 2015, a third-party expert was engaged by PDL to assess the impact of the Glumetza price adjustments and near-term market entrance of manufacturer of generic equivalents to Glumetza to the expected future cash flows. Based on the analysis performed, management revised the underlying assumptions used in the discounted cash flow analysis at year-end 2015. In February 2016, a manufacturer of generic equivalents to Glumetza entered the market. At March 31, 2016, management evaluated, with assistance of a third-party expert, the erosion of market share data, the gross-to-net revenue adjustment assumptions and Glumetza demand data. These data and assumptions are based on available but limited information. Our expected future cash flows at year-end 2015 anticipated a reduction in future cash flows of Glumetza as a result of the generic competition in 2016. However, based on the demand and supply data of Glumetza it appeared that the loss of market share progressed more rapidly than forecasted at year-end 2015. At the end of the second quarter in 2016, management re-evaluated, with the assistance of a third-party expert, the cash flow projections concluding that a further deterioration in the net pricing warranted revision of the assumptions used in the discounted cash flow model at June 30, 2016.

As of June 30, 2016, our discounted cash flow analysis reflects our expectations as to the amount and timing of future cash flows up to the valuation date. We continue to monitor whether the generic competition further affects sales of Glumetza and thus royalties on such sales paid to PDL. Due to the uncertainty around Valeant's marketing and pricing strategy, as well as the recent generic competition and limited historical demand data after generic market entrance, we may need to further reduce future cash flows in the event of more rapid reduction in market share of Glumetza or a further erosion in net pricing. PDL exercised its audit right under the Depomed Royalty Agreement with respect to the Glumetza royalties in January 2016 and expects to conclude the audit in the second half of 2016.

In May 31, 2016, PDL obtained a notification indicating that the FDA approved Jentadueto XR for use in patients with type 2 diabetes. In June 2016, PDL received a $6.0 million FDA approval milestone. The product approval was earlier than initially expected, based on the FDA approval and expected product launch, PDL has adjusted the timing of future cash flows and discount rate used in the discounted cash flow model at June 30, 2016.

VB Royalty Agreement

On June 26, 2014, PDL entered into the VB Royalty Agreement, whereby VB conveyed to the Company the right to receive royalties payable on sales of a spinal implant that has received pre-market approval from the FDA, in exchange for a $15.5 million cash payment, less fees.

The royalty rights acquired include royalties accruing from and after April 1, 2014. Under the terms of the VB Royalty Agreement, the Company receives all royalty payments due to VB pursuant to certain technology transfer agreements between VB and Paradigm Spine until the Company has received payments equal to two and three tenths times the cash payment made to VB, after which all rights to receive royalties will be returned to VB. VB may repurchase the royalty right at any time on or before June 26, 2018, for a specified amount. The chief executive officer of Paradigm Spine is one of the owners of VB. The Paradigm Spine Credit Agreement and the VB Royalty Agreement were negotiated separately.

The fair value of the royalty right at June 30, 2016, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a ten-year period. The discount rate utilized was approximately 17.5%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $1.3 million or increase by $1.5 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $0.4 million or decrease by $0.4 million, respectively. A third-party expert was engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. At each reporting period, an evaluation is performed to assess those estimates, discount rates utilized and general market conditions affecting fair market value.

U-M Royalty Agreement

On November 6, 2014, PDL acquired a portion of all royalty payments of the U-M’s worldwide royalty interest in Cerdelga (eliglustat) for $65.6 million. Under the terms of the Michigan Royalty Agreement, PDL will receive 75% of all royalty payments due under U-M’s license agreement with Genzyme until expiration of the licensed patents, excluding any patent term extension. Cerdelga, an oral therapy for adult patients with Gaucher disease type 1, was developed by Genzyme, a Sanofi company. Cerdelga was approved in the United States on August 19, 2014, in the European Union on January 22, 2015, and in Japan in March 2015. In addition, marketing applications for Cerdelga are under review by other regulatory authorities. While marketing applications have been approved in the European Union and Japan, national pricing and reimbursement decisions are delayed in some countries. At June 30, 2016, a third party expert was engaged by PDL to assess the impact of the delayed pricing and reimbursement decisions to Cerdelga's expected future cash flows. Based on the analysis performed, management revised the underlying assumptions used in the discounted cash flow analysis at June 30, 2016.

The fair value of the royalty right at June 30, 2016, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a six-year period. The discount rate utilized was approximately 12.8%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $5.0 million or increase by $5.6 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $1.6 million or decrease by $1.6 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed at each reporting period.

ARIAD Royalty Agreement

On July 28, 2015, PDL entered into the ARIAD Royalty Agreement, whereby the Company acquired the rights to receive royalties payable from ARIAD's net revenues generated by the sale, distribution or other use of Iclusig® (ponatinib), a cancer medicine for the treatment of adult patients with chronic myeloid leukemia, in exchange for up to $200.0 million in cash payments. The purchase price of $100.0 million is payable in two tranches of $50.0 million each, with the first tranche funded on the closing date and the second tranche to be funded on the first anniversary of the closing date. The ARIAD Royalty Agreement provided ARIAD with an option to draw up to an additional $100.0 million in up to two draws at any time between the six and 12 months after the closing date. ARIAD may repurchase the royalty rights at any time for a specified amount. Upon the occurrence of certain events, PDL has the right to require ARIAD to repurchase the royalty rights for a specified amount. Under the ARIAD Royalty Agreement, the Company has the right to a make-whole payment from ARIAD if the Company does not receive payments equal to or greater than the amounts funded on or prior to the fifth anniversary of each of the respective fundings. In such case, ARIAD will pay to the Company the difference between the amounts paid to such date by ARIAD (excluding any delinquent fee payments) and the amounts funded by the Company. PDL has elected the fair value

option to account for the hybrid instrument in its entirety. Any embedded derivative shall not be separated from the host contract.

Under the terms of the ARIAD Royalty Agreement, the Company receives royalty payments at a royalty rate ranging from 2.5% to 7.5% of Iclusig revenue until the first to occur of (i) repurchase of the royalty rights by ARIAD or (ii) December 31, 2033. The annual royalty payments shall not exceed $20.0 million in any fiscal year for the years ended December 31, 2015 through December 31, 2018. If Iclusig revenue does not meet certain agreed-upon projections on an annual basis, PDL is entitled to certain royalty payments from net revenue of another ARIAD product, brigatinib, up to the amount of the shortfall from the projections for the applicable year.

On May 9, 2016, ARIAD entered into a share purchase agreement with Incyte, pursuant to which ARIAD agreed to sell to Incyte all of the outstanding shares of ARIAD Pharmaceuticals (Luxembourg) S.a.r.l., which is the parent company of ARIAD's European subsidiaries responsible for the commercialization of Iclusig in the European Union and certain other countries.

On May 9, 2016, the Company and ARIAD agreed to amend the ARIAD Royalty Agreement to, among other things, include in the Iclusig Net Revenues calculation payable to the Company by ARIAD under the ARIAD Royalty Agreement, net sales of Iclusig made by Incyte once it takes over ARIAD's commercialization operations with respect to Iclusig in the European Union and certain other countries. In addition, the Company and ARIAD agreed to restructure future funding under the ARIAD Royalty Agreement such that ARIAD's option to draw up to an additional $100.0 million between January and July of 2016 was reduced to a maximum amount of up to an additional $40.0 million, which will be funded at ARIAD's option in July of 2017 upon 90 days' written notice to the Company. The amendment to the ARIAD Royalty Agreement did not affect the Company's obligation to fund the second tranche of $50.0 million on the first anniversary of the ARIAD Royalty Agreement, which was funded on July 28, 2016.

The asset acquired pursuant to the ARIAD Royalty Agreement represents a single unit of accounting. The fair value of the royalty right at June 30, 2016, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a six-year period. The discount rate utilized was approximately 10.0%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $7.9 million or increase by $9.0 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $1.3 million or decrease by $1.3 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed in each reporting period.

AcelRx Royalty Agreement

On September 18, 2015, PDL entered into the AcelRx Royalty Agreement with ARPI LLC, a wholly owned subsidiary of AcelRx, whereby the Company acquired the rights to receive a portion of the royalties and certain milestone payments on sales of Zalviso™ (sufentanil sublingual tablet system) in the European Union, Switzerland and Australia by AcelRx's commercial partner, Grünenthal, in exchange for a $65.0 million cash payment. Under the terms of the AcelRx Royalty Agreement, the Company will receive 75% of all royalty payments and 80% of the first four commercial milestone payments due under AcelRx's license agreement with Grünenthal until the earlier to occur of (i) receipt by the Company of payments equal to three times the cash payments made to AcelRx and (ii) the expiration of the licensed patents. Zalviso received marketing approval by the European Commission in September 2015. Grüenthal launched Zalviso in the second quarter of 2016 and PDL expects to begin receiving royalties in the third quarter of 2016.

As of June 30, 2016, and December 31, 2015, the Company determined that its royalty rights under the agreement with ARPI LLC represented a variable interest in a variable interest entity. However, the Company does not have the power to direct the activities of ARPI LLC that most significantly impact ARPI LLC's economic performance and is not the primary beneficiary of ARPI LLC; therefore, ARPI LLC is not subject to consolidation by the Company.

The fair value of the royalty right at June 30, 2016, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a fifteen-year period. The discount rate utilized was approximately 13.4%. Significant judgment is required in selecting the appropriate discount rate. Should this

discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $10.2 million or increase by $12.7 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $1.8 million or decrease by $1.8 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. At each reporting period, an evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed in each reporting period.

Dr. Stephen Hoffman is the President of 10x Capital, Inc., a third-party consultant to the Company, and is also a member of the board of directors of AcelRx. Dr. Hoffman recused himself from the AcelRx board of directors with respect to the entirety of its discussions and considerations of the transaction. Dr. Hoffman is being compensated for his contribution to consummate this transaction by PDL as part of his consulting agreement. PDL concluded Dr. Hoffman is not considered a related party in accordance with FASB ASC 850, *Related Party Disclosures* and SEC Regulation S-X, *Related Party Transactions Which Affect the Financial Statements*.

Avinger Credit and Royalty Agreement

On April 18, 2013, PDL entered into the Avinger Credit and Royalty Agreement, under which we made available to Avinger up to $40.0 million (of which only $20.0 million was funded) to be used by Avinger in connection with the commercialization of its lumivascular catheter devices and the development of Avinger's lumivascular atherectomy device. On September 22, 2015, Avinger elected to prepay the note receivable in whole for a payment of $21.4 million in cash.

Under the terms of the Avinger Credit and Royalty Agreement, the Company was entitled to receive royalties at a rate of 1.8% on Avinger's net revenues until the note receivable was repaid by Avinger. Upon the repayment of the note receivable, which occurred on September 22, 2015, the royalty rate was reduced to 0.9% subject to certain minimum payments from the prepayment date until April 2018. The Company has accounted for the royalty rights in accordance with the fair value option. The fair value of the royalty right at June 30, 2016, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a two-year period. The discount rate utilized was approximately 15.0%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 5%, the fair value of this asset could decrease by $93,000 or increase by $103,000, respectively. Should the expected royalties increase or decrease by 5%, the fair value of the asset could increase by $105,000 or decrease by $105,000, respectively. Management considered the contractual minimum payments when developing its estimate of the expected future cash flows. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed in each reporting period.

Convertible Note

February 2018 Notes

On February 12, 2014, we issued $300.0 million in aggregate principal amount, at par, of the February 2018 Notes in an underwritten public offering, for net proceeds of $290.2 million. The February 2018 Notes are due February 1, 2018, and we pay interest at 4.0% on the February 2018 Notes semiannually in arrears on February 1 and August 1 of each year, beginning August 1, 2014. A portion of the proceeds from the February 2018 Notes, net of amounts used for purchased call option transactions and provided by the warrant transactions described below, were used to redeem $131.7 million of the Series 2012 Notes. Upon the occurrence of a fundamental change, as defined in the indenture, holders have the option to require PDL to repurchase their February 2018 Notes at a purchase price equal to 100% of the principal, plus accrued interest.

On November 20, 2015, PDL's agent initiated the repurchase of $53.6 million in aggregate principal amount of its February 2018 Notes for $43.7 million in cash in four open market transactions. The closing of these transactions occurred on November 30, 2015.

It was determined that the repurchase of the principal amount shall be accounted for as an extinguishment. As a result, a gain on extinguishment of $6.5 million was recorded at closing of the transaction. The $6.5 million gain on extinguishment included the de-recognition of the original issuance discount of $3.1 million, outstanding deferred issuance costs of $0.9 million and agent fees of $0.1 million. Immediately following the repurchase, $246.4 million principal amount of the February 2018 Notes was outstanding with $14.1 million of remaining original issuance discount and $4.1 million of debt issuance costs to be

amortized over the remaining life of the February 2018 Notes. As of June 30, 2016, our February 2018 Notes are not convertible. At June 30, 2016, the if-converted value of our February 2018 Notes did not exceed the principal amount.

In connection with the repurchase of the February 2018 Notes, the Company and the counterparties agreed to unwind a portion of the purchased call options. As a result of this unwinding, PDL received $270,000 in cash. The payments received have been recorded as an increase to APIC. In addition, the Company and the counterparties agreed to unwind a portion of the warrants for $170,000 in cash, payable by PDL. The payments have been recorded as a decrease to APIC. At June 30, 2016, PDL concluded that the remaining purchased call options and warrants continue to meet all criteria for equity classification.

The February 2018 Notes are convertible under any of the following circumstances:

- During any fiscal quarter ending after the quarter ended June 30, 2014, if the last reported sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price for the notes on the last day of such preceding fiscal quarter;
- During the five business-day period immediately after any five consecutive trading-day period, which we refer to as the measurement period, in which the trading price per $1,000 principal amount of notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the notes for each such day;
- Upon the occurrence of specified corporate events as described further in the indenture; or
- At any time on or after August 1, 2017.

The initial conversion rate for the February 2018 Notes is 109.1048 shares of the Company's common stock per $1,000 principal amount of February 2018 Notes, which is equivalent to an initial conversion price of approximately $9.17 per share of common stock, subject to adjustments upon the occurrence of certain specified events as set forth in the indenture. Upon conversion, the Company will be required to pay cash and, if applicable, deliver shares of the Company's common stock as described in the indenture.

In accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we were required to separately account for the liability component of the instrument in a manner that reflects the market interest rate for a similar nonconvertible instrument at the date of issuance. As a result, we separated the principal balance of the February 2018 Notes between the fair value of the debt component and the fair value of the common stock conversion feature. Using an assumed borrowing rate of 7.0%, which represents the estimated market interest rate for a similar nonconvertible instrument available to us on the date of issuance, we recorded a total debt discount of $29.7 million, allocated $19.3 million to additional paid-in capital and allocated $10.4 million to deferred tax liability. The discount is being amortized to interest expense over the term of the February 2018 Notes and increases interest expense during the term of the February 2018 Notes from the 4.0% cash coupon interest rate to an effective interest rate of 6.9%. As of June 30, 2016, the remaining discount amortization period is 1.6 years.

Purchased Call Options and Warrants

In connection with the issuance of the February 2018 Notes, we entered into purchased call option transactions with two hedge counterparties. We paid an aggregate amount of $31.0 million for the purchased call options with terms substantially similar to the embedded conversion options in the February 2018 Notes. The purchased call options cover, subject to anti-dilution and certain other customary adjustments substantially similar to those in the February 2018 Notes, approximately 32.7 million shares of our common stock. We may exercise the purchased call options upon conversion of the February 2018 Notes and require the hedge counterparty to deliver shares to the Company in an amount equal to the shares required to be delivered by the Company to the note holder for the excess conversion value. The purchased call options expire on February 1, 2018, or the last day any of the February 2018 Notes remain outstanding.

In addition, we sold to the hedge counterparties warrants exercisable, on a cashless basis, for the sale of rights to receive shares of common stock that will initially underlie the February 2018 Notes at a strike price of $10.3610 per share, which represents a premium of approximately 30% over the last reported sale price of the Company's common stock of $7.97 on February 6, 2014. The warrant transactions could have a dilutive effect to the extent that the market price of the Company's common stock exceeds the applicable strike price of the warrants on the date of conversion. We received an aggregate amount of $11.4 million for the sale from the two counterparties. The warrant counterparties may exercise the warrants on their specified expiration dates that occur over a period of time. If the VWAP of our common stock, as defined in the warrants, exceeds the strike price of

the warrants, we will deliver to the warrant counterparties shares equal to the spread between the VWAP on the date of exercise or expiration and the strike price. If the VWAP is less than the strike price, neither party is obligated to deliver anything to the other.

The purchased call option transactions and warrant sales effectively serve to reduce the potential dilution associated with conversion of the February 2018 Notes. The strike price is subject to further adjustment in the event that future quarterly dividends exceed $0.15 per share.

The purchased call options and warrants are considered indexed to PDL stock, require net-share settlement, and met all criteria for equity classification at inception and at June 30, 2016. The purchased call options cost of $31.0 million, less deferred taxes of $10.8 million, and the $11.4 million received for the warrants, was recorded as adjustments to additional paid-in capital. Subsequent changes in fair value will not be recognized as long as the purchased call options and warrants continue to meet the criteria for equity classification.

Off-Balance Sheet Arrangements

As of June 30, 2016, we did not have any off-balance sheet arrangements, as defined under SEC Regulation S-K Item 303(a)(4)(ii).

Contractual Obligations

Convertible Note

As of June 30, 2016, our convertible note obligation consisted of our February 2018 Notes, which in the aggregate totaled $246.4 million in principal.

We expect that our debt service obligations over the next several years will consist of interest payments and repayment of our February 2018 Notes. We may further seek to exchange, repurchase or otherwise acquire the convertible notes in the open market in the future, which could adversely affect the amount or timing of any distributions to our stockholders. We would make such exchanges or repurchases only if we deemed it to be in our stockholders' best interest. We may finance such repurchases with cash on hand and/or with public or private equity or debt financings if we deem such financings to be available on favorable terms.

Notes Receivable and Other Long-Term Receivables

On June 26, 2015, PDL entered into a credit agreement with CareView, under which the Company made available to CareView up to $40.0 million in two tranches of $20.0 million each. The first tranche of $20 million was to be funded by the Company upon CareView's attainment of a specified milestone relating to the placement of CareView Systems, to be accomplished no later than October 31, 2015. The Company will fund CareView an additional $20.0 million upon CareView's attainment of specified milestones relating to the placement of CareView Systems and EBITDA, to be accomplished no later than June 30, 2017.

On October 7, 2015, PDL and CareView agreed to an amendment of the credit agreement to modify certain definitions related to the first and second tranche milestones. On this date, the Company funded the first tranche of $20.0 million, net of fees, upon attainment of the modified first tranche milestone relating to the placement of CareView Systems. The additional $20.0 million in the form of a second tranche continues to be available upon CareView's attainment of specified milestones relating to the placement of CareView Systems and Consolidated EBITDA, to be accomplished no later than June 30, 2017 under the terms of the amended credit agreement.

On October 27, 2015, PDL and Paradigm Spine entered into an amendment to the Paradigm Spine Credit Agreement to provide additional term loan commitments of up to $7.0 million payable in two tranches of $4.0 million and $3.0 million, of which the first tranche of $4.0 million was drawn on the closing date of the amendment, net of fees. In June 2016, Paradigm Spine waived the draw-down of the second tranche of $3.0 million.

Royalty Rights - At Fair Value

On July 28, 2015, PDL entered into a revenue interests assignment agreement with ARIAD pursuant to which ARIAD sold to the Company the right to receive specified royalties on ARIAD's Net Revenues (as defined in the ARIAD Royalty Agreement) generated by the sale, distribution or other use of ARIAD's product Iclusig (ponatinib). In exchange for the ARIAD Royalty

Rights, the ARIAD Royalty Agreement provides for the funding of up to $200.0 million in cash to ARIAD. Funding of the first $100.0 million will be made in two tranches of $50.0 million each, with the initial amount funded on the closing date of the ARIAD Royalty Agreement and an additional $50.0 million was funded in July 2016, on the first anniversary of the closing date. In addition, ARIAD has an option to draw up to an additional $40.0 million which will be funded at ARIAD's option in July of 2017.

Noden Purchase Agreement

On July 1, 2016, PDL completed the acquisition of Tekturna through its 98.8% owned subsidiary of Noden, a newly-formed subsidiary organized under the laws of Ireland. Pursuant to the Noden Purchase Agreement, Noden acquired from Novartis the exclusive worldwide rights to manufacture, market, and sell the branded prescription medicine product sold under the name Tekturna® and Tekturna HCT® in the United States and Rasilez® and Rasilez HCT® in the rest of the world and certain related assets and will assume certain related liabilities in exchange for $110.0 million paid in cash on July 1, 2016, the closing date of the acquisition, and the following cash commitments: $89.0 million payable on the first anniversary of the closing date and up to $95.0 million of additional cash consideration contingent on achievement of certain milestones.

On July 1, 2016, in connection with the closing of the Noden Purchase Agreement, PDL entered into the Noden Pharma DAC Investment and Stockholders' Agreement with Noden and certain members of Noden's management (the "Noden Stockholders' Agreement"). Under the Noden Stockholders' Agreement, the Company acquired an approximately 99% equity stake and obtained the majority voting power of Noden, for a total cash consideration of $75.0 million. It is expected that PDL's equity ownership stake shall be reduced to 88% upon the vesting of shares granted to Noden's noncontrolling interest holders.

Pursuant to the Noden Stockholders' Agreement, in addition to the initial $75.0 million cash equity contribution, the Company will make the following additional equity contributions to Noden and an affiliate: $32 million (and up to $89 million if Noden is unable to obtain debt financing) on July 1, 2017 to fund the anniversary payment under the Noden Purchase Agreement at least $38.0 million to fund a portion of certain milestone payments under the Noden Purchase Agreement, subject to their occurrence. In exchange for such equity contributions, the Company was issued and will be issued ordinary shares and preferred shares. For a separate contribution, Elie Farah, chief executive officer of Noden, was also issued preferred and ordinary shares subject to certain vesting restrictions.

Kybella Royalty Agreement

On July 8, 2016, PDL entered into a royalty purchase agreement with an individual, whereby the Company acquired that individual's rights to receive certain royalties on sales of Kybella® by Allergan, in exchange for a $9.5 million cash payment and up to $1.0 million in future milestone payments based upon product sales targets.

Lease Guarantee

In connection with the Spin-Off, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. Should Facet default under its lease obligations, we could be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of June 30, 2016, the total lease payments for the duration of the guarantee, which runs through December 2021, were approximately $62.0 million.

We recorded a liability of $10.7 million on our Condensed Consolidated Balance Sheets as of June 30, 2016, and December 31, 2015, for the estimated liability resulting from this guarantee. We prepared a discounted, probability-weighted cash flow analysis to calculate the estimated fair value of the lease guarantee as of the Spin-Off. We were required to make assumptions regarding the probability of Facet's default on the lease payment, the likelihood of a sublease being executed and the times at which these events could occur. These assumptions are based on information that we received from real estate brokers and the then-current economic conditions, as well as expectations of future economic conditions. The fair value of this lease guarantee was charged to additional paid-in capital upon the Spin-Off and any future adjustments to the carrying value of the obligation will also be recorded in additional paid-in capital. In future periods, we may increase the recorded liability for this obligation if we conclude that a loss, which is larger than the amount recorded, is both probable and estimable.

Indemnification

As permitted under Delaware law and under the terms of our bylaws, the Company has entered into indemnification agreements with its directors and executive officers. Under these agreements, the Company has agreed to indemnify such

individuals for certain events or occurrences, subject to certain limits, against liabilities that arise by reason of their status as directors or officers and to advance expense incurred by such individuals in connection with related legal proceedings. While the maximum amount of potential future indemnification is unlimited, we have a director and officer insurance policy that limits our exposure and may enable us to recover a portion of any future amounts paid.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our investment portfolio was approximately $59.6 million at June 30, 2016, and $96.3 million at December 31, 2015, and consisted of investments in Rule 2a-7 money market funds and a corporate security. If market interest rates were to have increased by 1% in either of these years, there would have been no material impact on the fair value of our portfolio.

The aggregate fair value of our convertible notes was estimated to be $234.1 million at June 30, 2016, and $197.9 million at December 31, 2015, based on available pricing information. At June 30, 2016, and December 31, 2015, our convertible note consisted of our February 2018 Notes, with a fixed interest rate of 4.0%. This obligation is subject to interest rate risk because the fixed interest rate under this obligation may exceed current market interest rates.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2016, our disclosure controls and procedures were effective to ensure the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Controls

There were no changes in our internal controls over financial reporting during the quarter ended June 30, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within an organization have been detected. We continue to improve and refine our internal controls and our compliance with existing controls is an ongoing process.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Reference is hereby made to our disclosures in “Commitment and contingencies” under Note 8 to our Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q and the information under the headings "PDL BioPharma, Inc. v Merck Sharp & Dohme, Corp", "Wellstat Litigation" and “Other Legal Proceedings” is incorporated by reference herein.

ITEM 1A. RISK FACTORS

Except as set forth below, during the six months ended June 30, 2016, there were no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. Please carefully consider the information set forth in this Quarterly Report on Form 10-Q and the risk factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K for the year ended December 31, 2015, as well as other risks and uncertainties, could materially and adversely affect our business, results of operations and financial condition, which in turn could materially and adversely affect the trading price of shares of our common stock. Additional risks not currently known or currently material to us may also harm our business.

Any difficulties from strategic acquisitions could adversely affect our stock price, operating results and results of operations.

We may acquire companies, businesses and products that complement or augment our existing business. We may not be able to integrate any acquired business successfully or operate any acquired business profitably. Integrating any newly acquired business could be expensive and time-consuming. Integration efforts often take a significant amount of time, place a significant strain on managerial, operational and financial resources and could prove to be more difficult or expensive than we predict. The diversion of our management's attention and any delay or difficulties encountered in connection with any future acquisitions we may consummate could result in the disruption of our on-going business or inconsistencies in standards and controls that could negatively affect our ability to maintain third party relationships. Moreover, we may need to raise additional funds through public or private debt or equity financing, or issue additional shares, to acquire any businesses or products, which may result in dilution for stockholders or the incurrence of indebtedness.

Our investment in Noden is our first investment in support of commercial products rather than an investment in financial assets or royalties for income generation. Our returns from the investment in Noden are dependent upon the success of the acquired prescription pharmaceutical product sold under the brand names Tekturna, Tekturna HCT, Rasilez and Rasilez HCT (collectively, the “Noden Products”) and there can be no assurance that the management of Noden will be able to successfully attain and maintain significant market acceptance of products among physicians, patients, third party payors and others in the health care community.

We are dependent upon Noden and its management team in gaining and maintaining acceptance among physicians, third party payors, patients and others in the health care community for the Noden Products. Continued market acceptance of any approved product depends on a number of other factors, including:

- the clinical indications for which the product is approved and the labeling required by regulatory authorities for use with the product, including any warnings that may be required in the labeling;
- acceptance by physicians and patients of the product as a safe and effective treatment;
- the cost, safety, efficacy and convenience of treatment in relation to alternative treatments;
- the restrictions on the use of the Noden Products together with other medications;
- the availability of adequate coverage and reimbursement or pricing by third party payors and government authorities; and
- the effectiveness of sales and marketing efforts.

Noden is undertaking the commercialization of the Noden Products without an existing sales force or other commercial infrastructure and with limited commercial experience. Our revenues from the investment in Noden depends on their success, and their inability to successfully transition the Noden Products to a new commercial team would have an adverse impact on our revenues and the value of our investment in Noden.

Through our investment in Noden, we have a significant investment in the commercialization of products worldwide, and our returns on investment on the Noden Products are subject to a number of risks associated with international operations that could materially and adversely affect our business.

As a result of our investment in Noden, we expect to be subject to a number of risks related to the sale of products worldwide, all of which are under the control of Noden. These risks include:

- international regulatory requirements for drug marketing and pricing in foreign countries;
- varied standards of care in various countries that could complicate the commercial success of products;
- varied drug import and export rules;
- reduced protection for intellectual property rights in certain countries;
- unexpected changes in tariffs, trade barriers and regulatory requirements;
- varied reimbursement systems and different competitive drugs indicated to treat the indications for which Noden Products are being commercialized;
- economic weakness, including inflation, or political instability in particular foreign economies and markets;
- compliance with tax, employment, immigration and labor laws applicable to foreign operations;
- compliance with the U.S. Foreign Corrupt Practices Act (“FCPA”), the UK Bribery Act, and other anti-corruption and anti-bribery laws;
- foreign taxes and duties;
- foreign currency fluctuations and other obligations incident to doing business in another country;
- workforce uncertainty in countries where labor unrest is more common than in the United States;
- reliance on management, contract services organizations and other third parties that may be less experienced with manufacturing and commercialization than the party from whom the Noden Products were acquired;
- potential liability resulting from activities of foreign distributors; and
- business interruptions resulting from geopolitical actions, including war and terrorism, or natural disasters.

In addition, our international operations could be affected by currency fluctuations, capital and exchange controls, expropriation and other restrictive government actions as well as by political unrest, unstable governments and legal systems and inter-governmental disputes. Any of these circumstances could adversely affect our business.

Sales of the Noden Products are expected to generate a significant share of our revenues in the future and are subject to the risks and uncertainties of branded pharmaceutical products.

If the Noden Products become subject to problems such as changes in prescription growth rates, product liability litigation, unexpected side effects, regulatory proceedings, publicity affecting doctor or patient confidence, pressure from existing competitive products, changes in labeling, loss of patent protection (when applicable), or, if a new, more effective treatment should be introduced, the adverse impact on our revenues could be significant.

We rely on Noden and its third party manufacturers to manufacture Noden Products, and these third parties may not perform adequately.

Noden does not have any operating manufacturing facilities at this time, and does not expect to independently manufacture the Noden Products. Noden currently relies on Novartis for a specified period of time to manufacture the Noden Products, and is required thereafter to identify and transition to third parties to scale-up, manufacture and supply the Noden Products. Risks arising from reliance on third party manufacturers include:

- inability to identify and enter into a manufacturing and supply agreement with a third party manufacturer having the appropriate capabilities to cost-effectively and timely manufacture products at the sales levels anticipated by Noden;
- inability of any third party manufacturer to qualify or maintain qualification to manufacture in accordance with applicable regulatory requirements, including cGMP and ICH requirements;
- reduced control and additional burdens of oversight as a result of using third party manufacturers for all aspects of manufacturing activities, including regulatory compliance and quality control and assurance;
- termination or non-renewal of manufacturing and supply agreements with third parties in a manner or at a time that may negatively impact commercialization activities; and

- disruption in the operations of third party manufacturers or suppliers unrelated to the Noden Products, including the bankruptcy of the manufacturer or supplier or a catastrophic event affecting the third manufacturers or suppliers.

Any of these events could adversely affect Noden's ability to successfully commercialize Noden Products. In addition, if any third party manufacturer terminates its engagement with Noden or fails to perform as agreed, Noden may be required to find replacement manufacturers, which would result in significant cost and delay.

In addition, difficulties or delays in product manufacturing and reliance on third party manufacturing could affect our future results reflected in the performance of Noden and the Noden Products by virtue of regulatory actions, shut-downs, approval delays, withdrawals, recalls, penalties, supply disruptions or shortages or force majeure events, reputational harm, product liability, unanticipated costs or otherwise. Examples of such difficulties or delays include, but are not limited to, the inability to increase production capacity commensurate with demand; the possibility that the supply of incoming materials may be delayed or become unavailable or be subject to increased costs and that the quality of incoming materials may be substandard and not detected; the possibility that third party manufacturers may fail to maintain appropriate quality standards throughout the internal and external supply network and/or comply with cGMPs and other applicable regulations such as tracking and tracing of products in the supply chain to enhance patient safety; risks to supply chain continuity as a result of natural or man-made disasters at a supplier or vendor; or failure to maintain the integrity of the supply chains against intentional and criminal acts such as economic adulteration, product diversion, product theft, and counterfeit goods.

Regulatory agencies periodically inspect drug manufacturing facilities to ensure compliance with applicable cGMP requirements. If the Noden Products contract manufacturers cannot successfully manufacture material that conforms to specifications or the regulatory requirements of the FDA or other regulatory authorities, regulatory approval for the Noden Products may be jeopardized. In addition, Noden will have limited or no control over the ability of contract manufacturers to maintain adequate quality control, quality assurance and qualified personnel.

Recently enacted and future legislation is expected to increase the difficulty and costs to maintain revenues from the Noden Products, and in particular may negatively impact the pricing of the Noden Products.

In the United States and some foreign jurisdictions, there have been, and we expect there will continue to be, a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could, among other things, affect Noden's ability to profitably sell the Noden Products.

For example, in the United States in March 2010, the U.S. Patient Protection and Affordable Care Act (the "ACA") was enacted to increase access to health insurance, reduce or constrain the growth of healthcare spending, enhance remedies against fraud and abuse, add new transparency requirements for health care and the health insurance industries, impose new taxes and fees on the health industry and impose additional health policy reforms. The law has continued the downward pressure on pharmaceutical pricing, especially under the Medicare program, and increased the industry's regulatory burdens and operating costs. Among the provisions of the ACA of importance are the following:

- an annual, non-tax deductible fee payable by any entity that manufactures or imports specified branded prescription drugs payable to the federal government based on each company's market share of prior year total sales of branded products to certain federal healthcare programs;
- an increase in the statutory minimum rebates a manufacturer must pay under the Medicaid Drug Rebate Program;
- a new methodology by which rebates owed by manufacturers under the Medicaid Drug Rebate Program are calculated for drugs that are inhaled, infused, instilled, implanted or injected;
- extension of manufacturers' Medicaid rebate liability to individuals enrolled in Medicaid managed care organizations;
- expansion of eligibility criteria for Medicaid programs in certain states;
- a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries under their coverage gap period, as a condition for the manufacturer's outpatient drugs to be covered under Medicare Part D;
- expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program;
- a new requirement to annually report drug samples that manufacturers and distributors provide to physicians; and

- a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research.

The potential financial impact of the ACA over the next few years will depend on a number of factors including policies reflected in implementing regulations and guidance and changes in sales volumes for products affected by the new system of rebates, discounts and fees.

In addition, other legislative changes have been proposed and adopted in the United States since the ACA was enacted. These changes included aggregate reductions to Medicare payments to providers of 2% per fiscal year, which went into effect in April 2013 and, due to subsequent legislative amendments to the statute, will remain in effect through 2025 unless additional action is taken by Congress. In January 2013, the American Taxpayer Relief Act of 2012 was signed into law, which, among other things, further reduced Medicare payments to several types of providers and increased the statute of limitations period in which the government may recover overpayments to providers from three to five years. In addition, recently there has been heightened governmental scrutiny over the manner in which drug manufacturers set prices for their commercial products. The implementation of cost containment measures or other healthcare reforms may limit Noden from being able to generate revenue, attain profitability, or commercializing the Noden Products, which could have a material adverse effect on business and results of operations.

In any event, we expect that additional state and federal healthcare reform measures will be adopted in the future, any of which could limit the amounts that federal and state governments will pay for pharmaceutical product, which could result in reduced demand for the Noden Products or additional pricing pressures on Noden Products.

The growth of managed care organizations (“MCOs”) is expected to increase pricing pressures on Noden Products in the United States.

In the United States in particular, the influence of MCOs has increased in recent years due to the growing number of patients receiving coverage through MCOs. The growth of MCOs has increased pressure on drug prices as well as revenues for pharmaceutical companies. One objective of MCOs is to contain and, where possible, reduce healthcare expenditures. MCOs typically use formularies as a means to negotiate prices with pharmaceutical providers; physician protocols requiring prior authorization for a branded product if a generic product is available or requiring the patient to first fail on one or more generic products before permitting access to a branded medicine; volume purchasing; and long-term contracts. In addition, by placing branded medicines on higher-tier status in their formularies or non-preferred tier status, MCOs transfer a portion of the cost of those medicines to the patient (through and increase in co-payment requirements), resulting in significant out-of-pocket expenses for the patient. This financial disincentive is a means by which MCOs manage drug costs and influence patients to use medicines preferred by the MCOs.

Exclusion of a product from a formulary or other MCO-implemented restrictions can significantly impact drug usage in the MCO patient population. Consequently, pharmaceutical companies compete to gain access to formularies for their products. Unique product features, such as greater efficacy, better patient ease of use, or fewer side effects, are generally beneficial to achieving access to formularies. Larger pharmaceutical companies have the ability to bundle available products and discounts in an effort to place and maintain products on formulary. Noden will be responsible for meeting the requirements of MCO’s in the United States and ensuring the competitive use of the Noden Products in a highly uncertain and changing environment. There can be no assurance that Noden will be able to maintain or increase the use of Noden Products, and their inability to succeed could have a material adverse impact on the value of our investment in Noden.

Generic products may increase pricing pressures on Noden Products.

Although we believe that Noden Products benefit from both issued and pending patents as well as proprietary manufacturing technology, one competitive challenge that the branded Noden Products face is or will be from generic pharmaceutical manufacturers. Upon the expiration or loss of patent protection for a product, especially a small molecule product, the major portion of revenues for that product may be dramatically reduced in a very short period of time. Several such competitors make a regular practice of challenging product patents before their expiration. In particular, manufacturers of generic pharmaceutical products may file or have already filed Abbreviated New Drug Applications (ANDA) with the FDA seeking to market generic forms of the Noden Products prior to the expiration of relevant patents owned by Noden. Patent litigation and other challenges to Noden’s patents would be costly and unpredictable, would require extensive management time and resources, and may ultimately deprive Noden of market exclusivity for the Noden Products in a given geographical territory. The FDA ANDA approval process exempts generics from costly and time-consuming clinical trials to demonstrate their safety and efficacy, allowing generic manufacturers to rely on the safety and efficacy data of the innovator’s product. Generic competitors do not generally need to conduct clinical trials and can market a competing version of a product after the expiration or loss of patent or

regulatory exclusivity and often charge significantly lower prices. In addition, as noted above, MCOs that focus primarily on the immediate cost of medicines often favor generics over branded drugs. Many governments also encourage the use of generics as alternatives to brand-name drugs in their healthcare programs. Additionally, certain foreign governments have indicated that compulsory licenses to patents may be granted in the case of national emergencies or in other circumstances, which could diminish or eliminate sales and profits from those regions and negatively affect Noden's results of operations.

The Noden Products may develop undesirable side effects or have other properties impacting safety or efficacy.

Undesirable side effects caused by the Noden Products or similar products sold or developed by other companies, could reveal a high and unacceptable severity and prevalence of side effects or adverse events, a number of potentially significant negative consequences could result, including:

- regulatory authorities may withdraw approvals of such product;
- regulatory authorities may require additional warnings on the label;
- Noden may be required to create a medication guide outlining the risks of such side effects for distribution to patients;
- Noden and we, as a significant investor, could be sued and held liable for harm caused to patients; and
- our reputation may suffer.

Any of these events could significantly harm our business and the value of our investment in Noden.

Noden and our third party contractors as well as our own employees may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements, which could result in significant liability for us and harm our reputation.

We are exposed to the risk of fraud or other misconduct in connection with international business operations and our reliance on Noden and third party contractors to manage and conduct those activities with respect to the Noden Products. These risks include potential failures to:

- comply with FDA regulations or similar regulations of comparable foreign regulatory authorities;
- provide accurate information to the FDA or comparable foreign regulatory authorities;
- comply with manufacturing standards applicable to the Noden Products;
- comply with federal and state healthcare fraud and abuse laws and regulations and similar laws and regulations established and enforced by comparable foreign regulatory authorities;
- comply with the FCPA, the UK Bribery Act, and other anti-bribery laws;
- report financial information or data and Noden's business affairs accurately;
- or disclose unauthorized activities to us.

Our investment in Noden, an Irish entity, subjects us to both United States and international tax laws with respect to the structure and operations of our business and the business conducted by Noden, which are subject to continued scrutiny and change by governments and may result in additional liabilities that may affect our results of operations.

Noden is incorporated in Ireland and maintains the performance of certain functions and ownership of certain assets in a more tax-efficient jurisdiction than the United States. Taxing authorities, such as the United States Internal Revenue Service ("IRS"), actively audit and otherwise challenge these types of arrangements, and have regularly done so in the pharmaceutical industry. We remain subject to reviews and audits by the IRS and other taxing authorities from time to time, and the IRS or other taxing authority may challenge our structure and intra-company arrangements through an audit or lawsuit. Responding to or defending against those and other challenges from taxing authorities could be expensive and in any event would consume time and other resources, and divert management's time and focus from business operations. We generally cannot predict whether taxing authorities will conduct an audit or file a lawsuit challenging our current structure, the cost involved in responding to any inquiry or audit or lawsuit, or the outcome. If we are unsuccessful, we may be required to consolidate income and pay greater taxes as well as interest, fines or penalties, and may be obligated to pay increased taxes in the future, any of which could have a material adverse effect on our results of operations and could negatively affect our ability to be competitive in the acquisition of future, additional products.

Our acquisition of the Noden Products may make us subject to more extensive healthcare laws, regulation and enforcement and our failure to comply with those laws could have a material adverse effect on our results of operations and financial condition.

The Noden Product, in particular the Noden sales and marketing efforts, will increase the potential risk of civil and criminal enforcement by the federal government and the states and foreign governments in connection with the efforts of Noden. The laws that may affect us in the United States include:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, to induce, or in return for, the purchase or recommendation of an item or service reimbursable under a federal healthcare program, such as the Medicare and Medicaid programs;
- federal civil and criminal false claims laws and civil monetary penalty laws, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third party payors that are false or fraudulent;
- HIPAA, which created new federal criminal statutes that prohibit executing a scheme to defraud any healthcare benefit program and making false statements relating to healthcare matters;
- HIPAA, as amended by HITECH, and its implementing regulations, which imposes certain requirements relating to the privacy, security, and transmission of individually identifiable health information;
- the federal physician sunshine requirements under the PPACA, which requires manufacturers of drugs, devices, biologics, and medical supplies to report annually to the CMS, information related to payments and other transfers of value to physicians, other healthcare providers, and teaching hospitals, and ownership and investment interests held by physicians and other healthcare providers and their immediate family members; and
- foreign and state law equivalents of each of the above federal laws, such as the FCPA, anti-kickback and false claims laws that may apply to items or services reimbursed by any third party payor, including commercial insurers; state laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the applicable compliance guidance promulgated by the federal government, or otherwise restrict payments that may be made to healthcare providers and other potential referral sources; state laws that require drug manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures; and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways, thus complicating compliance efforts.

We do not have experience in establishing the compliance programs necessary to comply with this complex and evolving regulatory environment and our reliance on Noden to operate and address these requirements appropriately increases the risks that we may be found to violate the applicable laws and regulations if they are applied to us. If we are found to be in violation of any of such laws or any other governmental regulations, we may be subject to penalties, including civil and criminal penalties, damages, fines, the curtailment or restructuring of our operations, the exclusion from participation in federal and state healthcare programs and imprisonment, any of which could materially adversely affect interests in the Noden Products, including having a material adverse effect on our financial results.

ITEM 5. OTHER INFORMATION

In connection with the Noden Purchase Agreement, Noden and Novartis entered into a supply agreement pursuant to which Novartis will manufacture and supply to Noden a finished form of the Noden Products and bulk drug form of the Noden Products for specified periods of time prior to the transfer of manufacturing responsibilities for the Noden Products to another manufacturer. Under the supply agreement, Novartis is also obligated to sell the Noden Products on a country by country basis during a specified time period prior to Noden's assumption of responsibility for sales of Noden Product in such country, and to share profits from such sales with Noden on a specified basis. The supply agreement may be terminated by either party for material breach that remains uncured for a specified time period. The supply agreement and Noden Purchase Agreement include other transitional activities to be performed by Novartis, the purpose of which is to effect a smooth transfer of the marketing authorizations necessary to complete the ownership transfer to Noden.

ITEM 6. EXHIBITS

The exhibits listed in the exhibit index following the signature page are filed or furnished as part of this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 4, 2016

PDL BIOPHARMA, INC. (REGISTRANT)

/s/ John P. McLaughlin

John P. McLaughlin

President and Chief Executive Officer (Principal Executive Officer)

/s/ Peter S. Garcia

Peter S. Garcia

Vice President and Chief Financial Officer (Principal Financial Officer)

/s/ Steffen Pietzke

Steffen Pietzke

Controller and Chief Accounting Officer (Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Exhibit Title
10.1	Asset Purchase Agreement between Novartis AG, Novartis Pharma AG, Speedel Holding AG and Noden Pharma DAC, dated as of May 24, 2016 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K/A filed August 3, 2016)†
10.2#	Schedule of Amendment to Omitted Credit Agreement between PDL BioPharma, Inc. and Direct Flow Medical, Inc.
10.3#	Amendment No. 1 to RIAA between ARIAD Pharmaceuticals, Inc. and PDL BioPharma, Inc., dated as of May 9, 2016†
10.4#	Supply Agreement between Novartis Pharma AG and Noden Pharma DAC, dated as of May 24, 2016†
10.5#	Noden Pharma DAC Investment and Stockholders' Agreement by and among Noden Pharma DAC, PDL BioPharma, Inc., Elie Farah and other Persons listed on Annex A thereto, dated as of July 1, 2016†
12.1#	Ratio of Earnings to Fixed Charges
31.1#	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2#	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1**#	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

Filed herewith.

† Certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request under 17 C.F.R. Sections 200.80(b)(4) and 24b-2

** This certification accompanies the Quarterly Report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.

Exhibit 10.2

Schedule of Amendment to Omitted Credit Agreement

In accordance with Instruction 2 to Item 601(a) of Regulation S-K, the Credit Agreement between PDL BioPharma, Inc. (the Company) and Direct Flow Medical, Inc. (Direct Flow), dated November 5, 2013, was not filed because it is substantially similar to the form of credit agreement that was filed as Exhibit 10.56 to the Company's Annual Report on Form 10-K filed on March 3, 2014. The Company has previously summarized as part of the same exhibit the material details in which the omitted credit agreement differed from the form of credit agreement. On February 26, 2016 and July 15, 2016, the Company and Direct Flow amended the Credit Agreement (the Amendments). The following schedule sets forth the material details in which the omitted Amendments further modify the form of credit agreement that was filed as Exhibit 10.56 to the Company's Annual Report on Form 10-K filed on March 3, 2014.

Execution Date	Borrower(s)	Maturity Date	Amount Previously Funded	Additional Available Credit	Additional Funding Conditions	Outstanding Borrowings Interest Rate Per Annum	Interest Only Period	Principal Repayment Schedule	Change in Control Fee	Board Observer Rights
November 5, 2013 and Amended on November 11, 2014, February 26, 2016 and July 15, 2016	Direct Flow Medical, Inc.	No change.	Prior to the Amendments, $50 million. Under the Amendments, an additional $6.5 million in loans were funded and such loans are convertible into Direct Flow equity in the event of a qualified equity financing based on the per share price of the applicable equity.	None	None.	No change.	No change.	No change.	No change.	No change.

Exhibit 10.3

Pursuant to 17 CFR 240.24b-2, confidential information has been omitted in places marked "* * *" and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

AMENDMENT NO. 1 TO RIAA

This AMENDMENT NO. 1 TO RIAA (this "Amendment") is made and entered into as of May 9, 2016 by and between ARIAD Pharmaceuticals, Inc., a Delaware corporation ("ARIAD" or the "Company"), and PDL BioPharma, Inc., a Delaware corporation ("Purchaser"), each party to that certain Revenue Interest Assignment Agreement, dated as of July 28, 2015 (as amended, restated, amended and restated, modified and/or supplemented from time to time, the "RIAA"). Capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the RIAA.

WHEREAS, the Company and Purchaser are contemporaneously entering into that certain Waiver and Consent to Revenue Interest Assignment Agreement and Security Agreement of even date (the "Waiver and Consent"), pursuant to which Purchaser is waiving certain rights it may have under the RIAA in connection with a proposed sale by the Company of an indirect wholly-owned subsidiary of the Company.

NOW, THEREFORE, in consideration of the mutual covenants, agreements and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. The following definitions in Section 1.1 of the RIAA are hereby deleted in their entirety and the following shall be inserted in lieu thereof:

"European Subsidiaries" shall mean ARIAD Pharma S.A. (Greece).

"Gross Product Revenues" means, for any period of determination during the Revenue Interest Period, the amount equal to the sum of the following for such period: (a) the amounts invoiced and recognized as revenue in accordance with GAAP by the Company, its Affiliates or a US/EU End Licensee with respect to the sale by the Company, its Affiliates or such US/EU End Licensee, respectively, of Product to a Third Party (including distributors) other than a US/EU End Licensee, (b) to the extent not covered by (a) above, any amounts invoiced and recognized as revenue in accordance with GAAP by the Company or its Affiliates from a Third Party (other than a US/EU End Licensee or a licensee or sublicensee through which such US/EU End Licensee derives its license rights) solely with respect to the manufacture, use, sale, distribution or other commercialization of the Product by such Third Party (including any royalties received by the Company, but excluding (i) * * *, (ii) * * *, or (iii) * * *, and (c) any collections in respect of write-offs or allowances for bad debts in respect of items described in the preceding clauses (a) and (b); provided, however, that with respect to the use of this definition in the definition of "Quarterly Report" and Section 5.02(f) only, "Gross Product Revenue" shall include revenue with respect to the sale of both the Product and, when and as relevant, the Back-up Product.

"License Agreement" shall mean any existing or future license, commercialization, co-promotion, collaboration, distribution, marketing or partnering agreement entered into before or during the Revenue Interest Period by the Company or any of its Affiliates that grants a license to a Third Party under the Intellectual Property covering the Product, including, without limitation, the A&R License Agreement.

"Purchase Price" shall mean the Closing Purchase Price, the Additional Purchase Price and the Second Tranche Purchase Price (if any).

"Quarterly Report" shall mean collectively the Company Quarterly Report and the Third Party Quarterly Report.

2. The following new definitions are hereby added to Section 1.1:

"A&R License Agreement" shall mean that certain License Agreement, to be dated on or around May 31, 2016 by and between the Company, ARIAD Pharmaceuticals (Europe) Sarl and the guarantors thereto.

"Company Quarterly Report" shall mean, with respect to the relevant Fiscal Quarter of the Company, (a) a report showing Gross Product Revenues for both the Product (broken out as between the Company and Incyte) and the Back-Up Product for such quarter and the adjustments and other reconciliations used to arrive at Net Revenues for such quarter, reconciled, in each case for Gross Product Revenues earned by the Company and its Affiliates, to the most applicable line item in the Company's consolidated statements of operations as most recently filed or to be filed with the Securities and Exchange Commission or furnished to Purchaser pursuant to Section 5.02(f), and (b) a reconciliation of all payments made by the Company to Purchaser pursuant to this Agreement during such quarter, including all amounts deposited into the Purchaser Concentration Account during such quarter.

"Incyte" shall mean Incyte Europe S.a.r.l., an entity formed under the laws of Switzerland, and its subsidiaries and Affiliates.

"Third Party Quarterly Report" shall mean, with respect to the relevant Fiscal Quarter of the Company, (a) a report, accompanied by supporting documentation and reports received from any Third Party (including Incyte) or its Affiliates that is party to a licensing or other arrangement with the Company or its Affiliate relating to the Product or the Back-Up Product, showing Gross Product Revenues for the Product and Back-Up Product for such quarter earned by such Third Party (including Incyte) or its Affiliate and the adjustments and other reconciliations used to arrive at Net Revenues for such quarter earned by such Third Party (including Incyte) or its Affiliate , reconciled, in each case, to the supporting documentation and reports furnished by such Third Party (including Incyte) or its Affiliate for such Fiscal Quarter, and (b) a report showing the amounts paid by category by such Third Party (including Incyte) or its Affiliate to the Company or its Affiliates pursuant to the licensing or other arrangement (including the A&R License Agreement), including detail with respect to any offsets taken.

"US/EU End Licensee" shall mean a Third Party licensee (other than a distributor) who directly sells the Product in the United States or the countries and territories comprising the European Union (either by itself or through a distributor, but not through a sublicensee) pursuant to a License Agreement to which the Company or one of its Affiliates is a party. "US/EU End Licensee" shall also include Third Parties (other than a distributor) who are granted sublicenses pursuant to any License Agreement

under which such Third Party directly sells Product within the United States or the countries and territories comprising the European Union.

3. The last sentence of the definition of "Net Revenues" in the RIAA is hereby deleted in its entirety and the following shall be inserted in lieu thereof:

"In calculating Net Revenues, any transfer from the Company to an Affiliate or from the Company or its Affiliate to a US/EU End Licensee (or to any licensee or sublicensee through which such US/EU End Licensee derives its license rights) shall be disregarded and the calculation shall instead be based on the first transfer to a Third Party other than a US/EU End Licensee (or any such intervening licensee or sublicensee)."

4. Clause (iv)(Z) of the proviso to the first sentence of the definition of "Allowable Additional Product Financing" in the RIAA is hereby deleted in its entirety and the following shall be inserted in lieu thereof:

"(Z) the * * * anniversary of the payment of the Second Tranche Purchase Price (if any) by Purchaser to the Company (and the terms of such Indebtedness shall not provide for any scheduled repayment, mandatory redemption, put or sinking fund obligations prior to the Outside Date (other than customary offers to, or put right to require, repurchase upon a change of control, asset sale or casualty event and customary acceleration rights after an event of default)),"

5. Sections 2.03 (e) of the RIAA is hereby deleted in its entirety and the following shall be inserted in lieu thereof:

"(e) Payment of Second Tranche Purchase Price. At any time during the month of July 2017, at the election of the Company, Purchaser shall pay to the Company up to $40,000,000 (the "Second Tranche Purchase Price") on the date and in the amount specified by the Company falling within such month, provided that such date is a Business Day (the "Second Tranche Closing Date") by wire transfer of immediately available funds to the account designated by the Company prior to the date thereof; provided further, the Company shall provide a written request to Purchaser for any such payment of the Second Tranche Purchase Price at least 90 days prior to any Second Tranche Closing Date. Any such payment of the Second Tranche Purchase Price shall have no contingencies other than compliance with the terms of this Section 2.03(e) and this Agreement. The failure by Purchaser to pay the Second Tranche Purchase Price when due in accordance with this Section 2.03(e) shall constitute a material breach of this Agreement and shall give rise to the immediate right of the Company to terminate this Agreement in accordance with Section 6.01."

6. Sections 2.04 of the RIAA is hereby deleted in its entirety and the following shall be inserted in lieu thereof:

"Section 2.04 **Make Whole Payments**.

Notwithstanding any provision in this Agreement or any other writing to the contrary, in the event the Purchaser has not received (i) payments pursuant to this Agreement (excluding any payments attributable to Delinquent Assigned Interest Payments) equal to or greater than the

Closing Purchase Price by the fifth anniversary of the Closing Date, (ii) payments pursuant to this Agreement (excluding any payments attributable to Delinquent Assigned Interest Payments) equal to or greater than the Closing Purchase Price plus the Additional Purchase Price by the fifth anniversary of the Additional Purchase Price Closing Date, or (iii) if the Second Tranche Closing Date occurred on or before July 31, 2017, payments pursuant to this Agreement (excluding any payments attributable to Delinquent Assigned Interest Payments) equal to or greater than the Closing Purchase Price plus the Additional Purchase Price plus the Second Tranche Purchase Price by the fifth anniversary of the Second Tranche Closing Date, the Company shall pay, (A) in the case of item (i), the difference between (X) the Closing Purchase Price, less (Y) the aggregate amount of all proceeds Purchaser has received pursuant to this Agreement (excluding any amounts attributable to Delinquent Assigned Interest Payments) on or prior to the last day of the fifth anniversary of the Closing Date in payments from the Company under Section 2.02(a) and Section 5.08 in respect of such five year period for which Net Revenues is calculated, (B) in the case of item (ii), the difference between (X) the Closing Purchase Price plus the Additional Purchase Price, less (Y) the aggregate amount of all proceeds Purchaser has received pursuant to this Agreement (excluding any amounts attributable to Delinquent Assigned Interest Payments) on or prior to the last day of the fifth anniversary of the Additional Purchase Price Closing Date in payments from the Company under Section 2.02(a), Section 2.04(A) and Section 5.08, (C) in the case of item (iii), the difference between (X) the Closing Purchase Price plus the Additional Purchase Price plus the Second Tranche Purchase Price, less (Y) the aggregate amount of all proceeds Purchaser has received pursuant to this Agreement (excluding any amounts attributable to Delinquent Assigned Interest Payments) on or prior to the last day of the fifth anniversary of the Second Tranche Closing Date in payments from the Company under Section 2.02(a), Section 2.04(A), Section 2.04(B) and Section 5.08, in each case within twenty (20) Business Days of the receipt by Purchaser of the True-Up Statement for the Fiscal Year in which such five year anniversary falls."

7. Immediately following Section 5.02(g) of the RIAA, the following new section shall be added as a new Section 5.02(h):

"(h) Audit and Inspection Rights of US/EU End Licensee. If, during any thirty-three calendar month period, the Company has not exercised its audit or inspection rights pursuant to a License Agreement or other arrangement with a US/EU End Licensee (including pursuant to Section 19.8 of the A&R License Agreement (or any comparable right in respect of the A&R License Agreement)), the Company shall, upon the written request of Purchaser and in any event in accordance with the terms of the applicable License Agreement, cause an inspection or audit of the US/EU End Licensee's (including Incyte's) books and records to be conducted pursuant to, and in accordance with, the terms of the License Agreement. Whether or not an audit or inspection of the US/EU End Licensee's books and records is initiated by Purchaser pursuant to this Section 5.02(h) or the Company (or any designee of the Company) pursuant to the applicable License Agreement, the Company shall regularly consult with Purchaser in connection with any such audit or inspection and shall promptly furnish to Purchaser a summary of the results and findings of such audit or inspection, including providing to Purchaser copies of any inspection or audit report prepared in connection with such audit or inspection."

8. Clause (Y) of Section 5.08(f)(v) of the RIAA is hereby deleted in its entirety and the following shall be inserted in lieu thereof:

"(Y) * * *% of all worldwide net sales of the Back-up Product for such Fiscal Year generated by the Company or any of its Affiliates as well as any Third Party, pursuant to any license, commercialization, co-promotion, collaboration, distribution, marketing or partnering agreement (the greater of (X) and (Y) being referred to herein as the "Back-up Product True-Up Cap")"

9. Clause (b) of the first sentence of Section 7.08 of the RIAA is hereby deleted in its entirety and the following shall be inserted in lieu thereof:

"(b) that the rights in respect of the Closing Purchase Price, the Additional Purchase Price, and the Second Tranche Purchase Price (if any) represent separate debt instruments for U.S. federal income tax purposes;"

10. Conditions to Effectiveness. This Amendment shall become effective upon the closing of the Transaction in accordance with the terms of the Stock Purchase Agreement (as defined in the Waiver and Consent).

11. Effect of this Amendment. On and after the date hereof, each reference to the RIAA in the RIAA or in any other document shall mean the RIAA, as amended or otherwise modified by this Amendment. Except as expressly provided hereunder, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power, or remedy of the Purchaser, nor constitute a waiver of any other provision of the RIAA. Except as amended or otherwise modified hereto, the RIAA remains in full force and effect.

12. Governing Law. This Agreement shall be governed by, and construed, interpreted and enforced in accordance with, the laws of the state of New York, without giving effect to the principles of conflicts of law thereof.

13. Waiver of Jury Trial. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any action, proceeding, claim or counterclaim arising out of or relating to this Agreement or the transactions contemplated under this Agreement.

14. Counterparts; Facsimile Signatures. This Amendment may be executed or consented to in counterparts, each of which shall be deemed an original and all of which taken together shall constitute one and the same instrument. This Amendment may be executed and delivered by facsimile or electronically and, upon such delivery, the facsimile or electronically transmitted signature will be deemed to have the same effect as if the original signature had been delivered to the other party.

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IN WITNESS WHEREOF, the parties have caused this Amendment to be signed by their duly authorized officers as of the date first written above.

COMPANY: ARIAD PHARMACEUTICALS, INC.

By: /s/ M. Soni
Name: Manmeet S. Soni
Title: Chief Financial Officer and Treasurer

PURCHASER: PDL BIOPHARMA, INC.

By: /s/ John P. McLaughlin
Name: John P. McLaughlin
Title: CEO

Exhibit 10.4

[***] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

SUPPLY AGREEMENT

(Tekturna®, Rasilez®)

between

NOVARTIS PHARMA AG

AND

NODEN PHARMA DAC

[***] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Table of Contents

List of Annexes

[***] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

SUPPLY AGREEMENT

This SUPPLY AGREEMENT ("**Supply Agreement**") is made as of this 24th day of May, 2016 by and between Novartis Pharma AG, a company organized under the laws of Switzerland and located at Lichtstrasse 35, 4056 Basel, Switzerland ("**Novartis**") and Noden Pharma DAC, a company organized under the laws of Ireland and located at 56 Fitzwilliam Square, Dublin, 2, Ireland ("**Purchaser**"). Novartis and Purchaser are each referred to individually as a "**Party**" and together as the "**Parties**."

RECITALS

WHEREAS, simultaneously with this Supply Agreement, Novartis and Purchaser have entered into an Asset Purchase Agreement ("**Asset Purchase Agreement**" or "**APA**"), pursuant to which the Purchaser is acquiring the Transferred Assets in the Territory;

WHEREAS, the Asset Purchase Agreement provides that Novartis will manufacture and supply to Purchaser or Purchaser's Affiliates the Product for a limited period to allow Purchaser to transfer the manufacture of the Product to Purchaser (or to Third Parties appointed by Purchaser) and to obtain the necessary regulatory approvals;

WHEREAS, the Asset Purchase Agreement provides that Novartis will manufacture and supply to Purchaser or Purchaser's Affiliates the API for a limited period; and

WHEREAS, the Asset Purchase Agreement provides further that Novartis will provide certain additional Transition Services to Purchaser or Purchaser's Affiliates.

NOW, THEREFORE, the Parties hereby agree as follows:

1. Definitions and interpretation

1.1 **Definitions.** The capitalized terms used in this Supply Agreement shall have the meanings as defined below or, if not defined below, as defined in the Asset Purchase Agreement.

"**Accounting Standards**" means the IFRS (International Financial Reporting Standards) as generally and consistently applied throughout Novartis' organization.

"**API**" means the active pharmaceutical ingredient aliskeren.

"**API Inventory**" shall have the meaning set forth in Clause ☒7.3(a) of this Supply Agreement.

"**API Maximum Quantity**" shall have the meaning set forth in Clause ☒2.5(b) of this Supply Agreement.

"**API Minimum Quantity**" shall have the meaning set forth in Clause ☒2.5(a) of this Supply Agreement.

"**Asset Purchase Agreement**" or "**APA**" shall have the meaning set forth in the Recitals.

"**Drug Product**" shall mean the Product in bulk tablet form.

"**Finished Product**" means the Product in tablet form, packaged and with Labelling, in each case, according to the Product Specifications including, if not agreed otherwise in the Tech Transfer Plan,

the [***] as of the date of the Parties' agreement, which shall take into account the launch of such [***].

"**cGMP**" means the current good manufacturing practices applicable to manufacture, processing and packaging of pharmaceutical products for human use established by regulatory authorities, and applied at the site of manufacture, as amended from time to time and in effect during the term of this Supply Agreement.

"Inventory" shall mean Local Inventory, the API Inventory and Remaining Inventory.

"[***]" shall mean the [***] identified in **Annex F**.

"Labelling" means all printed labels, labelling and package inserts for the Finished Products.

"Lead Time" shall mean the time period to be allowed between the receipt of a firm order by Novartis for the API or Products and its delivery date, which shall be, subject to Clause 12.3, for Products [***] and for API [***].

"Local Inventory" shall have the meaning set forth in Clause 7.1(a) of this Supply Agreement. For the sake of clarity, Local Inventory shall only relate to Finished Product that is owned and sold by an Affiliate of Novartis at the end of Phase 1 Period as specified in Clause 7.1(a) of this Supply Agreement.

"**Measure**" shall have the meaning set forth in Clause 10.6(a) of this Supply Agreement.

"**Net Sales**" means the net sales recorded by Novartis or any of its Affiliates or sublicensee for Finished Product sold to Third Parties other than sublicensees, as determined in accordance with Novartis' Accounting Standards as consistently applied.

With respect to the calculation of Net Sales:

(i) Net Sales only includes the value charged or invoiced on the first arm's length sale to a Third Party; and sales between Novartis and its Affiliates and sublicensees shall be disregarded for purposes of calculating Net Sales; and

(ii) If a Finished Product is delivered to the Third Party before being invoiced (or is not invoiced), Net Sales will be calculated at the time all the revenue recognition criteria under Novartis' Accounting Standards are met.

"**Novartis' Affiliate's COGs**" means a Novartis Affiliate's cost of goods for the Finished Product, [***], which includes [***], together with [***].

"[***]" shall mean the [***] as required by the [***].

"**Phase 1 Period**" means the period, on a country-by-country basis, from [***] until the earlier of:

(a) the [***]; and

(b) ninety (90) days from Closing Date for the United States of America and two (2) years from the Closing Date for the Territory other than the United States of America.

"**Phase 1 Price**" means the per-unit price for the Finished Product during the Phase 1 Period, as set forth in the SP Letter.

"**Phase 2 Period**" means the period, on a country-by-country basis, from the date of [***] until the earlier of:

(a) the [***] of the Product by Purchaser and/or its Affiliates or designees; and

(b) [***] years from the [***]the Product to Purchaser and/or its Affiliates.

"**Price Calculation Formula**" shall have the meaning set forth in the definition of SP Letter.

"**Product**" shall mean the Finished Product and the Drug Product.

"**Product Specifications**" shall have the meaning set forth in **Annex E** as may be amended from time to time by mutual agreement of the Parties, and shall include any other matters agreed in writing between the Parties relating to the Product and the API.

"**Profit**" shall have the meaning set forth in Clause ☒5.1 of this Supply Agreement.

"**Quality Agreement**" means the standard quality agreement attached hereto as **Annex A** for the API and the Product, which the Parties shall enter into pursuant to Clause 10 below.

"Remaining Inventory" shall have the meaning set forth in Clause 7.2(a) of this Supply Agreement. For the sake of clarity, Remaining Inventory shall only relate to Product, packaging material, raw materials and intermediates to the extent that it is allocated to such Finished Product and existing at the end of the Phase 2 Period.

"SKU" shall have the meaning set forth in Clause 2.4(a) of this Supply Agreement.

"**SP Letter**" means the separate letter exchanged between the Parties hereto (substantially in the form attached hereto as **Annex B**) that sets out (i) the Phase 1 Price and the Supply Price for the [***] for a period of [***] years as of the Closing Date, (ii) the Supply Price of the [***] and (iii) the [***] (each a "**Price Calculation Formula**").

"Supply Agreement" shall have the meaning set forth in the Preamble of this Supply Agreement.

"**Supply Price**" means the price as set forth in the SP Letter at which (i) Novartis will supply Purchaser with the Product and/or API and (ii) Novartis will manufacture the [***] pursuant to this Supply Agreement.

"**Supply Period**" means the period under which Novartis continues to supply and Purchaser continues to purchase (i) with respect to the Product, the Product until the end of the Phase 2 Period and (ii) with respect to the API, the API until [***] as specified in **Annex F** or, if earlier than [***] and not agreed otherwise by the Parties , with the [***].

"**Supply Period Rolling Forecast**" means a forecast of the required quantities of API or Product (as the case may be) provided by the Purchaser on a monthly basis for the time period starting on the first day of the month following the month in which such forecast has been provided and ending at the end of the Supply Period as set forth in the applicable Supply Period Rolling Forecast.

"**Tech Transfer Materials**" means all documents, data, information or other materials that (i) are [***] to Novartis and its Affiliates as of [***]; accordingly [***] any such materials in order to [***], (ii) Novartis has, [***] to Purchaser (or Purchaser's designee), (iii) are [***] or are otherwise necessary for Purchaser or its designee to [***] and (iv) are [***]; provided that the Tech Transfer Materials shall specifically include all [***]

"**Tech Transfer Plan**" shall have the meaning set forth in Clause 3.1 of this Supply Agreement.

"**Third Party Manufacturer**" shall mean a Third Party of the [***] (as specified in this Supply Agreement), [***] (such consent not to be unreasonably withheld, delayed or conditioned), to which Purchaser [***] to transfer the manufacturing and analytical method in accordance with the Tech Transfer Plan and this Supply Agreement.

"Trading Service Procedure" shall have the meaning set forth in Clause 12.1 of this Supply Agreement.

"**VAT**" means any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112) and any other tax of a similar nature.

1.2 **Interpretation.** In this Supply Agreement, unless otherwise specified:

(a) "includes" and "including" shall mean respectively includes and including without limitation;

(b) a Party includes its permitted assignees and/or the respective successors in title to substantially the whole of its undertaking;

(c) words denoting the singular shall include the plural and vice versa and words denoting any gender shall include all genders;

(d) the Exhibits, Annexes and other attachments form part of the operative provision of this Supply Agreement and references to this Supply Agreement shall, unless the context otherwise requires, include references to the Exhibits, Annexes and attachments;

(e) the headings in this Supply Agreement are for information only and shall not be considered in the interpretation of this Supply Agreement;

(f) general words shall not be given a restrictive interpretation by reason of their being preceded or followed by words indicating a particular class of acts, matters or things;

(g) any reference to "writing" or "written" includes faxes and any legible reproduction of words delivered in permanent and tangible form (but does not include email); and

(h) the Parties agree that the terms and conditions of this Supply Agreement are the result of negotiations between the Parties and that this Supply Agreement shall not be construed in favour of or against any Party by reason of the extent to which any Party participated in its preparation.

2. Purchase and Sale; Quantity; Price; Payment Terms

2.1 **Supply of Finished Product.** Until the end of the Phase 2 Period and subject to Section 2.2, Purchaser shall purchase, and Novartis shall supply, subject to the forecasting and ordering procedures in this Supply Agreement, the requirements of Purchaser and its Affiliates for the Product for sale in the Territory. During such Phase 2 Period, Novartis shall manufacture and supply the Product for sale in the Territory exclusively to Purchaser. Novartis' obligation to supply the Product shall be limited to supplying the Product manufactured in the same form as it was manufactured by Novartis or on behalf of Novartis for the Territory as of the Closing Date (or during the Phase 1 Period if modified) with the exception of the [***], which for the sake of clarity shall be manufactured by Novartis and supplied to the Purchaser as from the Parties' agreement as specified in the definition of Finished Product.

2.2 **Supply of Drug Product and [***] Tolling Agreement**.

a) **Supply of Drug Product**. As of the end of Phase 1 and subject to the sale of Local Inventory pursuant to Clause 7.1, Purchaser shall not purchase, and Novartis shall not supply any Finished Product [***]. For these two countries, Purchaser shall only purchase, and Novartis shall only supply, subject to the forecasting and ordering procedures in this Supply Agreement, the requirements of Purchaser and its Affiliates for the Drug Product.

b) [***] **Tolling Agreement**. Purchaser shall supply the Drug Product purchased and supplied pursuant to Clause 2.2(a) for [***] to Novartis' Affiliate in [***] to manufacture the Finished Product in accordance with the terms and conditions of the tolling agreement to be agreed upon by Novartis' Affiliate domiciled in the Territory and the Purchaser or any other party as designated by the Purchaser.

2.3 **Supply of API and Purchase [***].**

a) During the Supply Period and subject to the (i) forecasting and ordering procedures in this Supply Agreement, (ii) the API Minimum Quantity and the API Maximum Quantity and (iii) the provisions of **Annex F** specifying the quantities of the API and the ordering and delivery timelines, Purchaser shall purchase, and Novartis shall supply, all requirements of Purchaser and its Affiliates for the API for sale in the Territory. Novartis' obligation to supply the API shall be limited to supplying the API [***].

b) **Purchase of [***]**. Subject to the remainder of this Clause 2.3(b), Purchaser shall have the right (but no obligation) to purchase [***] as specified in **Annex F**. The Purchaser shall have the right to have the quantities of the [***] set out in **Annex F**.

2.4 **Supply Price; Warehousing and Destruction Costs of [***].**

a) **Supply Price of the Product and the API**. Except for the purchase of Local Inventory as described in Clause ☒7.1, Purchaser shall purchase the Product and/or API from Novartis at the Supply Price set forth in the SP Letter in effect on the date the relevant invoice is issued by Novartis, provided that the Supply Price for the Product and API set forth in the SP Letter shall not change during the [***] of the Supply Period. Thereafter, until the end of the Supply Period, Purchaser shall purchase the

API at the Supply Price as calculated in accordance with the applicable Price Calculation Formula. If a new stock keeping unit ("**SKU**") is added that is not included in the SP Letter in effect on the date such SKU is added, then a new Supply Price will be calculated, in a manner consistent with the applicable Price Calculation Formula, and shall become effective upon the first sale of such SKU.

b) **Supply Price and Payment of the [***] and API derived therefrom.** Purchaser shall purchase any [***] at the Supply Price set forth in the SP Letter in effect on the date the relevant invoice is issued by Novartis. In the event Purchaser requests the [***] purchased in accordance with Clause 2.3(b), Purchaser shall pay a [***], which shall be calculated by deducting (x) [***] from (y) [***]. Novartis shall have the right to invoice such amount as of its confirmation of the [***] of Purchaser. The terms of this Clause 2.4(b) shall only apply to the purchase of [***] pursuant to Clause 2.3(b) and shall not apply to [***] in the regular course of [***] where a [***] is not required. For the avoidance of doubt and subject to Clause 2.3(b) and Clause 7.3, Novartis shall have no obligation to supply any [***] to the Purchaser.

c) **Warehousing and Destruction Costs of Intermediate.** The Purchaser shall reimburse Novartis for Novartis' and/or its Affiliates' documented direct cost incurred in connection with (i) the storage of the [***] and (ii) the diligent disposal of those quantities of [***] that [***]. The terms of this Clause 2.4(c) shall only apply to such costs incurred in connection with the purchase of [***] pursuant to Clause 2.3(b) and shall not apply to [***] in the regular course of [***] where a [***] is not required.

2.5 **Minimum and Maximum Quantities of the API.**

(a) During each calendar year specified in **Annex F**, Purchaser shall purchase at least [***] for such specific calendar year (the "**API Minimum Quantity**"). The quantity of the API consumed by Novartis for the manufacture of Products during each such calendar year of the Phase 2 Period shall be for the purpose of this Clause 2.5(a) qualified as purchased by the Purchaser.

(b) During each calendar year specified in **Annex F**, Purchaser shall have no right to purchase any quantities of the API exceeding [***] (the "**API Maximum Quantity**"). The quantity of the API consumed by Novartis for the manufacture of Products during each such calendar year of the Phase 2 Period shall be for the purpose of this Clause 2.5(b) qualified as purchased by the Purchaser.

2.6 **Payments.** Payments under this Supply Agreement shall be made by Purchaser to Novartis within [***] after the date of the corresponding invoice, by electronic funds transmission in United States Dollars (USD), without any deduction of transmission fees, bank charges or early payment discounts or rebates (unless otherwise agreed in writing). Purchaser shall make all payments into an account specified by Novartis in writing, and Purchaser shall send a payment confirmation to Novartis by fax or e-mail.

2.7 **Transport Costs.** Purchaser shall bear all freight, insurance, taxes, import duties or any other importation fees and/or costs, inspection fees and any other charges applicable to the sale and transportation of any Product and API, as the case may be, sold by Novartis to Purchaser, and Purchaser shall forthwith pay to Novartis all such sums within [***] of receipt of the relevant invoice.

2.8 **Partial Shipments.** Each shipment of the Product and/or API to Purchaser shall constitute a separate sale, obligating Purchaser to pay therefore whether said shipment is in whole or only partial fulfilment of any order, or confirmation issued in connection therewith.

2.9 **Currency.** Unless otherwise provided for under this Supply Agreement, all payments under this Supply Agreement shall be payable in United States Dollars (USD). When conversion of payments, costs or other amounts from any currency is required, Novartis shall calculate the United States Dollar (USD) equivalent using Novartis' then-current standard exchange rate methodology as applied in its external reporting.

2.10 **Risk and Title.** The title shall pass together with the risk as specified by the Incoterms stipulated in this Supply Agreement.

3. Technical Transfer of API and [***].

3.1 The Parties shall, within [***] of the Closing Date, agree to a plan for the technical transfer by Novartis and its Affiliates to Purchaser (or its designee) of the Tech Transfer Materials and the manufacture and analytical method of the API according to [***] processing method ([***]) and [***], or only certain intermediates or components thereof, as specified in such plan, from the relevant manufacturing site to an alternative manufacturing site operated by the Purchaser or a Third Party Manufacturer (the "**Tech Transfer Plan**"). The Tech Transfer Plan shall provide for: specific details concerning activities to be performed; timelines and milestones for each such activities and deliverables; the roles and responsibilities of Novartis and Purchaser with regard to the transfer of each deliverable; a process for discussion and agreement regarding any disagreements between the Parties; and technical assistance by Novartis and its Affiliates as provided in Clause 3.2. The Parties will implement the Tech Transfer Plan.

3.2 As agreed in the Tech Transfer Plan, Novartis shall provide Purchaser (or Purchaser's designee) with the [***] assistance of [***] to provide [***] aiming at achieving the goal of [***] according to [***]. If an element of the Tech Transfer Plan [***] the Parties agree to discuss in good faith [***] if possible. In the event a Party comes in good faith to [***] such Party shall have the right to [***]. Notwithstanding the said, [***] before being [***].

3.3 With respect to all Tech Transfer Materials delivered to Purchaser in accordance with the Tech Transfer Plan, (a) Novartis shall be responsible for the cost of providing one set of copies only, and (b) in addition to paper and other tangible copies, Novartis shall, upon Purchaser's request, also provide to Purchaser any existing electronic copies of such documents, data and other information that at such time (i) are in Novartis' or its Affiliates' possession and (ii) Novartis has, or its Affiliates have, the right to provide to Purchaser (or Purchaser's designee); provided that Novartis has, or its Affiliates have, electronic copies thereof. With respect to Tech Transfer Materials that are held by third-party subcontractors or suppliers that will continue to provide such starting materials, intermediates and/or API for the manufacture of the Product (and, for the avoidance of doubt, not available, owned or accessible and transferable by Novartis or its Affiliates), Novartis shall not be obligated to transfer such Tech Transfer Materials, provided that, Novartis shall advise Purchaser of such Tech Transfer Materials, where Novartis is aware of such Tech Transfer Materials and, at the request of the Purchaser, use commercially reasonable efforts to facilitate the interaction between the Purchaser and such third-party subcontractors or suppliers.

3.4 The Parties shall [***] execute and deliver, or cause to be executed and delivered, all such documents and instruments necessary to implement the Tech Transfer Plan and shall take, or cause to be taken, all such further or other actions (including, but not limited to Purchaser using its diligent efforts to obtain any necessary regulatory approval), as foreseen by the Tech Transfer Plan [***] according to [***] and [***].

3.5 **Costs of Technical Transfer**.

(a) With regard to the technical transfer of the API and, subject to Clause 3.5(b), of [***], each Party [***] of the Tech Transfer Plan. [***]

(b) In the event that the timelines agreed upon in the Tech Transfer Plans require Novartis to manufacture [***] for Purchaser, Purchaser shall bear [***] of the Tech Transfer Plan in relation to [***].

3.6 Each Party shall have the right to grant a Third Party Manufacturer a sublicense of the licenses granted under Section 3.1 and 3.2 of the APA, as well as those granted under the License Agreement (as defined in the APA), as strictly necessary for such Third Party Manufacturer to manufacture the API or any components or intermediates thereof under this Supply Agreement.

4. Forecasts; Orders

4.1 Product Forecasts & Orders

(a) During the [***] following the Closing Date, Novartis shall rely on the estimate of the quantity of Product submitted by its Affiliates prior to the Closing Date and consider them as firm orders. Promptly after the Closing Date, Novartis shall disclose the estimates to Purchaser and provide Purchaser with details regarding these existing firm orders.

(b) As soon as possible after the Closing and in no event later than [***] from the Closing Date, Purchaser shall provide Novartis with its first Supply Period Rolling Forecast of the required quantities of Product, which will commence from the end of the first [***] following the Closing Date. Such first Supply Period Rolling Forecast shall not forecast any deliveries of Product taking place earlier than [***] after the provision of such first Supply Period Rolling Forecast.

(c) At least [***] in advance of each calendar month, Purchaser shall provide Novartis with its monthly Supply Period Rolling Forecast of the quantities of Product that Purchaser estimates that it will require for the duration of the Phase 2 Period.

(d) The first [***] of each Supply Period Rolling Forecast will be considered firm orders, committing Purchaser to purchase, and Novartis to sell, the stated amount of Product, for such [***] period only, and Purchaser shall place the corresponding firm orders in writing, on a country-by-country basis and on an SKU basis, to Novartis at the same time when submitting its Supply Period Rolling Forecast. The quantities of Product forecasted for the [***] of each Supply Period Rolling Forecast shall not fall below [***] or exceed [***] of those quantities of Product forecasted in the Supply Period Rolling Forecast received by Novartis the previous month. Should such variations occur, due to exceptional circumstances, the Parties shall use commercially reasonable efforts to agree on certain remedial actions to accommodate the supply of such new requirements. In the event the Parties are not able to

agree on such remedial actions within [***] from the occurrence of such variation, Purchaser shall be obliged to purchase at least [***] and Novartis shall be obligated to supply up to [***] of the quantities indicated in the previous Supply Period Rolling Forecast for the same period of reference.

(e) Purchaser shall comply with the minimum order quantities specified in **Annex C** and order in full batch sizes.

(f) Novartis shall have the Product ready for shipment [***] (Incoterms 2010) [***]

(g) Subject to Clause 2.7 and except as specified in the remainder of this Clause 4.1(g) without changing the allocation of roles and responsibilities set by the agreed Incoterm of Clause 4.1(f) (including the obligation of Purchaser of being [***]), Novartis shall [***] of the Products at Purchaser's risk as follows:

(a) Finished Products manufactured and Labelled for sale in any other country in the Territory [***]: a site located in the [***] that is specified by Purchaser early enough to allow timely delivery of Products by Novartis pursuant to this Supply Agreement;
(b) Novartis' Affiliate's site in [***] manufactured and Labelled for sale in [***]; and
(c) [***] for Drug Products manufactured and Labelled for sale in the [***].

4.2 **API Forecasts & Orders**

(a) As for API, during the [***] following the Closing Date, Novartis shall rely on the estimate of the quantity of API planned by Novartis and/or its Affiliates prior to the Closing Date. Promptly after the Closing Date, Novartis shall disclose the estimates to Purchaser and provide Purchaser with details regarding the planned quantities of API submitted by Novartis and its Affiliate(s).

(b) As soon as possible after the Closing and in no event later than [***] after the Closing Date, Purchaser shall provide Novartis with its first Supply Period Rolling Forecast of the required quantities of API, which will commence from the end of the first [***] following the Closing Date. Such first Supply Period Rolling Forecast shall not forecast any deliveries of API taking place earlier than [***] after the provision of such first Supply Period Rolling Forecast and shall comply with the API Maximum Quantities and API Minimum Quantities. For the avoidance of doubt, the Supply Period Rolling Forecast provided pursuant to this Clause 4.2(b) shall relate to quantities required by Purchaser in addition to the API consummated in connection with the manufacturing of the Product, which shall not be part of the Supply Period Rolling Forecast provided pursuant to this Clause 4.2(b).

(c) Any Supply Period Rolling Forecast shall comply with the API Minimum Quantity and API Maximum Quantity and shall be provided to Novartis latest [***] in advance of each calendar month.

(d) The first [***] of each rolling forecast will be considered a firm and binding order for supplied Drug Substance and Purchaser shall only place the corresponding firm orders in writing to Novartis at the same time when submitting its rolling forecast. Purchaser may place a maximum of [***] purchase orders for the API from Novartis within any consecutive

[***] period until the termination or expiry of this Supply Agreement. The quantities of API forecasted for the [***] of each Supply Period Rolling Forecast shall not fall below [***] or exceed [***] of those quantities of the API forecasted in the Supply Period Rolling Forecast received by Novartis the previous month. Should such variations occur, due to exceptional circumstances, the Parties shall use commercially reasonable efforts to agree on certain remedial actions to accommodate the supply of such new requirements. In the event the Parties are not able to agree on such remedial actions within [***] from the occurrence of such variation, Purchaser shall be obliged to purchase at least [***] and Novartis shall be obligated to supply up to [***] of the quantities indicated in the previous Supply Period Rolling Forecast for the same period of reference. The non-binding part of each Supply Period Rolling Forecast shall be made in good faith by the Purchaser.

(e) Purchaser shall comply with minimum order quantity specified in **Annex F**.

(f) Novartis shall have the API delivered [***] (Incoterms 2010). Subject to Clause 2.7 and except as specified in the remainder of this Clause 4.2(f) without changing the allocation of roles and responsibilities set by the agreed Incoterm of Clause 4.2(f) (including the obligation of Purchaser of being [***]), Novartis shall organize the [***] at Purchaser's risk to a site located in the [***] that is designated by Purchaser early enough to allow timely delivery of API by Novartis pursuant to this Supply Agreement.

4.3 **Changes to Firm Orders.**

(a) The Parties will use commercially reasonable efforts in order to adjust to variations from the firm orders specified in Clauses 4.1(d) and 4.2(d) above, provided that, Purchaser will reimburse Novartis for additional costs and/or write-off costs actually incurred by Novartis as a result of accommodating changes to firm orders which Purchaser proposes; provided, however, that Novartis acts reasonably to mitigate any such costs and provides Purchaser with reasonable documentation to evidence such costs. Notwithstanding anything to the contrary, Novartis shall be under no obligation to change the volumes ordered by Purchaser under any firm order.

(b) Novartis shall be entitled to procure or manufacture certain materials (including API) and components to be used in manufacturing of the Product and/or the API based on the Purchaser's Supply Period Rolling Forecast prior to the Purchaser issuing the corresponding firm orders due to (i) the lead time of procuring or manufacturing such material and/or components is longer than the period covered by firm orders of the API and/or Product, or (ii) the minimum order quantity imposed by the Third Party supplier of such materials and/or components being greater than the quantity required to manufacture the minimum order quantity of the API and/or Product, or (iii) such other reason discussed and agreed between the Parties, and the Purchaser shall be responsible for the write off cost of such materials and/or components to the extent that procurement or manufacturing of such components and/or materials are agreed between the Parties in writing and such components and/or materials are not used due to a change of Purchaser's forecast. Novartis shall notify the Purchaser of any expected write-offs reimbursable by the Purchaser hereunder (and the associated costs of such write-offs) as soon as it becomes aware and will use commercially reasonable efforts to minimize the cost of write-offs that the Purchaser will be required to bear.

4.4 **Delivery Dates.** Delivery dates specified in any order confirmation shall be deemed fixed and the Parties shall co-operate to accommodate as far as possible any requests for rescheduling in case of any unexpected problems. If either Party becomes aware of any such problem, it shall promptly inform the other Party and submit a reasonable proposal for a new delivery date. A delivery shall only be considered delayed in case the delivery takes place more than [***] after the confirmed delivery date.

5. Phase 1 PERIOD

5.1 **Transfer of Profit.** During the Phase 1 Period with respect to a country in the Territory, Purchaser and/or its Affiliates and designees are not authorized to distribute, sell or invoice the Finished Product in such country. As such, Novartis or its Affiliates shall continue to invoice Third Party customers for the Finished Product in such country in its own name and, unless otherwise agreed between the Parties or mandated by new pricing regulations (or similar measures by a Governmental Entity affecting the price for the Finished Product), at the prices prevailing as of the Closing Date. Novartis shall pay Purchaser the profit that Novartis achieves in such country, where the profit is calculated as follows ("**Profit**"):

(a) [***]

(b) [***]

(c) [***]

(d) [***]

5.2 **Payment Method.** Within [***] of the end of each month during the Phase 1 Period, Novartis shall provide the Purchaser with its calculation of the Profit achieved during such month as set forth in Clause 5.1. Following receipt of such calculation, the Purchaser shall issue Novartis an invoice for the applicable month (with VAT added, if applicable), which Novartis shall pay within [***] from the date of receipt of such invoice.

5.3 **Bad Debt.** If Novartis has to write off accounts receivables resulting from invoices to customers for Finished Product sold after the Closing Date pursuant to Clause 5.1 due to bad debt, Novartis shall promptly notify Purchaser of such write offs and Purchaser shall compensate Novartis for such amounts either by [***], or, after completion of the Phase 1 Period in the Territory, by [***]. Notwithstanding the foregoing, Novartis and its Affiliates will use commercially reasonable efforts to collect all accounts receivable arising from Net Sales of the Finished Product.

5.4 **Novartis' Retention of Profit.** If Purchaser is in breach of its obligations, for any reason, of Clauses 5.1 and 5.2 of the APA, Novartis has the right, after [***] prior notice to Purchaser, to immediately cease the transfer of, and retain, the Profit [***] until such breach is cured. For the avoidance of doubt, Novartis shall be entitled to keep all Profit that have been retained during the period of non-compliance of Purchaser with its obligations under to Clauses 5.1 and 5.2 of the APA, even after such breach has been cured.

6. General Provisions Concerning Phase 1 and Phase 2 periods

6.1 **Timing of Transition.** Purchaser shall use commercially reasonable efforts to keep Phase 1 Period and Phase 2 Period as short as possible.

6.2 **Updates.** Purchaser shall update Novartis monthly in writing regarding the progress of the transfers of the Marketing Authorizations, the submission and approval of the variations of the change of the release site, and manufacturing to Purchaser for each country in the Territory.

6.3 **Notification.** Purchaser shall promptly inform Novartis in writing after it has obtained the regulatory approvals for the manufacture (or sourcing from a Third Party) of the Product.

6.4 **Anticorruption Laws.** During the Phase 1 Period, the Parties shall comply with the United States Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010 and other anticorruption Laws in other jurisdictions applicable to the Parties and their respective Affiliates acting under this Supply Agreement (including in connection with any sales of Finished Product made by Novartis and its Affiliates to Third Parties during the Phase 1 Period).

7. Sale of Inventory

7.1 **Local Inventory.**

(a) On a country-by-country basis, immediately after the end of the Phase 1 Period, but under no circumstances later than [***] after the end of the Phase 1 Period, Purchaser shall acquire, or shall cause its Affiliates to acquire, the entire inventory of the Finished Product [***] from the relevant Novartis Affiliate except for Local Inventory located in the [***] (such Inventory, the "**Local Inventory**").

(b) The price at which the Purchaser or its Affiliates shall purchase such Local Inventory shall be equal to [***]. Such Novartis Affiliate shall issue an invoice to Purchaser or Purchaser's Affiliate for such amount, and Purchaser or Purchaser's Affiliate shall pay the invoice within [***] from the date of receipt of such invoice.

(c) Novartis shall provide the Purchaser, no later than [***] days following the month in which the Local Inventory has been sold, with its calculation of the amount paid to the Novartis Affiliate pursuant to Clause 7.1(b) above, less the [***]. Following receipt of such calculation, the [***] shall issue [***] an invoice for such amount (with VAT added, if applicable), [***] shall pay within (i) within [***] from receipt of [***] for Local Inventory sold in the [***], but not earlier than [***] from Purchaser's receipt of the respective invoice as specified in Clause 7.1(b), and (ii) [***] from the date of receipt of such invoice.

(d) Novartis shall have Local Inventory delivered [***] selling the Local Inventory (Incoterms 2010).

7.2 **Remaining Inventory.**

(a) Promptly, but not later than [***] after the end of the Phase 2 Period, Purchaser and/or its Affiliates shall acquire from Novartis and/or its Affiliates all remaining inventory

of the Finished Product in Purchaser's or its Affiliates' or Novartis' and its Affiliates' livery as well as Drug Product and packaging material to the extent that it is allocated to such Product and not the API and existing at the end of the Phase 2 Period (such Inventory, the "**Remaining Inventory**").

(b) The price for such Remaining Inventory shall be the Supply Price in effect on the date the relevant invoice is issued by Novartis or its Affiliates (as the case may be). Novartis or its Affiliates (as the case may be) shall issue an invoice to Purchaser for such amount, and Purchaser shall pay the invoice within [***] from the date of receipt of such invoice. The price for any packaging material purchased by the Purchaser under this Clause 7.2 shall be [***] as reflected in [***].

(c) Novartis shall have the Remaining Inventory ready for shipment [***] (Incoterms 2010).

7.3 **API Inventory.**

(a) Promptly, but not later than [***] after the end of the Supply Period, Purchaser and/or its Affiliates shall acquire from Novartis and/or its Affiliates all remaining inventory of the API as well as any as well as materials (including, without limitation packaging material), raw materials, intermediates and components to the extent that are allocated for the respective API and existing at the end of the Supply Period (such Inventory, the "**API Inventory**").

(b) The price for such API Inventory shall be [***]. Novartis shall issue an invoice to Purchaser for such amount, and Purchaser shall pay the invoice within [***] from the date of receipt of such invoice. The price for any materials (including, without limitation packaging material), raw materials, intermediates and components purchased by Purchaser under this Clause 7.3 shall be [***].

(c) Novartis shall have the API Inventory ready for shipment [***] (Incoterms 2010).

7.4 **Terms for Sale of Inventory.** Other than the terms and conditions set forth in Clause 7.1 with respect to Local Inventory, in Clause 7.2 with respect to Remaining Inventory and Clause 7.3 with respect to the API Inventory, all other terms and conditions of this Supply Agreement related to the sale of the Product shall also apply to the sale of all other Inventory supplied hereunder.

8. Shipment; Export License

8.1 **Shipment.** Product and API shall be shipped in mutually acceptable types and sizes of packaging or other shipping containers, and as described in Trading Service Procedure.

8.2 **Licenses.** If it is necessary to obtain an export license for shipping the API and/or Product from its delivery location as outlined in Clauses 4.1(f), 4.2(f), 7.1(d), 7.2(c) and 7.3(c) of this Supply Agreement to Purchaser or one of its Affiliates, Novartis shall be responsible for obtaining such license; however, Purchaser shall reimburse Novartis for all the costs and expenses incurred to obtain such licenses within [***] of the date of receipt of the corresponding invoice by Purchaser. Purchaser shall be responsible for obtaining any other import licenses and shall bear all the relevant costs and expenses.

9. Pharmacovigilance and Adverse Events Reporting

9.1 **Pharmacovigilance**. Purchaser and Novartis shall observe the procedures and notification requirements as set out in the Pharmacovigilance Agreement with respect to Adverse Events and any other regulatory and reporting matters.

10. Quality

10.1 **Quality**. Novartis and/or its Affiliates shall manufacture and supply to Purchaser the Product and API according to the [***], as further set forth in the Quality Agreement. The Parties shall enter into the Quality Agreement within [***] from Closing.

10.2 **Technical Complaints.** Technical complaints associated with manufacturing of the Product shall follow the process described in the Quality Agreement.

10.3 **Product Release in the European Union Market.**

(a) Responsibility for batch release of the Product to the European Union market shall be borne, on a country-by-country basis, by (i) Novartis until the relevant Marketing Authorization has been transferred to Purchaser and the change, via variation or notification, as applicable, of the European Union release site has been submitted to and approved by the relevant Regulatory Authority; and (ii) Purchaser, as the Marketing Authorization holder, thereafter. Purchaser hereby agrees that, on a country-by-country basis, upon completion of the relevant Marketing Authorization transfer, Purchaser shall obtain the services of a European Union Qualified Person (as defined in Article 48 of European Commission Directive 2001/83/EC) and shall perform the Product batch release thereafter. In addition, the processes described in detail in the Quality Agreement shall be adhered to by both Parties.

(b) In countries where the immediate change of a European Union batch release site has not been implemented by health authorities, Purchaser shall submit the batch release site transfer variation or notification, as applicable, within [***] after transfer of the respective Marketing Authorization in that country. If Purchaser fails to submit the variation or notification, as applicable, for the batch release site within [***] after a respective Marketing Authorization has been transferred, Novartis or one of its Affiliates may agree in their sole discretion to continue to perform the Product release as a service for Purchaser. If Novartis or a Novartis Affiliate agrees to do so, the specific time frame and the defined number of batches to be released will be agreed per Product and for each country between Purchaser and Novartis or the Novartis Affiliate, as applicable. Such Product release will be provided to Purchaser against payment of a service fee of [***] per shipment per country by Novartis or the Novartis Affiliate, as applicable. For the avoidance of doubt, Novartis shall not be obliged to provide any release services upon expiration or termination of the period, on a country-by-country basis, from the beginning of the Phase 1 Period until the end of the Phase 2 Period but no longer than for a maximum of [***] from the Closing Date. The payment terms of this Supply Agreement related to the sale of the Product shall apply to the invoicing of these services accordingly. In addition, the processes described in detail in the Quality Agreement shall be adhered to by both Parties.

10.4 **Product Release outside the European Union Market.** Responsibility for batch release of the Product outside the European Union market shall be borne by (i) Novartis on a country-by-country basis until a respective Marketing Authorization has been transferred;

and (ii) Purchaser, as a Marketing Authorization holder, thereafter. In addition, the processes described in detail in the Quality Agreement shall be adhered to by both Parties.

10.5 **Stability Testing.** Novartis is responsible for maintaining any routine stability program under ICH conditions, as required, until the termination or expiration of the Supply Agreement. Following the termination or expiration of the Supply Agreement, Novartis shall continue maintaining any routine stability program required under ICH conditions until the end of the shelf-life of the Products and the retesting period of the API supplied to Purchaser in exchange for payment of service fees by Purchaser amounting to [***] per man-hour required to perform stability testing and reporting.

10.6 **Measures.**

(a) During the Phase 1 Period, Novartis shall promptly notify Purchaser in writing in the event Novartis initiates or is required by a Governmental Entity to initiate, a quarantine, stop-sale, recall, field alert, withdrawal or field correction concerning any Product or API supplied under this Supply Agreement (each, a "**Measure**").

(b) With regard to each country in the Territory, during the Phase 1 Period [***], any Measures that have to be initiated in such country with respect to any Product released by Novartis or one of its Affiliates during such period shall be handled by a joint team of experts, representing both Parties, which shall agree on a final decision.

(c) During the Phase 2 Period, [***], and during the Supply Period, if applicable, Purchaser is responsible to conduct any Measures for Product and/or API supplied by Novartis under this Supply Agreement during the Phase 2 Period or the Supply Period, as the case may be, according to applicable laws and regulations. Purchaser shall promptly notify Novartis in writing in case Purchaser initiates or is forced by governmental action to initiate, a quarantine, stop-sale, recall, field alert, withdrawal or field correction concerning any Product or API supplied under this Supply Agreement.

(d) Any adequately documented reasonable costs and expenses that are incurred by either Party for, and any government fines or penalties related to, a Measure shall be borne by Purchaser. However, if Purchaser demonstrates that the Measure was caused by a defect in the Product (i) for which Novartis is responsible under Clause 11.1(a) or 11.1(b) or (ii) due to a grossly negligent act or the wilful misconduct of Novartis or its Affiliates, then all such costs and expenses and any fines and penalties shall be borne by Novartis; provided that with respect to (i) above any costs and expenses and any fines and penalties shall be subject to the cap on liability set forth in Clause 14.3.

11. Acceptance and Refusal Procedures

11.1 **Acceptance & Refusal.**

(a) Novartis shall include with each shipment of Product (including any Inventory for all purposes under this Clause 11) and/or API the documentation specified by the Quality Agreement. Within [***] of receipt of any Product or API, Purchaser shall perform, or shall cause its Affiliates, as applicable, to perform, such samplings and tests as Purchaser deems necessary to determine if such Product and API complies with the applicable Product Specifications and cGMP. In the event that the Product and/or API does not comply with the Product Specifications for the Product and/or API, as applicable, or is not manufactured in

accordance with cGMP, then the Purchaser shall be entitled to reject such Product and/or API.

(b) Any Product and/or API not refused within [***] pursuant to Clause 11.1(a) shall be deemed accepted, except where such Product or API has a latent defect, in which case the Purchaser shall have [***] from the date that the defect is discovered to notify Novartis of such latent defect, subject to such defect being discovered [***] of such Product and/or [***] of such API.

(c) If Purchaser wishes to refuse (or in case of latent defects revoke) acceptance of any Product or API, Purchaser shall, within the [***] period specified in Clause 11.1(a) above, inform Novartis of its refusal, reason of refusal (or revocation of the acceptance) and the lot numbers.

(d) In the event that Purchaser refuses (or in case of latent defects revokes the acceptance of) the Product or API, Novartis, upon confirmation of the reasons given for the refusal (or revocation of the acceptance), shall replace the defective Product or API, as applicable, at no additional charge, on commercially reasonable terms. In the event that the manufacturing of the Product or API necessary to replace the defective Product or API as outlined in this Clause 11.1(d) would result in the consumption of API in excess of the API Maximum Quantity, Novartis shall have the right to refund the price at which Purchaser purchased the defective Product or API; provided that Novartis shall use commercially reasonable efforts to repackage or relabel any defective Finished Product when (i) the defect of the Finished Product is related to the packaging or Labelling performed by Novartis or an Affiliate of Novartis or by a Third Party on their behalf, and (ii) consistent with, or permitted under, regulatory guidelines. [***] the liability described in this Clause 11.1(d) shall be Novartis' sole liability in regard to defective Product or API.

(e) If the Parties fail to agree on the reasons for the refusal (or revocation of the acceptance) of the Product or API, either Party may refer the matter for final analysis to a specialized laboratory of international repute that is acceptable to both Parties for the purpose of determining if the Product or API, as the case may be, meets the Product Specifications and cGMP. Any determination by such laboratory analysis shall be final and binding upon the Parties. The cost and expense of such laboratory shall be borne by (i) Purchaser, if the laboratory determines that the Product or API meet the Product Specifications and cGMP, or (ii) Novartis, if the laboratory determines that the Product or API does not meet the Product Specifications or cGMP.

11.2 **Return or Disposal of Defective Product.** Notwithstanding any other provisions of this Supply Agreement, Purchaser agrees, if so requested by Novartis in advance, to return to Novartis, at Novartis' expense, any Product or API supplied by or on behalf of Novartis or any of its Affiliates that is, or is claimed to be, damaged or defective, or otherwise to dispose of any such Product or API, as Novartis may direct, at Novartis' expense.

12. Trading Service Procedure

12.1 **Implementation.** Within [***] from the Closing (or within such other period as the Parties may mutually agree), the Parties shall discuss and agree on a "**Trading Service Procedure**" in a form substantially similar to the one attached hereto as **Annex D**, which is a standard document Novartis uses to regulate specific details concerning the planning, forecasting, shipping, artwork creation and other logistical aspects of the

supply of the Product. In the event of an inconsistency between the Trading Service Procedure and this Supply Agreement, the terms of this Supply Agreement shall prevail.

12.2 **Labelling & Packaging.**

(a) The Product and all Labelling and packaging used in connection therewith shall include the Trademarks associated with the Product, in the manner and to the extent specified in the Trading Service Procedure and in regulatory or governmental licenses and approvals.

(b) On a country-by-country basis, during the Phase 1 Period, Novartis shall be responsible for ensuring the accuracy of all information contained on all Labelling and packaging for the Product and compliance of all such Labelling and packaging with all applicable Laws. On a country-by-country basis, as of the end of the Phase 1 Period, the Purchaser shall be responsible for ensuring the accuracy of all information contained on all Labelling and packaging for the Product and for the compliance of all such Labelling and packaging with all applicable Laws. In addition, during such period, Purchaser shall be responsible for all information, promotional material and literature related to the Product in such country in the Territory.

(c) On a country-by-country basis, during the Phase 1 Period, Novartis shall accommodate any changes to Labelling, packaging, and formulation specifications that are necessary to comply with all applicable Laws. Purchaser shall bear the respective expenses. During such time, Purchaser may reasonably request that Novartis accommodate or implement other changes to Labelling, packaging and formulation specifications, and Novartis will consider all such requests in good faith, but it shall be under no obligation to accommodate any such requests, provided that, the foregoing shall not relieve Novartis of its obligations under Clause 12.3 below.

12.3 **New Packaging Design.** In the event that a new packaging design is requested by Purchaser, Purchaser shall provide Novartis with the layout of the packaging materials and regulatory text, as well as the approved artwork (which is prepared by Purchaser). Any costs and expenses incurred from or as a consequence of the change of such artwork, including costs and expenses related to changes in primary packaging materials, shall be fully borne by the Purchaser. Any such new packaging design shall result in the reasonable extension of the Lead Time of the Finished Pack of [***].

13. Representations and Warranties and Liability

13.1 **Representations.** Novartis warrants that:

(a) any Product and API supplied hereunder (including the manufacturing, packaging, processing, storage, disposal or handling) by or on behalf of Novartis and/or its Affiliates shall comply in all respects with [***]; and

(b) upon transfer of the risk of loss related to the Product or API, [***] to such Product and API sold hereunder will be conveyed by Novartis and/or its Affiliates to Purchaser and/or its Affiliates [***].

13.2 **Disclaimer.** Except as set forth in this Clause 13, the Asset Purchase Agreement and the Ancillary Agreements, Novartis makes no representations or warranties, express or

implied, concerning the Product and API or the application or use thereof, and hereby excludes all implied warranties of merchantability, or of merchantable quality, or of fitness for any purpose, particular, specific or otherwise, concerning the Product and API or services embodying the same and the application or use thereof.

13.3 **Special, Indirect and Other Losses.** EXCEPT TO THE EXTENT OTHERWISE REQUIRED BY MANDATORY LAW, NEITHER PARTY NOR ANY OF ITS AFFILIATES SHALL BE LIABLE IN CONTRACT, TORT, NEGLIGENCE BREACH OF STATUTORY DUTY OR OTHERWISE FOR ANY SPECIAL, INDIRECT, INCIDENTAL, PUNITIVE OR CONSEQUENTIAL DAMAGES OR FOR ANY ECONOMIC LOSS OR LOSS OF PROFITS (WHETHER DIRECT OR INDIRECT) SUFFERED BY THE OTHER PARTY.

13.4 **No Exclusion.** Neither Party excludes any liability for death or personal injury caused by its negligence or that of its employees, agents or subcontractors.

14. Indemnification

14.1 **Indemnity.** Subject to Clauses 13.3, Novartis shall indemnify and hold harmless Purchaser and its Affiliates and their respective officers, directors and employees from and against any Loss arising from any Third Party claim or Loss to the extent related to the Product and/or API (including the manufacture, testing, handling, storage, supply) not complying with [***] after the Closing Date, provided that:

(i) the particular Product and/or API that caused the Loss or Third Party claim was supplied by Novartis and/or its Affiliates to Purchaser and/or its Affiliates;

(ii) the particular Product and/or API was defective and this defect was caused by Novartis or its Affiliates (or their subcontractors, if any); and

(iii) Purchaser has complied with the Acceptance and Refusal Procedures contained in Clause 11 above with respect to the defective Product and/or API.

14.2 **Indemnification Procedures.** Indemnification under this Supply Agreement shall be handled in accordance with the indemnification procedures set forth in Clause 15.3 of the Asset Purchase Agreement.

14.3 **Limitation.** Except to the extent otherwise required by Law and as provided above, Novartis' indemnity hereunder and any other costs, losses, expenses, claims, proceedings and liabilities under this Supply Agreement shall be limited to [***].

14.4 **Adjustments.** If any payment due under this Clause 14 or Clause 13 is subject to tax (including withholding tax), Purchaser shall be entitled to receive from Novartis such amounts as will ensure that the net receipt, after tax, is the same as it would have been if the payment was not subject to tax.

15. TAXES

15.1 Purchaser shall withhold from any payment to Novartis under this Supply Agreement any taxes required to be withheld by Purchaser under applicable Laws. Upon request, Purchaser shall provide Novartis with documentation of such withholding and payment at

Novartis' reasonable request. Any amounts withheld pursuant to this Clause 15.1 shall be treated for purposes of this Supply Agreement as having been paid to Novartis.

16. Insurance

16.1 **Insurance.** At all times during the term of this Supply Agreement, and for any Product and API supplied to Purchaser pursuant to this Supply Agreement, Purchaser shall procure and maintain, at its own expense and for its own benefit, adequate comprehensive/commercial general liability insurance (including contractual liability, product liability, and completed operations) providing:

(a) a bodily injury, death, and property damage coverage as commonly practised under similar pharmaceutical risk exposures;

(b) an ordinary deductible; and

(c) a provision that underwriters and insurance companies of Purchaser will not have any right of subrogation against Novartis (including Novartis' officers, directors, employees, Affiliates, agents, successors, and assigns).

16.2 **Certificate.** Purchaser will furnish Novartis upon request a certificate of insurance.

17. Term and Termination

17.1 **Term.** The term of this Supply Agreement will commence upon the Closing Date and shall continue until the end of the Supply Period.

17.2 **Termination for Breach.** Either Party may terminate this Supply Agreement in whole or in part with immediate effect if the other Party has committed a material breach and has failed to remedy such breach within [***] from having received a written request to remedy such breach from the non-breaching Party.

17.3 **Survival.** The expiration or termination of this Supply Agreement shall be without prejudice to any other rights either Party may have against the other Party for any breach relating to this Supply Agreement and shall not affect the obligations under any accepted firm orders, provided, however, that in the event of termination pursuant to Clause 17.2, the terminating Party shall have the right (but not the obligation) to cancel any such orders.

18. Confidentiality

Confidentiality. Subject to the exceptions contained in the Confidentiality Agreement, each Party shall keep confidential and not disclose to any Third Party any confidential information (including the terms and conditions of this Supply Agreement), which is received or obtained as a result of entering into or performing under this Supply Agreement.

19. Miscellaneous

19.1 **Governing Law and Jurisdiction.** This Supply Agreement shall be governed by and construed under the Laws of the State of New York, without giving effect to the conflict of laws provision thereof, and with the exclusion of the Vienna Convention on the International Sale of Goods. Any claim or dispute arising out of or relating to this Supply Agreement that

[***] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

cannot be resolved amicably between the Parties within [***] after the controversy has arisen shall be subject to the exclusive jurisdiction of the United States District Court for the Southern District of New York, so long as it shall have subject matter jurisdiction over such claim or dispute and otherwise the state courts located in New York County in the State of New York. Each Party irrevocably agrees and consents to the jurisdiction of the courts set forth in this Clause 19.1 and waives any objection it may have to the venue of such courts, including with respect to the convenience of the forum and jurisdiction. EACH OF THE PARTIES HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS SUPPLY AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREBY OR THE ACTIONS OF THE PARTIES IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT HEREOF.

19.2 **Assignment.**

(a) Neither Party may assign its rights and obligations under this Supply Agreement without the other Party's prior written consent (such consent not to be unreasonably withheld, delayed or conditioned), except that either Party may (a) assign its rights and obligations under this Supply Agreement or any part hereof to one of its Affiliates without the consent of the other Party; provided, that (i) all applicable terms and provisions of this Supply Agreement shall apply to any such Affiliate to the same extent as such terms and provisions apply to the respective Party to this Supply Agreement, (ii) each Party shall remain primarily liable for any acts or omissions of its Affiliates and (iii) any breach by an Affiliate of a Party shall be deemed to be a breach by such Party; and (b) assign this Supply Agreement in its entirety to a successor to all or substantially all of its business or assets to which this Supply Agreement relates. Any permitted assignee shall assume all obligations of its assignor under this Supply Agreement (or related to the assigned portion in case of a partial assignment to an Affiliate), and no permitted assignment shall relieve the assignor of liability hereunder. Any attempted assignment in contravention of the foregoing shall be void.

(b) [***]

19.3 **Force Majeure.** If and to the extent that either Party is prevented or delayed by Force Majeure from performing any of its obligations under this Supply Agreement and promptly so notifies in writing the other Party, specifying the matters in reasonable detail constituting Force Majeure together with such evidence in verification thereof as it can reasonably give and specifying the period for which it is estimated that the prevention or delay will continue, then the Party so affected shall be relieved of liability to the other for failure to perform or for delay in performing such obligations (as the case may be), but shall nevertheless use its commercially reasonable efforts to resume full performance thereof. In addition:

(a) If Force Majeure leads to a limitation of Novartis' capacity to manufacture the Product or API, Novartis may allocate its remaining manufacturing capacity in a manner that Novartis considers fair.

(b) In a Force Majeure, Novartis shall have no obligation to obtain supplies, raw materials, energy, utilities, labor and Product or API from a Third Party in order to satisfy Novartis' otherwise excused contractual obligation under this Supply Agreement.

(c) If Force Majeure causes the delay of any shipment hereunder for more than [***], the Parties shall initiate good faith negotiations in order to mutually agree upon a solution.

19.4 **Notices.** All notices, consents, waivers, and other communications under this Supply Agreement must be in writing and will be deemed to have been duly given when: (a) delivered by hand if delivered during normal business hours of the recipient during a Business Day, otherwise on the next Business Day (with written confirmation of receipt); (b) sent by electronic mail during normal business hours of the recipient during a Business Day, otherwise on the next Business Day; provided that a copy is immediately sent by an internationally recognized overnight delivery service (receipt requested); or (c) when received by the addressee, if sent by an internationally recognized overnight delivery service (receipt requested) if received on a Business Day, otherwise on the next Business Day, in each case to the appropriate addresses and electronic mail addresses set forth below (or to such other addresses and electronic mail addresses as a Party may designate by written notice):

If to Purchaser:

Noden Pharma DAC
56 Fitzwilliam Square
Dublin, 2
Ireland
Attn: Chief Executive Officer
Fax: + 353 (0)61 363682
E-mail: [***]

If to Novartis:

Novartis Pharma AG
Lichtstrasse 35
CH-4056 Basel, Switzerland
Attn: Head of BD&L
Fax: +41 61 324 2100
E-mail:

With a copy to:

Novartis Pharma AG
Lichtstrasse 35
CH-4056 Basel, Switzerland
Attn: Head Legal TechOps
Fax: +41 61 324 7399
E-mail:

19.5 **Waiver and Amendments**. The failure of any Party to assert a right hereunder or to insist upon compliance with any term or condition of this Supply Agreement shall not constitute a waiver of that right or excuse a similar subsequent failure to perform any such term or condition by the other Party. No waiver shall be effective unless it has been given in writing and signed by the Party giving such waiver. No provision of this Supply Agreement may be amended or modified other than by a written document signed by the Parties hereto.

19.6 **Severability**. Without prejudice to any other rights that the Parties have pursuant to this Supply Agreement, every provision of this Supply Agreement is intended to be severable. If any provision of this Supply Agreement shall be invalid or unenforceable, such invalidity or unenforceability shall not affect the other provisions of this Supply Agreement, which shall remain in full force and effect. The Parties hereto agree to consult each other and to agree upon a new stipulation which is permissible under applicable Law and which comes as close as possible to the original purpose and intent of the invalid, void or unenforceable provision.

19.7 **Entire Agreement**. This Supply Agreement, including the Annexes, schedules and exhibits hereto, and the other agreements, documents and written understandings referred to herein (including, but not limited to the Ancillary Agreements), constitutes the entire agreement and understanding and supersedes all prior agreements and understandings, both written and oral, between the Parties with respect to the subject matter hereof.

19.8 **Relationship of the Parties.** Nothing contained in this Supply Agreement shall be deemed to constitute a partnership, joint venture, or legal entity of any type between Novartis and Purchaser, or to constitute one as the agent of the other. Moreover, each Party agrees not to construe this Supply Agreement, or any of the transactions contemplated hereby, as a partnership for any tax purposes. Each Party shall act solely as an independent contractor, and nothing in this Supply Agreement shall be construed to give any Party the power or authority to act for, bind, or commit the other.

19.9 **Expenses.** Except as otherwise expressly provided in this Supply Agreement, each Party shall pay the fees and expenses of its respective lawyers and other experts and all other expenses and costs incurred by such Party incidental to the negotiation, preparation, execution and delivery of this Supply Agreement.

19.10 **Extension to Affiliates**. Each Party shall have the right to extend the rights, immunities and obligations granted in this Supply Agreement to one or more of its Affiliates. All applicable terms and provisions of this Supply Agreement shall apply to any such Affiliate to which this Supply Agreement has been extended to the same extent as such terms and provisions apply to such Party. Each Party shall remain primarily liable for any acts or omissions of its Affiliates.

19.11 **Affiliates.** Novartis may perform its obligations hereunder personally or through one or more Affiliates although it shall nonetheless be solely responsible for the performance of its Affiliates.

19.12 **Compliance with Law.** Each Party shall perform its obligations under this Supply Agreement in accordance with all applicable Laws. No Party shall, or shall be required to, undertake any activity under or in connection with this Supply Agreement which violates, or which it believes, in good faith, may violate, any applicable Law.

19.13 **English Language**. This Supply Agreement is written and executed in the English language. Any translation into any other language shall not be an official version of this Supply Agreement and in the event of any conflict in interpretation between the English version and such translation, the English version shall prevail.

19.14 **Counterparts**. This Supply Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[**Signature Page Follows**]

NOVARTIS PHARMA AG

By: _____
Name: _____
Title: _____
Date: _____

By: _____
Name: _____
Title: _____
Date: _____

NODEN PHARMA DAC

By: _____
Name: _____
Title: _____
Date: _____

Annex A

Template of the Quality Agreement

Annex B

SP Letter

Annex C

Minimum Order Quantities

Annex D

Template Trading Service Procedure

Annex E

Product Specifications

Annex F

API Supply

Exhibit 10.5

[***] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Noden Pharma DAC
Investment and Stockholders' Agreement

This Investment and Stockholders' Agreement (this "**Agreement**") is entered into as of July 1, 2016, by and among Noden Pharma DAC, a designated activity company limited by shares organized under the Laws of Ireland (the "**Company**"), PDL BioPharma, Inc., a Delaware corporation ("**PDL**"), Elie Farah ("**Farah**") and the other Persons listed on **Annex A** (as it may be amended from time to time in accordance with this Agreement) attached hereto (collectively, the "**Management Stockholders**" and, together with Farah, the "**Minority Stockholders**"). Each of the parties to this Agreement (other than the Company) and any other Person who shall become a party to or agree to be bound by the terms of this Agreement after the date hereof is sometimes hereinafter referred to as a "**Stockholder**".

WHEREAS, the Company has entered into that certain Asset Purchase Agreement dated as of May 24, 2016 (the "**APA**") by and between Novartis AG, a company organized under the Laws of Switzerland ("**NAG**"), Novartis Pharma AG, a company organized under the Laws of Switzerland ("**NPAG**"), Speedel Holding AG, a company organized under the Laws of Switzerland (together with NAG and NPAG, "**Novartis**"), and the Company (the "**Acquisition**");

WHEREAS, prior to the date hereof, PDL paid to Novartis on behalf of the Company amounts equal to [***] pursuant to an [***];

WHEREAS, prior to the date hereof, PDL paid to the Company an amount equal to $88, for which PDL received eighty-eight (88) ordinary shares of $1.00 each of the Company (the "**Initial PDL Ordinary Shares**");

WHEREAS, prior to the date hereof, Farah paid to the Company an amount equal to $6, for which Farah received six (6) ordinary shares of $1.00 each of the Company (the "**Initial Farah Ordinary Shares**");

WHEREAS, the Company effected a stock split, such that the Initial PDL Ordinary Shares and the Initial Farah Ordinary Shares were renominalised into ordinary shares of the Company of $0.10 each (the "**Ordinary Shares**"), with PDL holding eight hundred and eighty (880) Ordinary Shares and Farah holding sixty (60) Ordinary Shares after such stock split;

WHEREAS, subsequent to the stock split, (i) PDL paid to the Company an amount equal to $792, for which PDL received seven-thousand nine-hundred and twenty (7,920) Ordinary Shares and (ii) Farah paid to the Company an amount equal to $54, for which Farah received five-hundred and forty (540) Ordinary Shares (together with the Initial Farah Ordinary Shares, as adjusted for the above-mentioned stock split, the "**Farah Ordinary Shares**");

WHEREAS, the Company will issue to PDL and Farah preferred shares of $0.01 each (the "**Preferred Shares**") as provided herein;

[***] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

WHEREAS, the Company will issue to Farah Preferred Shares as provided herein;

WHEREAS, from time to time, as determined by the board of directors of the Company (the "**Board**"), the Company shall issue Ordinary Shares to Management Stockholders;

WHEREAS, the Company and the Stockholders desire, for their mutual benefit and protection, to enter into this Agreement to set forth their respective rights and obligations with respect to the capital stock of the Company (the "**Shares**");

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto do hereby agree as follows:

Section 1. Definitions

1.1 Definitions. The following terms, as used herein, have the following respective meanings:

"**Acquisition**" shall have the meaning set forth in the recitals.

"**Adverse Disclosure**" means public disclosure of material non-public information, which disclosure in the good faith judgment of the Board of the Company, after consultation with counsel to the Company, (i) would be required to be made in any Registration Statement so that such Registration Statement would not be materially misleading, (ii) would not be required to be made at such time but for the filing of such Registration Statement and (iii) the Company has a bona fide business purpose for not disclosing publicly.

"**Affiliate**" means, with respect to any Person, any other Person that directly or indirectly controls, is controlled by or is under common control with such Person; provided that no Management Stockholder shall be deemed an Affiliate of the Company or any of its Subsidiaries or parent entities for purposes of this Agreement.

"**Agreement**" shall have the meaning set forth in the preamble.

"**Anniversary Consideration**" shall have the meaning set forth in **Section 3.1(a)**.

"**APA**" shall have the meaning set forth in the recitals.

"**Board**" shall have the meaning set forth in the recitals.

"**Business Day**" means any day other than a Saturday, Sunday or a day on which commercial banks located in New York, New York or Dublin, Ireland are required or authorized by Law or executive order to be closed.

"**CEO Director**" shall have the meaning set forth in **Section 7.1**.

[***] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

"**Change of Control**" means (i) other than the Acquisition and any investments in the Company related thereto, the acquisition (in one or a series of transactions) by one (1) or more related or affiliated entities or Persons of more than fifty percent (50%) of the outstanding voting securities of the Company, (ii) the sale or other disposition of all or substantially all of the assets of the Company or (iii) the merger or consolidation of the Company with or into another entity, as a result of which merger or consolidation the holders of the outstanding voting securities of the Company immediately prior to such transaction will hold less than fifty percent (50%) of the outstanding voting securities of the surviving entity immediately after such transaction.

"**Company**" shall have the meaning set forth in the preamble.

"**Company Constitution**" means the Constitution of the Company.

"**Company Group**" means an Employer, the Company or any of their respective parents, subsidiaries or Affiliates, excluding PDL.

"**Directors**" shall have the meaning set forth in **Section 7.1**.

"**Drag-Along Buyer**" shall have the meaning set forth in **Section 8.4(e)**.

"**Drag-Along Transfer**" shall have the meaning set forth in **Section 8.4(a)**.

"**Employer**" means the Company or any of the Company's Affiliates that employs on a full-time basis, or has otherwise engaged, a Minority Stockholder, whether or not pursuant to a written agreement relating to such employment or engagement.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended, and any successor thereto, and any rules and regulations promulgated thereunder, all as the same shall be in effect from time to time.

[***] shall have the meaning set forth in the recitals.

"**Fair Market Value**" means, as of any time, other than with respect to a request for conversion under **Section 5**, the intrinsic value of an Ordinary Share, as determined by the Board in good faith after taking into account any relevant factors that the Board deems determinative of the value of the Ordinary Shares on the following basis: (a) prior to the existence of a public market for the Ordinary Shares, the value of the Ordinary Shares as determined in good faith by the Board based on an independent third party engaged by the Company, at the Company's expense, to calculate the fair market value of Ordinary Shares; or (b) if a public market for the Ordinary Shares exists, (i) the closing price on such day of the Ordinary Shares as reported on the principal securities exchange on which the Ordinary Shares are then listed or admitted to trading or (ii) if not so reported, as furnished by any member of FINRA selected by the Board. For purposes of determining the Fair Market Value of an Ordinary Share, such value shall in no event take into account any options to acquire Shares,

Black-Scholes or similar value of such Ordinary Share, all as determined by the Board in good faith.

"**Farah"** shall have the meaning set forth in the preamble.

"**Farah Ordinary Shares**" shall have the meaning set forth in the recitals.

"**Farah Preferred Shares**" shall have the meaning set forth in **Section 2.2(c)**.

"**FINRA**" means the Financial Industry Regulatory Authority.

"**Initial Closing**" shall have the meaning set forth in **Section 2.2(a)**.

"**Initial Closing Date**" shall have the meaning set forth in **Section 2.2(a)**.

"**IPO**" means the first Underwritten Offering of a member of the Company Group.

"**Issuer Free Writing Prospectus**" means an issuer free writing Prospectus, as defined in Rule 433 under the Securities Act, relating to an offer of the Registrable Securities.

"**Joinder**" shall have the meaning set forth in **Section 8.1**.

"**Joint Director**" shall have the meaning set forth in **Section 7.1**.

"**Law**" shall mean any statute, law, ordinance, rule or regulation of any governmental body or agency.

"**Lien**" means, with respect to any asset (including, without limitation, any security), any mortgage, lien, pledge, charge, security interest or encumbrance of any kind.

"**Loss**" or "**Losses**" shall have the meaning set forth in **Section 9.2(a)**.

"**Management Incentive Plan**" shall have the meaning set forth in **Section 4.1**.

"**Management Stockholders**" shall have the meaning set forth in the preamble.

"**Milestone 1 Consideration**" shall have the meaning set forth in **Section 3.1(b)**.

"**Milestone 2 Consideration**" shall have the meaning set forth in **Section 3.1(c)**.

"**Milestone 3 Consideration**" shall have the meaning set forth in **Section 3.1(d)**.

"**Milestone 4 Consideration**" shall have the meaning set forth in **Section 3.1(e)**.

"**Milestone Payments**" shall have the meaning set forth in the APA.

"**Minority Stockholders**" shall have the meaning set forth in the preamble.

"**NAG**" shall have the meaning set forth in the recitals.

"**Necessary Action**" means, with respect to a specified result, all actions, to the fullest extent permitted by applicable Law, necessary to cause such result, including, without limitation, (i) voting or providing a written consent or proxy with respect to the Shares, (ii) causing the adoption of Stockholders' resolutions and amendments to the Company Constitution, (iii) executing agreements and instruments, including any instruments of transfer with respect to the Shares, as applicable, and (iv) making, or causing to be made, with governmental, administrative or regulatory authorities, all filings, registrations or similar actions that are required to achieve such result.

"**Novartis**" shall have the meaning set forth in the recitals.

"**NPAG**" shall have the meaning set forth in the recitals.

"**Order**" shall mean any judgment, cease-and-desist or other order, injunction, decree, ruling, writ, permit, assessment, arbitration award or license of any governmental body or agency or any arbitrator.

"**Ordinary Share Equivalents**" means securities (including, without limitation, warrants and options) exercisable, exchangeable or convertible into Ordinary Shares.

"**Ordinary Shares**" shall have the meaning set forth in the recitals.

"**PDL**" shall have the meaning set forth in the preamble.

"**PDL Conversion Price**" means the [***] as reported by the Wall Street Journal (or similar publication if the Wall Street Journal is not available) for [***]

"**PDL Directors**" shall have the meaning set forth in **Section 7.1**.

"**PDL Stock**" shall have the meaning set forth in **Section 5.1**.

"**Permitted Transferee**" means a Person that has acquired one (1) or more Shares in a manner permitted by this Agreement

"**Permitted Transfers**" shall have the meaning set forth in **Section 8.7**.

"**Person**" means any individual, corporation, limited liability company, partnership, joint venture, trust, association, unincorporated organization or other entity.

"**Piggyback Notice**" has the meaning set forth in **Section 9.1(a)**.

"**Piggyback Registration**" has the meaning set forth in **Section 9.1(a)**.

[***] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

"**Preferred Shares**" shall have the meanings set forth in the recitals.

"**Pro Rata Portion**" means:

(a) for purposes of **Section 8.4**, a number of Ordinary Shares determined by multiplying (i) the aggregate number of Ordinary Shares held by the Minority Stockholder by (ii) a fraction, the numerator of which is the aggregate number of Ordinary Shares proposed to be Transferred by PDL and/or its Affiliates to the Drag-Along Buyer and the denominator of which is the aggregate number of Ordinary Shares held by PDL (or any Affiliate of PDL to which PDL has Transferred its Shares);

(b) for purposes of **Section 8.5**, a number of Ordinary Shares determined by multiplying (i) the total number of Ordinary Shares proposed to be Transferred by PDL and/or its Affiliates to the proposed Transferee by (ii) a fraction, the numerator of which is the number of Ordinary Shares held by such Minority Stockholder and the denominator of which is the aggregate number of Ordinary Shares held by all Stockholders; and

(c) for purposes of **Section 9.1(a)** (with respect to a Piggyback Registration), a number of Registrable Securities determined by multiplying (i) the total number of Registrable Securities held by each Stockholder receiving a Piggyback Notice by (ii) a fraction, the numerator of which is the number of Registrable Securities proposed to be Registered in the applicable Piggyback Registration by PDL, less the number of Registrable Securities that PDL shall withdraw from such Piggyback Registration pursuant to **Section 9.1(c)** and the denominator of which is the aggregate amount of Registrable Securities held by PDL as of the date PDL elects to include Registrable Securities in such Registration Statement or on the date of such withdrawal, as applicable.

"**Prospectus**" means the prospectus included in any Registration Statement, all amendments and supplements to such prospectus, including pre- and post-effective amendments to such Registration Statement, and all other material incorporated by reference in such prospectus.

"**Public Offering**" means any public offering and sale of equity securities of the Company or its successors for cash pursuant to an effective Registration Statement (other than on Form S-4, S-8 or a comparable form) under the Securities Act or a comparable Registration Statement under the Laws of another jurisdiction, should such an offering take place outside of the United States.

"**Registrable Securities**" means any Shares held by any Stockholder and any securities held by any Stockholder that may be issued or distributed or be issuable or distributable in respect of any Shares by way of conversion, exercise, dividend, stock split or other distribution, merger, consolidation, exchange, recapitalization or reclassification or similar transaction, in each case whether now owned or hereinafter acquired; provided that any such Registrable Securities shall cease to be Registrable Securities to the extent (i) a Registration

Statement with respect to the sale of such Registrable Securities has become effective under the Securities Act, or under the Laws of another jurisdiction should a Public Offering take place outside of the United States, and such Registrable Securities have been disposed of in accordance with the plan of distribution set forth in such Registration Statement, (ii) such Registrable Securities have been distributed pursuant to Rule 144 of the Securities Act (or any similar or analogous rule promulgated under the Securities Act) and new certificates for them not bearing a legend restricting Transfer shall have been delivered by the Company, (iii) such Registrable Securities shall have been otherwise Transferred and new certificates for them not bearing a legend restricting Transfer under the Securities Act shall have been delivered by the Company and such securities may be publicly resold without Registration under the Securities Act, (iv) a Registration Statement on Form S-8 (or any successor form) covering such securities is effective, (v) in the case of a Stockholder who is not an Affiliate (as such term is defined in Rule 12b-2 under the Exchange Act) of the Company, all remaining Registrable Securities held by such Stockholder may immediately be sold under Rule 144 (or any similar provision then in force) under the Securities Act and without any volume or manner of sale restrictions or (vi) such security ceases to be outstanding. For the avoidance of doubt, it is understood that, with respect to any Registrable Securities for which a Stockholder holds vested but unexercised options or other Ordinary Share Equivalents at such time exercisable for, convertible into or exchangeable for Ordinary Shares, to the extent that such Registrable Securities are to be sold pursuant to this Agreement, such Stockholder must exercise the relevant option or exercise, convert or exchange such other relevant Ordinary Share Equivalent and Transfer the underlying Registrable Securities (in each case, net of any amounts required to be withheld by the Company in connection with such exercise).

"**Registration**" means a registration with the SEC of the Company's equity securities for offer and sale to the public under a Registration Statement, or a comparable registration under the Laws of another jurisdiction should an offering take place outside of the United States. The term "**Register**" shall have a correlative meaning.

"**Registration Statement**" means any registration statement of the Company filed with, or to be filed with, the SEC under the rules and regulations promulgated under the Securities Act, or a comparable registration statement under the Laws of another jurisdiction, should a Public Offering take place outside of the United States, including the related Prospectus, amendments and supplements to such registration statement, including pre- and post-effective amendments, and all exhibits and all material incorporated by reference in such registration statement; provided, however, that the term "**Registration Statement**" without reference to a time includes such Registration Statement, as amended by any post-effective amendments, as of the time of first contract of sale for the Registrable Securities.

"**Representatives**" means, with respect to any Person, any of such Person's officers, directors, employees, agents, attorneys, accountants, actuaries, consultants, equity financing partners or financial advisors or other Person associated with, or acting on behalf of, such Person.

"**Right of First Refusal**" shall have the meaning set forth in **Section 8.6(b)**.

"**Rule 144**" means Rule 144 (or any successor provisions) under the Securities Act.

"**SEC**" means the Securities and Exchange Commission.

"**Securities Act**" means the Securities Act of 1933, as amended, and any successor thereto and any rules and regulations promulgated thereunder, all as the same shall be in effect from time to time.

"**Shares**" shall have the meaning set forth in the preamble.

"**Stockholder**" shall have the meaning set forth in the preamble.

"**Subsidiary**" means, with respect to any Person, any corporation, limited liability company, partnership, association or other business entity of which (a) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one (1) or more of the other Subsidiaries of that Person or a combination thereof, or (b) if a limited liability company, partnership, association or other business entity, a majority of the limited liability company, partnership or other similar ownership interest thereof is at the time owned or controlled, directly or indirectly, by any Person or one (1) or more Subsidiaries of that Person or a combination thereof. For purposes hereof, a Person or Persons shall be deemed to have a majority ownership interest in a limited liability company, partnership, association or other business entity if such Person or Persons shall be allocated a majority of limited liability company, partnership, association or other business entity gains or losses or shall be or control the managing director or general partner of such limited liability company, partnership, association or other business entity.

"**Transaction Closing**" means the date on which the Acquisition is consummated in accordance with the APA.

"**Transfer**" means any direct or indirect sale, bequest, exchange, assignment, gift, transfer, pledge, creation of any security interest or other encumbrance and any other disposition of any kind (whether with or without consideration and whether voluntary or involuntary or by operation of law) affecting title to or possession of any of the Shares. The terms "**Transferee**" and "**Transferring**" shall have correlative meaning.

"**Underwritten Offering**" means a Registration in which securities of the Company are sold to an underwriter or underwriters on a firm commitment basis for reoffering to the public.

"**Unvested Ordinary Share**" means any Ordinary Share that is not a Vested Ordinary Share.

"**Vested Ordinary Share**" means, at any time, any Ordinary Share that, as of such date, (x) is vested or (y) would not be subject to purchase by the Company at a price of $0.01 per share in the event that the employment of the holder of such Ordinary Share were terminated for "cause", as defined in any subscription instrument executed by such holder with the Company, the Management Incentive Plan or any other documents or agreements governing the awards granted thereunder.

1.2 Other Interpretive Provisions. In this Agreement, except as otherwise provided:

(a) A reference to a Section or Annex is a reference to a Section of, or an Annex to, this Agreement, and references to this Agreement include any recital in or Annex to this Agreement.

(b) The Annexes form an integral part of and are hereby incorporated by reference into this Agreement.

(c) Headings are inserted for convenience only and shall not affect the construction or interpretation of this Agreement.

(d) Unless the context otherwise requires, words importing the singular include the plural and vice versa, words importing the masculine include the feminine and vice versa and words importing Persons include corporations, associations, partnerships, joint ventures and limited liability companies and vice versa.

(e) Unless the context otherwise requires, the words "hereof" and "herein," and words of similar meaning, refer to this Agreement as a whole and not to any particular Section. The words "include," "includes" and "including" shall be deemed to be followed by the words "without limitation."

(f) A reference to any legislation or to any provision of any legislation shall include any successor legislation and any amendment, modification or re-enactment thereof and any legislative provision substituted therefor.

(g) All determinations to be made by PDL or any other Stockholder hereunder may be made by such Person in its sole discretion, and such Person may determine, in its sole discretion, whether or not to take actions that are permitted, but not required, by this Agreement to be taken by such Person, including the giving of consents required hereunder.

(h) The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intention or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

[***] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Section 2. Purchase; Initial Closing

2.1 Purchase. On the terms and subject to the conditions set forth in this **Section 2**, each of Farah and PDL will purchase from the Company, and the Company will sell to each of Farah and PDL a number of Preferred Shares determined in accordance with **Section 2** and **Section 3**.

2.2 Initial Closing.

(a) Subject to the satisfaction or waiver of the conditions set forth in **Section 2.3**, other than those conditions that by their nature are to be satisfied by the taking of an act or delivery of a document at the Initial Closing, the transactions referred to in this **Section 2.2** (the "**Initial Closing**") shall take place immediately prior to the consummation of the Acquisition (the "**Initial Closing Date**") or on the date hereof (as specified below), at a location determined by PDL, or at such other date, time or place as the parties hereto shall agree in writing.

(b) At the Initial Closing, the Company shall issue and deliver to PDL, 9,400,000 Preferred Shares as set forth in **Annex A** (the "**Initial PDL Preferred Shares**") which shall be paid up in accordance with **Section 2.2(d)**.

(c) On the date hereof, the Company shall issue and deliver to Farah, 600,000 Preferred Shares as set forth in **Annex A** (the "**Farah Preferred Shares**") which shall be paid up in accordance with **Section 2.2(f)**.

(d) At the Initial Closing, PDL shall pay to the Company, in addition to the [***], $66,150,000, such amount being in consideration for the Initial PDL Preferred Shares, $94,000 of which shall pay up the nominal value of the Initial PDL Preferred Shares and the remainder of which shall be allocated to the share premium account of the Company. The [***] shall also be allocated as share premium account of the Company.

(e) At the Initial Closing, PDL shall make a loan to the Company in an amount equal to $75,000,000.

(f) On the date hereof, Farah shall pay to the Company $233,833, such amount being in consideration for the Farah Preferred Shares, $6,000 of which shall pay up the nominal value of the Farah Preferred Shares and the remainder of which shall be allocated to the share premium account of the Company.

2.3 Conditions to Initial Closing.

(a) *Mutual Conditions to Closing*. The respective obligations of PDL, Farah and the Company to effect the Initial Closing shall be subject to the satisfaction (or waiver in writing by each of PDL, Farah and the Company), at or prior to date hereof and the Initial Closing Date, of the following conditions:

[***] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(i) due execution of this Agreement on terms and conditions satisfactory to PDL;

(ii) the authorization of PDL's entry into this Agreement by the board of directors of PDL;

(iii) the authorization of the Company's entry into this Agreement by the Board; and

(iv) no governmental body, agency or official shall have enacted, issued, promulgated, enforced or entered any Law or Order that is in effect and would (A) make the transactions contemplated by the Acquisition illegal, (B) make the transactions contemplated at the Initial Closing illegal or (C) otherwise prohibit or enjoin the consummation of the transactions contemplated by this Agreement.

(b) *PDL Conditions to Closing*. In addition to the conditions set forth in **Section 2.3(a)**, the obligations of PDL to consummate the purchase of Shares to be purchased by it at the Initial Closing shall be subject to the satisfaction, or waiver in writing by PDL, of each of the following conditions at or prior to the Initial Closing Date:

(i) each of the representations and warranties of the Company contained in **Section 10.1** of this Agreement shall be true and correct in all material respects as of the date hereof and as of the Initial Closing Date with the same force and effect as if made on and as of the Initial Closing Date; and

(ii) each of the representations and warranties of Farah contained in **Section 10.2** of this Agreement shall be true and correct in all material respects as of the date hereof and as of the Initial Closing Date with the same force and effect as if made on and as of the Initial Closing Date.

(c) *Farah Conditions to Closing*. In addition to the conditions set forth in **Section 2.3(a)**, the obligations of Farah to consummate the purchase of Shares to be purchased by him on the date hereof shall be subject to the satisfaction, or waiver in writing by Farah, of each of the following conditions at or prior to the date hereof:

(i) each of the representations and warranties of the Company contained in **Section 10.1** of this Agreement shall be true and correct in all material respects as of the date hereof; and

(ii) each of the representations and warranties of PDL contained in **Section 10.2** of this Agreement shall be true and correct in all material respects as of the date hereof.

Section 3. Further Purchases; Acquisition Fees and Expenses

3.1 Further Purchase of Preferred Shares. As further described in this **Section 3** and in **Annex A**, PDL shall acquire, and the Company shall allot and issue to PDL, one (1) Preferred Share for each payment amount set forth in **Section 3.1(a)**, **(b)**, **(c)**, **(d)** and **(e)** below (in the cases of **Section 3.1(b)**, **(c)**, **(d)** and **(e)**, only if the relevant payment becomes due and payable under the APA), $0.01 of each such payment shall pay up the nominal amount of the Preferred Share allotted and issued in respect of that payment and the remainder of which shall be allocated to the share premium account of the Company:

(a) $89,000,000 on the first (1st) anniversary of the Initial Closing Date, such amount to be reduced by the amount of any debt financing arranged by the Company (the "**Anniversary Consideration**"); provided that, at a minimum, the Anniversary Consideration shall be $32,000,000;

(b) if "Milestone #1" of the Milestone Payments becomes due and payable under the APA, [***], such amount to be reduced by the amount of any debt financing arranged by the Company or revenues of the Company available to finance such Milestone Payment (the "**Milestone 1 Consideration**"); provided that, at a minimum, the [***];

(c) if "Milestone #2" of the Milestone Payments becomes due and payable under the APA, then within five (5) Business Days after [***], such amount to be reduced by the amount of any debt financing arranged by the Company or revenues of the Company available to finance such Milestone Payment (the "**Milestone 2 Consideration**"); provided that, at a minimum, the [***];

(d) if "Milestone #3" of the Milestone Payments becomes due and payable under the APA, then within five (5) Business Days of [***], such amount to be reduced by the amount of any debt financing arranged by the Company or revenues of the Company available to finance such Milestone Payment (the "**Milestone 3 Consideration**"); provided that, at a minimum, the [***]; and

(e) if "Milestone #4" of the Milestone Payments becomes due and payable under the APA, [***], such amount to be reduced by the amount of any debt financing arranged by the Company or revenues of the Company available to finance such Milestone Payment (the "**Milestone 4 Consideration**"); provided that at a minimum, the [***].

(f) Acquisition Fees and Expenses
. On the date of the Transaction Closing, the Company shall reimburse PDL for all reasonable fees, expenses and disbursements (including, without limitation, reasonable fees, expenses and disbursements of PDL's counsel, the Company's counsel (to the extent paid by PDL), accountants and other advisors selected and engaged by PDL in connection with the Acquisition) incurred by PDL or any Affiliate thereof in connection with PDL's subscription for shares in the Company or the Acquisition.

3.2 [***].

[***] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Section 4. Management Stockholder Shares

4.1 Management Stockholder Shares. Subject to the approval of the Board, the Company shall implement a management incentive plan (the "**Management Incentive Plan**") pursuant to which the Board may grant up to six hundred (600) Ordinary Shares, in the aggregate, to employees of the Company (the "**Management Stockholder Shares**"), which shall vest in accordance with, and otherwise be subject to the terms of, the Management Incentive Plan and any other documents or agreements governing the awards granted thereunder. Any Person receiving Management Stockholder Shares pursuant to the Management Incentive Plan shall execute a Joinder to this Agreement prior to receiving such Management Stockholder Shares. The Company shall amend **Annex A**, from time to time, to reflect (a) any new Management Stockholders and (b) any issuances of Management Stockholder Shares (including the vesting criteria set forth in the Management Incentive Plan and any other documents or agreements governing the awards granted thereunder).

Section 5. Stockholders' Right to Convert Ordinary Shares

5.1 Conversion Right. If [***], then Minority Stockholders shall have the right, on an annual basis, to elect to convert up to [***] issued to, and then held by, such Minority Stockholder into shares of PDL common stock, par value $0.01 per share ("**PDL Stock**"), which shall be "restricted securities" (as defined in Rule 144 under the Securities Act), on the terms set forth in this **Section 5** (the "**Conversion**").

5.2 Conversion Procedure. A Minority Stockholder who is considering requesting a Conversion (a "**Requesting Stockholder**") shall provide written notice thereof to the Company and PDL, in accordance with **Section 11.12**, delivered prior to [***] of the year in which the Conversion is to be exercised (the "**Request for Conversion**"). If the Company receives a timely Request for Conversion, the Company shall engage an independent third party, at the Company's expense, to calculate the fair market value of Ordinary Shares (the "**Conversion Fair Market Value**"), and thereafter provide to the Requesting Stockholder such calculation in writing (the "**FMV Notice**"). In the event that a Requesting Stockholder decides to effect a Conversion, such Requesting Stockholder shall deliver a written notice to PDL and the Company, in accordance with **Section 11.12**, (the "**Conversion Notice**") within three (3) Business Days of receipt of the FMV Notice, disclosing in reasonable detail the number of Ordinary Shares to be Transferred (the "**Company Conversion Shares**"). PDL shall, within five (5) days of receipt of a Conversion Notice, purchase from the Requesting Stockholder the Company Conversion Shares, and sell to such Requesting Stockholder, in exchange for such Company Conversion Shares, an amount of PDL Stock that is equal to the product of [***] (the "**PDL Conversion Shares**"). For the avoidance of doubt, PDL Conversion Shares shall be "restricted securities" (as defined in Rule 144 under the Securities Act).

5.3 Termination of Conversion Right. Any right to Conversion under this **Section 5** shall terminate upon the consummation of an IPO or termination of such Minority Stockholder's employment with an Employer.

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5.4 Black-Out Period. Any Minority Stockholder who receives PDL Stock pursuant to a Conversion agrees to comply with the terms and conditions of any policy under which PDL employees are prohibited from Transferring PDL Stock in connection with a Registration of securities of PDL and any such policy shall be provided to the Minority Stockholder prior to a Conversion.

5.5 Necessary Action. The Stockholders and the Company shall take all Necessary Action to implement the covenants and agreements in this **Section 5** and to give effect to such covenants and agreements in the most tax efficient manner for PDL].

Section 6. Distributions

6.1 Distributions.

(a) Dividends to the holders of Ordinary Shares shall be made on a pro rata basis at such times and in such amounts as the Board determines, subject to the maintenance by the Company of appropriate reserves (as determined by the Board).

(b) In the event of a Change of Control, the Company shall effect a mandatory redemption of the Preferred Shares and shall apply the proceeds of such Change of Control in the following order and priority:

(i) first, to redeem the Preferred Shares, on a pro rata basis according to the number of Preferred Shares held by each holder until the holders of Preferred Shares, in the aggregate, have received an amount equal to the aggregate investment of all holders of Preferred Shares in respect of their Preferred Shares, [***] (at which point, all Preferred Shares shall be deemed redeemed);

(ii) second, one hundred percent (100%) to the holders of Ordinary Shares on a pro rata basis, until each holder thereof has received the aggregate amount of dividends per Ordinary Shares that accrued but remain unpaid following the date hereof;

(iii) third, one hundred percent (100%) to the holders of Ordinary Shares on a pro rata basis, until each holder thereof has received an amount equal to the aggregate investment by such Stockholder in respect of his, her or its Ordinary Shares that have vested as of such date, less the aggregate amount of dividends declared and paid per share of Ordinary Shares since the date hereof (including, for the avoidance of doubt, dividends paid pursuant to clause (ii) above); and

(iv) thereafter, any remaining amounts shall be distributed on a pro rata basis to the holders of Ordinary Shares.

For the avoidance of doubt, in the case of a mandatory redemption of Preferred Shares pursuant to this **Section 6.1(b)**, if the distribution pursuant to **Section 6.1(b)(i)**

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is made in full, Farah shall receive an amount equal to [***] of the aggregate investment of all holders of Preferred Shares in respect of their Preferred Shares, [***].

(c) Any Unvested Ordinary Shares (or issued but subsequently forfeited, redeemed or otherwise reacquired by the Company pursuant to the provisions of this Agreement or the Management Incentive Plan) shall, pending their vesting to Minority Stockholders pursuant to the terms hereof, the Management Incentive Plan and any other documents or agreements governing the awards granted thereunder, be deemed to be Vested Ordinary Shares held by PDL, solely for purposes of payments made under this **Section 6.1**; provided, that such deemed ownership shall not subject PDL to any other rights or obligations under this Agreement or otherwise of a Minority Stockholder, as such.

(d) The Stockholders and the Company shall take all Necessary Action to implement the covenants and agreements in this **Section 6.1.**

6.2 Restricted Distributions.

(a) Except as set forth in **Section 6.1(c)**, the Company, and the Board on behalf of the Company, shall not make any distributions in respect of any unvested Ordinary Shares.

(b) Subject to **Section 9.4**, the Company, and the Board on behalf of the Company, shall not make any distributions in the form of dividends in respect of Preferred Shares. Preferred Shares shall be non-interest bearing and shall not be redeemable or convertible except as provided in **Section 6.1(b)(i), Section 8.3 or Section 9.4**.

Section 7. Governance

7.1 Board Composition. The Stockholders and the Company shall take all Necessary Action to cause the Board to be comprised of five (5) Persons, three (3) of whom shall be designated by PDL and shall be A directors under the Company Constitution (the "**PDL Directors**"), one (1) of whom shall be designated jointly by PDL and, for so long as Farah is Chief Executive Officer of the Company, Farah and shall be a B director under the Company Constitution (the "**Joint Director**") and one (1) of whom shall be Farah who shall be a B director under the Company Constitution, for so long as Farah is the Chief Executive Officer of the Company (the "**CEO Director**") (the PDL Directors, the Joint Director and the CEO Director, together, the "**Directors**"). If Farah (a) loses the right to designate the Joint Director and/or (b) ceases to be the Chief Executive Officer of the Company, then the Stockholders shall take all Necessary Action to (x) in the case of clause (a), if so requested by PDL, cause the Joint Director to promptly tender his or her resignation as a director of the Board (or remove such Joint Director from the Board in the event a resignation is not provided) and (y) in the case of clause (b), cause the CEO Director to promptly tender his resignation as a director of the Board (or remove such CEO Director from the Board in the event a resignation is not provided). In the event any Director resigns or is removed pursuant to the immediately preceding sentence, PDL

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shall have the right to designate an additional Director to fill such vacancy (thereby increasing the number of PDL Directors) and the Stockholders and the Company shall take all Necessary Action to appoint such Director; provided that, in the event that PDL does not designate an additional Director to fill any vacancy, the Stockholders shall, pursuant to the Company Constitution, decrease the size of the Board to eliminate such vacancy.

7.2 Actions by Board. The Company and the Stockholders shall take all Necessary Action to cause the following procedures to be followed by the Board:

(a) A quorum of the Board shall consist of at least two (2) members of the Board, which shall include at least one (1) PDL Director (a "**Quorum**"). A Quorum must be present at meetings of the Board (whether in Person or by telephone, videoconference or otherwise) to conduct business. A Quorum must exist at all times during any meeting of the Board, including the reconvening of a meeting adjourned, in order for any action taken at such meeting to be valid.

(b) Subject to **Section 7.3**, decisions and actions of the Board shall require the affirmative vote of a majority of the members of the Board present at a meeting at which a Quorum is present, or a majority of the members of a committee of the Board, to the extent such decisions shall be lawfully delegated to such committee. The Directors shall be entitled to vote as follows:

(i) Each PDL Director present at such meeting shall be entitled to a number (which number may be fractional) of votes equal to a fraction:

(1) the numerator of which is three (3); and

(2) the denominator of which is the number of PDL Directors who are present at such meeting of the Board.

(ii) Each other Director shall be entitled to one (1) vote.

7.3 Actions by PDL Directors. The Company shall not, and the Company shall cause each of the Company's Subsidiaries not to, take (or agree to take) any action regarding the following matters without the consent of a PDL Director:

(a) except pursuant to this Agreement, any issuance, sale, repurchase, redemption or prepayment of (i) shares or stock of the Company or any of its Subsidiaries, (ii) warrants, options or other rights to acquire shares or stock of the Company or any of its Subsidiaries, (iii) any securities convertible or exchangeable into shares or stock of the Company or any of its Subsidiaries or (iv) any debt security of the Company or any of its Subsidiaries;

(b) any liquidation, dissolution, winding up, merger, consolidation or sale of the Company or its successors or any Subsidiary of the Company or its successors, or any other transfer or disposition of all or substantially all of the assets of the Company or its successors or

any Subsidiary of the Company or its successors (in each case, pursuant to a single transaction or series of related transactions);

(c) any acquisition, sale or transfer of, or creation of any Lien over, any asset by the Company or the Company's Subsidiaries in excess of [***] (in book value), except with respect to any such transfers approved by the Board and conducted in the ordinary course of business;

(d) any increase or reduction of the number of authorized members of the Board, or any direct or indirect payment to, or on behalf of, any member of the Board as compensation for serving thereon (other than reimbursement of expenses in accordance with the Company Constitution);

(e) any declaration or payment of any dividend on, distributions with respect to or repurchase or redemption of (i) capital stock of the Company or any of its Subsidiaries, (ii) warrants, options or other rights to acquire shares of capital stock of the Company or any of its Subsidiaries or (iii) any securities convertible or exchangeable into capital stock of the Company or any of its Subsidiaries;

(f) any (i) incurrence or assumption of indebtedness, (ii) assumption, guarantee, endorsement or other action by which the Company or any of its Subsidiaries would become liable or responsible (whether directly, contingently or otherwise) for any indebtedness of any other person or (iii) amendment or modification of any agreement, indenture or similar instrument governing the terms of any indebtedness or debt securities of the Company or any of its Subsidiaries, in each case which would cause the Company to incur more than [***] of indebtedness in the aggregate;

(g) the initiation or completion of any sale of equity to the public pursuant to an offering Registered under the Securities Act or to the public through a broker dealer or market maker pursuant to the provisions of Rule 144 adopted under the Securities Act;

(h) any amendment to the Company Constitution or the organizational documents of any of the Company's Subsidiaries; or

(i) any agreement, obligation or commitment by the Company or any of its Subsidiaries to do any of the foregoing.

7.4 Vacancies.

(a) Each Director will hold his or her office as a director of the Company for such term as is provided in the Company Constitution and applicable Law or until his or her death, resignation, incapacity or removal from the Board or until his or her successor has been duly elected and qualified in accordance with the provisions of this Agreement. If any Director ceases to serve as a director of the Company for any reason during his or her term (a "**Terminating Director**"), a nominee for the vacancy resulting therefrom will be designated by

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the party or parties that nominated the Terminating Director (unless such vacancy is the result of the resignation or removal of a director in accordance with **Section 7.1**).

(b) If PDL or Farah (as applicable) fails at any time to nominate the maximum number of Persons to the Board that PDL and/or Farah (as applicable) are entitled to nominate pursuant to this Agreement, then each applicable directorship will remain vacant until such vacancy is filled by a nominee selected by the party with the right to nominate such directorship.

7.5 Removal of Directors. If at any time: (a) PDL notifies the Company in writing of its desire to have removed from the Board, with or without cause, any PDL Director or (b) PDL and Farah jointly notify the Company in writing of their desire to have removed from the Board, with or without cause, the Joint Director, then the Stockholders shall take all Necessary Action to take or cause to be taken all such action as may be required to remove such Director from the Board.

7.6 Necessary Action. The Stockholders and the Company shall take all Necessary Action to implement the covenants and agreements in this **Section 7**.

Section 8. Restrictions on Transfer; Dividends

8.1 General Restrictions on Transfer. No Management Stockholder may Transfer any Ordinary Share without the express prior written consent of a majority of the Board, other than to Permitted Transferees. [***]. Any Transfer of Ordinary Shares by a Minority Stockholder shall be subject to PDL's Right of First Refusal set forth in **Section 8.6**. The Transferee in any Transfer must execute and deliver a joinder agreement in the form set forth in **Exhibit A** (a "**Joinder**"), agreeing to be bound by the terms and conditions of this Agreement as if such Person were a party hereto (together with any other documents PDL and the Company determine are necessary to make such Person a party hereto). Any purported Transfer of any Shares in any manner other than that specified under this **Section 8.1** shall be null and void. The Company shall amend **Annex A**, from time to time, to reflect any Transfers to Permitted Transferees made in accordance with this **Section 8.1**.

8.2 Black-Out Periods. In the event of a Registration by the Company involving the offering and sale by the Company of equity securities or securities convertible into or exchangeable for its equity securities, the Minority Stockholders agree, if requested by the Company (or, in the case of an Underwritten Offering, by the managing underwriter or underwriters), not to effect any public sale, distribution (including any sale pursuant to Rule 144 under the Securities Act) or Transfer of any securities (except, in each case, as part of the applicable Registration, if permitted) which securities are the same as or similar to those being Registered in connection with such Registration, or which are convertible into or exchangeable or exercisable for such securities, during the period beginning seven (7) days before, and ending ninety (90) days (or such lesser period as may be permitted by the Company or such managing underwriter or underwriters) after, the effective date of the Registration Statement filed in

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connection with such Registration, to the extent such Minority Stockholders are timely notified in writing by the Company or the managing underwriter or underwriters.

8.3 Right to Redeem.

(a) Upon termination of any Minority Stockholder's employment with an Employer, the Company shall have the right, but not the obligation, to redeem all or a portion of the Shares held by such Minority Stockholder or his or her successor in interest hereunder (the "**Redemption Right**"). The Redemption Right shall be exercisable by written notice (the "**Redemption Notice**") delivered prior to the end of the sixty (60)-day period beginning on the day immediately following the six (6)-month anniversary of the Minority Stockholder's termination of employment (the "**Redemption Period**"), in accordance with **Section 11.12** and setting forth the number of Shares with respect to which the Redemption Right is being exercised (the "**Redemption Shares**"). The closing for such exercise shall occur on a date designated by the Company in the Redemption Notice, which date shall be no later than the end of the Redemption Period (the "**Redemption Date**"). The price payable by the Company for the Redemption Shares (the "**Redemption Price**") shall be: (i) with respect to Ordinary Shares, the Fair Market Value of the Redemption Shares three (3) Business Days prior to the Redemption Date and (ii) with respect to Preferred Shares, the aggregate investment in respect of the Redemption Shares, [***] provided, however, that in the event [***]. The Redemption Price shall be paid in cash, by certified check or by wire transfer of immediately-available funds.

(b) The Company shall have the option to assign its rights under **Section 8.3(a)**, in whole or in part, to PDL, any of the Company's Affiliates or any of their respective Permitted Transferees, in each case upon the consent of PDL, whereupon such right shall give the assignee thereof the right (but not the obligation) to purchase the Redemption Shares on the terms set out in **Section 8.3(a)** and all references to a redemption in **Section 8.3(a)** shall be deemed to be references to a purchase. If the Company does not exercise its Redemption Right during the Redemption Period, PDL shall have the ability to purchase the Redemption Shares (at the Redemption Price) by delivering a notice substantially similar to the Redemption Notice within forty-five (45) days following the expiration of the Redemption Period.

(c) The Stockholders and the Company shall take all Necessary Action to implement the covenants and agreements in this **Section 8.3**. For the avoidance of doubt, the rights of the Company provided in this **Section 8.3** are in addition to those provided under the terms of any subscription instrument by and between any Minority Stockholder and the Company by which such Minority Stockholder was issued Ordinary Shares and any Management Incentive Plan (together, the "**Minority Stockholder Subscription Documents**"), and, in the event of a conflict or an inconsistency between this **Section 8.3** and any Minority Stockholder Subscription Document, the terms of the Minority Stockholder Subscription Document shall prevail.

8.4 Drag-Along Rights.

[***] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(a) At any time, in connection with a proposed Change of Control, PDL may exercise drag-along rights in accordance with the terms, conditions and procedures set forth herein (a "**Drag-Along Transfer**").

(b) In the event PDL elects to exercise its drag-along rights, PDL shall give written notice to the Minority Stockholders, not later than fifteen (15) days prior to the consummation of the Drag-Along Transfer, setting forth the name and address of the Transferee, the total number of Ordinary Shares proposed to be Transferred by PDL, the proposed amount and form of consideration for such Ordinary Shares and all other material terms and conditions of the Drag-Along Transfer. Such notice shall also specify the number of Ordinary Shares such Minority Stockholder shall be required to Transfer, up to such Minority Stockholder's Pro Rata Portion of Ordinary Shares. Upon the consummation of the Drag-Along Transfer, the aggregate consideration received as a result thereof shall be deemed distributed in accordance with and in satisfaction of the rights and preferences set forth in the Company Constitution as in effect immediately prior to such Drag-Along Transfer. Each holder of Ordinary Shares participating in the Drag-Along Transfer will receive the same form of consideration for its Ordinary Shares.

(c) Each Minority Stockholder shall (i) make the same representations, warranties, covenants, indemnities and agreements as made by PDL in connection with the Drag-Along Transfer, provided, that each Minority Stockholder shall only be obligated to make individual representations and warranties with respect to its title to and ownership of the applicable Ordinary Shares, authorization, execution and delivery of relevant documents, enforceability of such documents against the Minority Stockholder and other matters relating to such Minority Stockholder, but not with respect to any of the foregoing with respect to any other Stockholders or their Ordinary Shares; and (ii) be subject to the same terms and conditions to the Transfer as PDL agrees. All such representations, warranties, covenants, indemnities and agreements shall be made by PDL and each Minority Stockholder severally and not jointly and any liability for breach of any representations and warranties related to the Company shall be allocated among PDL and each Minority Stockholder pro rata based on the relative number of Ordinary Shares Transferred by each of them, and the aggregate amount of liability for PDL and each Minority Stockholder shall not exceed the U.S. dollar value of the total consideration to be paid by the Transferee to PDL or such Minority Stockholder, respectively, for their Ordinary Shares.

(d) In the event that any Transfer pursuant to this **Section 8.4** is structured as a merger, consolidation or similar business combination, each Minority Stockholder shall, to the extent required or requested by PDL, (i) vote in favor of such transaction and (ii) take all action to waive any dissenters', appraisal or other similar rights with respect thereto. For the avoidance of doubt, no Stockholder is entitled to dissenters', appraisal or other similar rights with respect to any Ordinary Shares. Each Minority Stockholder hereby irrevocably appoints (and upon any Transfer to a Permitted Transferee thereof, each such Permitted Transferee thereof shall be deemed to have irrevocably appointed) any officer of the Company as such Stockholder's duly-appointed proxy and attorney in fact (with full power of substitution and resubstitution) to take any action which may be necessary of, or required by, such Minority Stockholder or

Permitted Transferee pursuant to this **Section 8.4**. The foregoing proxy and appointment of attorney in fact is coupled with an interest and shall be irrevocable, and each Minority Stockholder (and Permitted Transferee thereof) will take such further action or execute such other instruments as may be reasonably necessary to effectuate the intent of such proxy and appointment and hereby revokes any proxy or similar appointment previously granted by such Stockholder or Permitted Transferee thereof with respect to any Ordinary Shares.

(e) If any Minority Stockholder fails to Transfer the Ordinary Shares to be sold pursuant to this **Section 8.4** to the applicable acquirer of such Ordinary Shares (the "**Drag-Along Buyer**"), PDL may, at its option, in addition to all other remedies it may have, deposit the purchase price (including any promissory note constituting all or any portion thereof) for such Ordinary Shares with any national bank or trust company having combined capital, surplus and undivided profits in excess of $100 million (the "**Escrow Agent**"), and thereupon all of such Minority Stockholder's rights in and to such Ordinary Shares shall terminate. Thereafter, upon delivery to the Company by such Minority Stockholder of appropriate documentation evidencing the Transfer of such Ordinary Shares to the Drag-Along Buyer, PDL shall instruct the Escrow Agent to deliver the purchase price (without any interest from the date of the closing to the date of such delivery, any such interest to accrue to the Company) to such Minority Stockholder.

(f) All reasonable costs and expenses incurred by a Stockholder or the Company in connection with any proposed Drag-Along Transfer (whether or not consummated), including all attorneys' fees and charges, all accounting fees and charges and all finder, brokerage or investment banking fees, charges or commissions, shall be paid by the Company.

(g) Upon consummation of an IPO, the provisions of this **Section 8.4** shall automatically terminate and be of no further force or effect.

8.5 Tag-Along Rights.

(a) If PDL proposes to Transfer, other than to a Permitted Transferee, an amount of its Ordinary Shares (a "**Tag-Along Transfer**") to any Person that would result in PDL failing to own at least [***] of the outstanding Ordinary Shares, each other Stockholder may exercise tag-along rights in accordance with the terms, conditions and procedures set forth herein (any Stockholder exercising such rights, a "**Tagging Stockholder**").

(b) PDL shall promptly give notice (a "**Tag-Along Notice**") to each other Stockholder (each, a "**Prospective Tagging Stockholder**") of any Tag-Along Transfer, setting forth the number of Ordinary Shares proposed to be Transferred, the name and address of the Transferee, the proposed amount and form of consideration for such Ordinary Shares and any other material terms and conditions of the Tag-Along Transfer. The Prospective Tagging Stockholders shall have a period of ten (10) Business Days from the date of the Tag-Along Notice within which to notify PDL they will elect to sell up to their Pro Rata Portion of Ordinary Shares in connection with such Tag-Along Transfer. During such ten (10) Business Day period,

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the Company and PDL shall cooperate promptly and in good faith with the Prospective Tagging Stockholder to determine the amounts, if any, that would be payable to such Prospective Tagging Stockholder if such Prospective Tagging Stockholder elected to participate in the Tag-Along Transfer. In order to exercise such right, the Prospective Tagging Stockholder must deliver an irrevocable written notice to PDL specifying the number of Ordinary Shares such Stockholder desires to include in the Tag-Along Transfer. Except in the case of an underwritten sale of Ordinary Shares as provided in (d) below, if PDL is unable to cause the Transferee to purchase all the Ordinary Shares proposed to be Transferred by PDL and the Tagging Stockholders, then the number of Ordinary Shares each such Stockholder (including PDL) is permitted to sell in such Tag-Along Transfer shall be reduced pro rata based on the number of Ordinary Shares held by such Stockholder relative to the number of Ordinary Shares held by all Stockholders participating in such Tag-Along Transfer. PDL shall have a period of one hundred fifty (150) days following the expiration of the above-mentioned ten (10) Business Day notice period to sell all the Ordinary Shares agreed to be purchased by the Transferee, on terms no more favorable to PDL than those specified in the Tag-Along Notice; provided, however, that such one hundred fifty (150) day period shall be extended by the time necessary to obtain any required approvals of any governmental authority under any applicable Laws (it being understood that the sale of all Ordinary Shares being sold by any Tagging Stockholder pursuant to a particular Tag-Along Transfer shall be consummated simultaneously with the Tag-Along Transfer). All Stockholders shall receive the same form of consideration in connection with a Tag-Along Transfer. Upon the consummation of the Tag-Along Transfer, the aggregate consideration received as a result thereof shall be deemed to have been received by the Company in complete liquidation and distributed in accordance with and in satisfaction of the rights and preferences set forth in the Company Constitution as in effect immediately prior to such Tag-Along Transfer.

(c) Each Tagging Stockholder shall (i) make the same representations, warranties, covenants, indemnities and agreements to the Transferee as made by PDL in connection with the Tag-Along Transfer and (ii) be subject to the same terms and conditions to the Transfer as PDL agrees. All such representations, warranties, covenants, indemnities and agreements shall be made by PDL and each Tagging Stockholder severally and not jointly, and any liability for breach of any such representations and warranties or under any indemnities related to the Company or any Subsidiary shall be allocated among PDL and each Tagging Stockholder pro rata based on the relative value of consideration received by PDL and each Tagging Stockholder, and the aggregate amount of liability for PDL and each such Tagging Stockholder shall not exceed the U.S. dollar value of the total consideration to be paid by the Transferee to PDL or such Tagging Stockholder, respectively, for their Ordinary Shares.

(d) If PDL proposes to effect a Tag-along Transfer by means of an Underwritten Offering of Ordinary Shares and a managing underwriter or underwriters of any proposed Tag-Along Transfer inform PDL in writing that, in its or their opinion, the number of securities which PDL and the Tagging Stockholders intend to include in such Tag-Along Transfer exceeds the number that can be sold in such Tag-Along Transfer without being likely to have a significant adverse effect on the price, timing or distribution of the Shares offered or the market for the Shares offered, then the Shares to be included in such Tag-Along Transfer shall be

(i) first, the Shares that PDL proposes to Transfer; (ii) second, and only if all the Shares referred to in clause (i) have been included, the number of Shares that, in the opinion of such managing underwriter or underwriters, can be sold without having such adverse effect in such Tag-Along Transfer, with such number to be allocated (A) first, to Farah, if Farah is a Tagging Stockholder, up to the number of Shares that Farah proposes to include in such Tag-Along Transfer, (B) second, and only if all the Shares referred to in clause (A) have been included, pro rata to each Management Stockholder that is a Tagging Stockholder. Notwithstanding anything herein to the contrary, if the managing underwriter or underwriters of a proposed Tag-Along Transfer of the Shares advise the Board in writing that, in its or their opinion, the participation in such Tag-Along Transfer by any Minority Stockholder hereto would be likely to have a significant adverse effect on the price, timing or distribution of the securities offered or the market for the securities offered, then Shares held by such Minority Stockholder shall not be eligible for inclusion in such Tag-Along Transfer.

(e) All costs and expenses of PDL in connection with the Tag-Along Transfer shall be borne by the Stockholders participating in such Tag-Along Transfer pro rata based on the number of Ordinary Shares Transferred by each such Stockholder relative to the number of Ordinary Shares Transferred by all Stockholders participating in such Tag-Along Transfer.

(f) The provisions of this **Section 8.5** shall not apply in the event of (i) Transfers of Ordinary Shares to a Permitted Transferee; (ii) Transfers of Ordinary Shares pursuant to, or consequent upon, the exercise of rights set forth in **Section 5** and **Sections 8.3, 8.4** and **8.6**; (iv) Transfers, including redemptions, of Ordinary Shares to the Company approved by the Board; and (v) Transfers of Ordinary Shares in a Public Offering.

(g) Upon consummation of an IPO, the provisions of this **Section 8.5** shall automatically terminate and be of no further force or effect.

8.6 Right of First Refusal.

(a) *Transfer Notice.* If any Minority Stockholder proposes to Transfer (other than a Permitted Transfer) any Ordinary Shares or any interest therein to one or more third parties, then such Minority Stockholder shall give PDL and the Company written notice of his, her or its intention to make the Transfer (the "**Transfer Notice**"), which shall include (a) the number of Ordinary Shares proposed to be Transferred (the "**Offered Shares**"), (b) the identity and address of the prospective Transferee and (c) the consideration and the material terms and conditions upon which the proposed Transfer is to be made. The Transfer Notice shall certify that the Transferor has received a definitive offer from the prospective Transferee and in good faith believes a binding agreement for the Transfer is obtainable on the terms set forth in the Transfer Notice. The Transfer Notice shall also include a copy of any written proposal, term sheet or letter of intent or other agreement relating to the proposed Transfer.

(b) *PDL Option*. PDL shall have an option for a period of fifteen (15) days following receipt of the Transfer Notice (the "**Option Period**") to elect to purchase all of the

Offered Shares at the same price and subject to the same terms and conditions as described in the Transfer Notice (the "**Right of First Refusal**"), by notifying the Transferor and the Company in writing before expiration of the Option Period as to the number of such Offered Shares that it wishes to purchase. PDL shall have the option to assign its rights under this **Section 8.6** in whole or in part to the Company, any member of the Company Group or any of their respective Permitted Transferees; provided that, in the event such right is assigned to the Company, the Right of First Refusal shall give the Company the right (but not the obligation) to redeem the Offered Shares on the terms set out in this **Section 8.6** and all references to a purchase in this **Section 8.6(b)** shall be deemed to be references to a redemption. For the avoidance of doubt, a Minority Stockholder may not Transfer the Offered Shares prior to the expiration of the Option Period.

8.7 Permitted Transfers. Notwithstanding anything to the contrary in this Agreement, any Stockholder may at any time make any of the following Transfers ("**Permitted Transfers**") (which, for the avoidance of doubt, shall not be subject to the provisions of **Sections 8.3**, **8.4**, **8.5** or **8.6**):

(a) a Transfer of Ordinary Shares to the executor or administrator of the estate of a deceased Minority Stockholder, or to a successor trustee of a revocable living trust established by a Minority Stockholder, upon his or her death for purposes of the administration of such Minority Stockholder's estate, and to the devisee, legatee or beneficiary of the estate, or such trust;

(b) a Transfer of Shares by a Minority Stockholder to his or her spouse or issue or any trust for the benefit of himself, his or her spouse or issue (collectively, a "**Family Member**") or any trust, partnership, limited liability company or other entity established for the benefit of, and controlled by, such Minority Stockholder or a Family Member (collectively, a "**Family Entity**"), provided that any Ordinary Shares Transferred to a Minority Stockholder's spouse or a Family Entity for the benefit of a spouse shall be immediately Transferred back to such Minority Stockholder should his or her spouse cease to be his or her spouse, and provided further that any Ordinary Shares Transferred to a Family Entity for the benefit of such Minority Stockholder or a Family Member shall be immediately Transferred back to such Minority Stockholder at the time such Minority Stockholder or Family Member no longer controls such Family Entity;

(c) a pledge of Shares by PDL to a lender as security for a loan from such lender;

(d) any Transfer of Shares by PDL to an Affiliate, and any subsequent Transfer of Shares by such Affiliate to PDL, provided that each Affiliate of PDL to which Shares are Transferred shall Transfer back to PDL (or to another Affiliate of PDL) any Shares it owns if such Affiliate ceases to be an Affiliate PDL;

provided, however, that (A) in the case of a Transfer pursuant to **clauses (a)**, **(b)** or **(d)** of this **Section 8.7**, the Transferee shall have executed and delivered a Joinder to be bound by the terms of this Agreement as if the Transferee were the applicable Stockholder (including, without limitation and where applicable, the obligation to Transfer the Shares in accordance with **Sections 8.3**, **8.4**, **8.5** and **8.6**) and (B) no Transferee of a Permitted Transfer shall be subject to any of the "bad actor" disqualifications described in Rule 506(d)(1)(i) to (viii) under the Securities Act.

8.8 Termination of Minority Stockholders Rights. Each Minority Stockholder acknowledges and agrees that if Shares owned by him or her are required to be Transferred pursuant to **Sections 8.3**, **8.4**, **8.5** or **8.6** (or other provision of this Agreement requiring the sale of some or all of such Shares), and such Minority Stockholder fails or refuses to deliver such Shares to the Transferee in accordance with the terms of this Agreement (and the Transferee has not defaulted in his, her or its obligations with respect to such Transfer), the rights that such Minority Stockholder possessed as the owner of such Shares shall be deemed to be cancelled and terminated, effective as of the date upon which the Transfer should have occurred if the Minority Stockholder had not failed or refused to tender such Shares. For example, if the Company exercises a right to redeem pursuant to **Section 8.3** with respect to all of the Shares owned by a Minority Stockholder, but such Minority Stockholder fails or refuses to deliver the subject Shares to the Company in accordance herewith, then, as of the date the Transfer should have occurred pursuant to the right to redeem, such Minority Stockholder shall be deemed to no longer be a stockholder of the Company, and, thereafter, such Minority Stockholder shall not be entitled to claim, receive or exercise any rights that otherwise may exist in favor of Stockholders of the Company under this Agreement or otherwise.

Section 9. Piggyback Rights

9.1 Piggyback Registration.

(a) *Participation*. If the Company at any time proposes to file a Registration Statement under the Securities Act with respect to any offering of its equity securities for its own account or for the account of any other Persons (other than (i) a Registration on Form S-4 or S-8 or any successor form to such forms, (ii) a Registration of securities solely relating to an offering and sale to employees, directors or consultants of the Company or its Subsidiaries pursuant to any employee stock plan or other employee benefit plan arrangement), (iii) a Registration Statement relating solely to dividend reinvestment or similar plans or (iv) a Registration on any registration form which does not permit secondary sales or does not include substantially the same information as would be required to be included in a Registration Statement), then, as soon as practicable (but in no event less than fifteen (15) Business Days prior to the proposed date of filing of such Registration Statement), the Company shall give written notice of such proposed filing to PDL and Farah, and such notice shall offer PDL and Farah the opportunity to Register under such Registration Statement such number of Registrable Securities as PDL or Farah (as applicable) may request in writing delivered to the Company within ten (10) Business Days of delivery of such written notice by the Company and, if PDL elects to include Registrable

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Securities in such Registration Statement, as soon as practicable after the expiration of such ten (10) Business Day period (but in no event less than ten (10) Business Days prior to the proposed date of filing of such Registration Statement), the Company shall give written notice of such proposed filing to the Stockholders (other than PDL or Farah, as applicable), and such notice shall offer each such Stockholder the opportunity to Register under such IPO Registration Statement such number of Registrable Securities as such Stockholder may request in writing within ten (10) Business Days of delivery of such Piggyback Notice by the Company, up to each such Stockholder's Pro Rata Share of Registrable Securities (each notice delivered above, a "**Piggyback Notice**" and each Registration pursuant thereto, a "**Piggyback Registration**"). Subject to the preceding sentence and **Section 9.1(b)**, the Company shall include in such Registration Statement (x) in the case of a Piggyback Registration request by PDL or Farah (as applicable) all such Registrable Securities that PDL or Farah (as applicable) requests to be included therein within ten (10) Business Days after the receipt by PDL or Farah (as applicable) of any such notice; (y) in the case of a Piggyback Registration by (1) any Stockholder (other than PDL or Farah), all such Registrable Securities that such Stockholder requests to be included therein within ten (10) Business Days after receipt by such Stockholder of any such notice (up to each such Stockholders' Pro Rata Portion of Registrable Securities); provided, that if at any time after giving written notice of its intention to Register any securities and prior to the effective date of the Registration Statement filed in connection with such Registration, the Company shall determine for any reason not to Register or to delay Registration of such securities, the Company shall give written notice of such determination to each Stockholder and, thereupon, (i) in the case of a determination not to Register, shall be relieved of its obligation to Register any Registrable Securities in connection with such Registration, and (ii) in the case of a determination to delay Registering, shall be permitted to delay Registering any Registrable Securities, for the same period as the delay in Registering such other securities covered. If the offering pursuant to such Registration Statement is to be underwritten, then each Stockholder making a request for a Piggyback Registration pursuant to this **Section 9.1(a)** must, and the Company shall make such arrangements with the managing underwriter or underwriters so that each such Stockholder may, participate in such Underwritten Offering. If the offering pursuant to such Registration Statement is to be on any other basis, then each Stockholder making a request for a Piggyback Registration pursuant to this **Section 9.1(a)** must, and the Company shall make such arrangements so that each such Stockholder may, participate in such offering on such basis.

(b) *Priority of Piggyback Registration*. If the managing underwriter or underwriters of any proposed Underwritten Offering of Registrable Securities included in a Piggyback Registration informs the Company and the Stockholders in writing that, in its or their opinion, the number of securities which such Stockholders and any other Persons intend to include in such offering exceeds the number that can be sold in such offering without being likely to have a significant adverse effect on the price, timing or distribution of the securities offered or the market for the securities offered, then the securities to be included in such Registration shall be (i) first, the securities proposed to be sold in such Registration by the Company or any Person (other than a Stockholder) exercising a contractual right to demand Registration, as the case may be, and (ii) second, and only if all the securities referred to in clause (i) have been included, the number of Registrable Securities that, in the opinion of such

managing underwriter or underwriters, can be sold without having such adverse effect, with such number to be allocated (A) first, to PDL up to the number of securities that PDL proposes to include in such Piggyback Registration, (B) second, and only if all the securities referred to in clause (A) have been included, to Farah up to the number of securities that Farah proposes to include in such Piggyback Registration and (C) third, and only if all the securities referred to in clause (B) have been included, pro rata among such other Stockholders that have requested to participate in such Registration based on the relative number of Registrable Securities then held by each such Stockholder; provided that any securities thereby allocated to a Stockholder that exceed such Stockholder's request shall be reallocated among the remaining Stockholders requesting Piggyback Registration in like manner, and (iii) third, and only if all of the Registrable Securities referred to in clause (ii) have been included in such Registration, the number of any other securities eligible for inclusion in such Registration that, in the opinion of the managing underwriter or underwriters, can be sold without having such adverse effect in such Registration. Notwithstanding anything herein to the contrary, if the managing underwriter or underwriters of a proposed Underwritten Offering of the Registrable Securities included in a Piggyback Registration advise the Board in writing that, in its or their opinion, the participation in such Piggyback Registration by any Minority Stockholder hereto would be likely to have a significant adverse effect on the price, timing or distribution of the securities offered or the market for the securities offered, then Registrable Securities held by such Minority Stockholder shall not be eligible for inclusion in such Piggyback Registration.

(c) *Withdrawal*. Any Stockholder shall have the right to withdraw all or part of its request for inclusion of its Registrable Securities in a Piggyback Registration by giving written notice to the Company of its request to withdraw; provided that (i) such request must be made in writing prior to the effectiveness of such Registration Statement and (ii) such withdrawal shall be irrevocable and, after making such withdrawal, a Stockholder shall no longer have any right to include Registrable Securities in the Piggyback Registration as to which such withdrawal was made.

(d) *Obligations of the Company*. Whenever required to effect the Registration of any Registrable Securities pursuant to this **Section 9**, the Company shall, as expeditiously as reasonably possible:

(i) Prepare and file with the SEC a Registration Statement with respect to such Piggyback Registration and use all reasonable efforts to cause such Registration Statement to become effective, and, upon the request of the Stockholders of a majority of the Registrable Securities Registered thereunder, keep such Registration Statement effective for up to thirty (30) days (to be measured from the expiration of any lockup period related to such Registration, if applicable) or, if earlier, until the Stockholder or Stockholders have completed the distribution related thereto; provided, however, that at any time, upon written notice to the Stockholders participating in such Piggyback Registration and for a period not to exceed sixty (60) days thereafter (the "**Suspension Period**"), the Company may delay the filing or effectiveness of any Registration Statement or suspend the use or effectiveness of any Registration statement

(and the Stockholders hereby agree not to offer or sell any Registrable Securities pursuant to such Registration Statement during the Suspension Period) if the initial effectiveness or continued use of the Registration Statement at any time would require the Company to make an Adverse Disclosure. In the event that the Company shall exercise its right to delay or suspend the filing or effectiveness of a Registration hereunder, the applicable time period during which the Registration Statement is to remain effective shall be extended by a period of time equal to the duration of the Suspension Period. The Company may extend the Suspension Period for an additional consecutive sixty (60) days with the consent of the holders of a majority of the Registrable Securities Registered under the applicable Registration Statement, which consent shall not be unreasonably withheld. If so directed by the Company, all Stockholders registering shares under such Registration Statement shall (i) not offer to sell any Registrable Securities pursuant to the Registration Statement during the period in which the delay or suspension is in effect after receiving notice of such delay or suspension; and (ii) use their best efforts to deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in such Stockholders' possession, of the Prospectus relating to such Registrable Securities current at the time of receipt of such notice. Notwithstanding the foregoing, the Company shall not be required to file, cause to become effective or maintain the effectiveness of any Registration Statement other than a Registration Statement on Form S-3 that contemplates a distribution of securities on a delayed or continuous basis pursuant to Rule 415 under the Securities Act.

(ii) Prepare and file with the SEC such amendments and supplements to such Registration Statement and the Prospectus used in connection with such Registration Statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such Registration Statement for the period set forth in subsection (i) above.

(iii) Furnish to the Stockholders participating in a Piggyback Registration such number of copies of a Prospectus, including a preliminary Prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

(iv) Use its reasonable efforts to register and qualify the securities covered by such Registration Statement under such other securities or "Blue Sky" laws of such jurisdictions as shall be reasonably requested by the Stockholders participating in a Piggyback Registration; provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

(v) In the event of any underwritten Public Offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter(s) of such offering. Each Stockholder participating in

such underwriting shall also enter into and perform its obligations under such an agreement.

(vi) Notify each Stockholder of Registrable Securities covered by such Registration Statement at any time when a Prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the Prospectus included in such Registration Statement, as then in effect, includes an untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing. The Company will use reasonable efforts to amend or supplement such Prospectus in order to cause such Prospectus not to include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing.

(vii) Use its reasonable efforts to furnish, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters, (i) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such Registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and (ii) a letter, dated as of such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering addressed to the underwriters.

(viii) Comply with all applicable rules and regulations of the SEC.

(e) *Delay of Registration; Furnishing Information*.

(i) No Stockholder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such Registration as a result of any controversy that might arise with respect to the interpretation or implementation of this **Section 9**.

(ii) It shall be a condition precedent to the obligations of the Company to take any action pursuant to this **Section 9** that the Stockholders participating in any Piggyback Registration shall furnish to the Company such information regarding themselves, the Registrable Securities held by them and the intended method of disposition of such securities as shall be required to effect the Registration of their Registrable Securities.

(f) *Expenses of Registration*.

(i) The Company shall pay all of the expenses set forth in this paragraph (i) in connection with a Registration under this Agreement. Such expenses are (A) all Registration and filing fees, and any other fees and expenses associated with filings required to be made with the SEC or FINRA, (B) all fees and expenses of

compliance with state securities or "Blue Sky" laws, (C) all printing, duplicating, word processing, messenger, telephone, facsimile and delivery expenses (including expenses of printing certificates for the Registrable Securities in a form eligible for deposit with The Depository Trust Company and of printing Prospectuses), (D) all fees and disbursements of counsel for the Company and of all independent certified public accountants of the Company, (E) Securities Act liability insurance or similar insurance if the Company so desires or the underwriter or underwriters, if any, so require in accordance with then-customary underwriting practice, (F) all fees and expenses incurred in connection with the listing of the Registrable Securities on any securities exchange or the quotation of the Registrable Securities on any inter-dealer quotation system and (G) all applicable rating agency fees with respect to any applicable Registrable Securities. In addition, in all cases the Company shall pay its internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any audit and the fees and expenses of any Person, including special experts, retained by the Company.

(ii) The Company shall not be required to pay any other costs or expenses in the course of the transactions contemplated hereby, including (A) any fees and disbursements of a law firm or other counsel selected by Stockholders participating in the Piggyback Registration (other than pursuant to clause (B) of paragraph (i) above); (B) fees and expenses of accountants to the Stockholders participating in the Piggyback Registration; and (C) underwriting discounts and commissions and transfer taxes attributable to the sale of Registrable Securities.

(g) *Right to Terminate Registration*. The Company shall have the right to terminate or withdraw any Registration initiated by it pursuant to which a Piggyback Registration is being made under this **Section 9** whether or not any Stockholder has elected to include Registrable Securities in such Registration, and shall promptly notify any Stockholder that has elected to include Registrable Securities in such Registration of termination or withdrawal.

9.2 Indemnification.

(a) *Indemnification by the Company*. The Company agrees to indemnify and hold harmless, to the fullest extent permitted by Law, each of the Stockholders (to the extent that the Stockholders are subscribers for or purchasers of Registrable Securities), each of their respective Affiliates and directors from and against any and all losses, penalties, judgments, suits, costs, claims, damages, liabilities and expenses, joint or several (including reasonable costs of investigation and legal expenses) (each, a "**Loss**," and collectively, "**Losses**") arising out of or based upon (i) any untrue or alleged untrue statement of a material fact contained in any Registration Statement under which such Registrable Securities were Registered under the Securities Act (including any final, preliminary or summary Prospectus contained therein or any amendment or supplement thereto or any documents incorporated by reference therein), any Issuer Free Writing Prospectus or amendment or supplement thereto or any other disclosure

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document produced by or on behalf of the Company or any of its Subsidiaries, including reports and other documents filed under the Exchange Act, (ii) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a Prospectus, preliminary Prospectus or Issuer Free Writing Prospectus, in light of the circumstances under which they were made) not misleading and/or (iii) any actions or inactions or proceedings in respect of the foregoing, whether or not such indemnified party is a party thereto; provided that the Company shall not be liable to any particular indemnified party to the extent that any such Loss arises out of or is based upon (A) an untrue statement or alleged untrue statement or omission or alleged omission made in any such Registration Statement or other document in reliance upon and in conformity with written information furnished to the Company by such indemnified party expressly for use in the preparation thereof or (B) an untrue statement or omission in a preliminary Prospectus relating to Registrable Securities, if a Prospectus (as then amended or supplemented) that would have cured the defect was furnished to the indemnified party from whom the Person asserting the claim giving rise to such Loss purchased Registrable Securities at least five (5) days prior to the written confirmation of the sale of the Registrable Securities to such Person, and a copy of such Prospectus (as amended and supplemented) was not sent or given by or on behalf of such indemnified party to such Person at or prior to the written confirmation of the sale of the Registrable Securities to such Person. This indemnity shall be in addition to any liability the Company may otherwise have. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Stockholder or any indemnified party and shall survive the Transfer of such securities by such Stockholder. The Company shall also indemnify underwriters, selling brokers, dealer managers and similar securities industry professionals participating in the distribution, their officers and directors and each Person who controls such Persons (within the meaning of the Securities Act and the Exchange Act) to the same extent as provided above with respect to the indemnification of the indemnified parties.

(b) *Indemnification by the Participating Stockholders*. Each Stockholder participating in a Piggyback Registration agrees (severally and not jointly) to indemnify and hold harmless, to the fullest extent permitted by Law, the Company, its directors and officers and each Person who controls the Company (within the meaning of the Securities Act or the Exchange Act), and each other Stockholder, each of such other Stockholder's respective direct or indirect partners, members or shareholders and each of such partner's, member's or shareholder's partners, members or shareholders and, with respect to all of the foregoing Persons, each of their respective Affiliates, employees, directors, officers, trustees or agents and each Person who controls (within the meaning of the Securities Act or the Exchange Act) such Persons and each of their respective Representatives from and against any Losses resulting from (i) any untrue statement of a material fact in any Registration Statement under which such Registrable Securities were Registered under the Securities Act (including any final, preliminary or summary Prospectus contained therein or any amendment or supplement thereto or any documents incorporated by reference therein or any Issuer Free Writing Prospectus or amendment or supplement thereto) or (ii) any omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a Prospectus, preliminary Prospectus or any Issuer Free Writing Prospectus, in light of the circumstances under which they

were made) not misleading, in each case to the extent, but only to the extent, that such untrue statement or omission is contained in any information furnished in writing by such Stockholder to the Company specifically for inclusion in such Registration Statement and has not been corrected in a subsequent writing prior to or concurrently with the sale of the Registrable Securities to the Person asserting the claim, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) was made in such Registration Statement, Prospectus, offering circular, free writing Prospectus or other document, in reliance upon and in conformity with written information furnished to the Company by such Stockholder expressly for use therein. In no event shall the liability of such Stockholder hereunder be greater in amount than the dollar amount of the gross proceeds (less underwriting discounts and commissions) received by such Stockholder under the sale of Registrable Securities giving rise to such indemnification obligation less any amounts paid by such Stockholder pursuant to **Section 9.2(d)**. The Company shall be entitled to receive indemnities from underwriters, selling brokers, dealer managers and similar securities industry professionals participating in the distribution, to the same extent as provided above (with appropriate modification) with respect to information furnished in writing by such Persons specifically for inclusion in any Prospectus or Registration Statement.

(c) *Conduct of Indemnification Proceedings*. Any Person entitled to indemnification under this **Section 9.2** shall (i) give prompt written notice to the indemnifying party of any claim with respect to which it seeks indemnification (provided that any delay or failure to so notify the indemnifying party shall relieve the indemnifying party of its obligations hereunder only to the extent, if at all, that it is actually and materially prejudiced by reason of such delay or failure) and (ii) permit such indemnifying party to assume the defense of such claim with counsel reasonably satisfactory to the indemnified party; provided that any Person entitled to indemnification hereunder shall have the right to select and employ separate counsel and to participate in the defense of such claim, but the fees and expenses of such counsel shall be at the expense of such Person unless (A) the indemnifying party has agreed in writing to pay such fees or expenses, (B) the indemnifying party shall have failed to assume the defense of such claim within a reasonable time after delivery of notice of such claim from the Person entitled to indemnification hereunder and employ counsel reasonably satisfactory to such Person, (C) the indemnified party has reasonably concluded (based upon advice of its counsel) that there may be legal defenses available to it or other indemnified parties that are different from or in addition to those available to the indemnifying party or (D) in the reasonable judgment of any such Person (based upon advice of its counsel), a conflict of interest may exist between such Person and the indemnifying party with respect to such claims (in which case, if the Person notifies the indemnifying party in writing that such Person elects to employ separate counsel at the expense of the indemnifying party, the indemnifying party shall not have the right to assume the defense of such claim on behalf of such Person). If the indemnifying party assumes the defense, the indemnifying party shall not have the right to settle such action without consent of the indemnified party. No indemnifying party shall consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of an unconditional release from all liability in respect to such claim or litigation of such indemnified party. If such defense is not assumed by

the indemnifying party, the indemnifying party will not be subject to any liability for any settlement made without its prior written consent, but such consent may not be unreasonably withheld. It is understood that the indemnifying party or parties shall not, except as specifically set forth in this **Section 9.2(c)**, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees, disbursements or other charges of more than one separate firm admitted to practice in such jurisdiction at any one time unless (1) the employment of more than one counsel has been authorized in writing by the indemnifying party or parties, (2) an indemnified party has reasonably concluded (based on the advice of counsel) that there may be legal defenses available to it that are different from or in addition to those available to the other indemnified parties or (3) a conflict or potential conflict exists or may exist (based upon advice of counsel to an indemnified party) between such indemnified party and the other indemnified parties, in each of which cases the indemnifying party shall be obligated to pay the reasonable fees and expenses of such additional counsel or counsels.

(d) *Contribution*. If for any reason the indemnification provided for in **Sections 9.2(a)** and **9.2(b)** is unavailable to an indemnified party (other than as a result of exceptions contained in paragraphs **(a)** and **(b)** of this **Section 9.2**) or insufficient in respect of any Losses referred to therein, then the indemnifying party shall contribute to the amount paid or payable by the indemnified party as a result of such Loss in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and the indemnified party or parties on the other hand in connection with the acts, statements or omissions that resulted in such losses, as well as any other relevant equitable considerations. In connection with any Registration Statement filed with the SEC by the Company, the relative fault of the indemnifying party on the one hand and the indemnified party on the other hand shall be determined by reference to, among other things, whether any untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The parties hereto agree that it would not be just or equitable if contribution pursuant to this **Section 9.2(d)** were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in this **Section 9.2(d)**. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation. The amount paid or payable by an indemnified party as a result of the Losses referred to in **Section 9.2(a)** and **Section 9.2(b)** shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this **Section 9.2(d)**, in connection with any Registration Statement filed by the Company, a Stockholder participating in a Piggyback Registration shall not be required to contribute any amount in excess of the dollar amount of the gross proceeds (less underwriting discounts and commissions) received by such Stockholder under the sale of Registrable Securities giving rise to such contribution obligation, less any amounts paid by such Stockholders pursuant to **Section 9.2(b)**. If indemnification is available under this **Section 9.2**,

the indemnifying parties shall indemnify each indemnified party to the full extent provided in **Section 9.2(a)** and **Section 9.2(b)** hereof without regard to the provisions of this **Section 9.2(d)**.

(e) *No Exclusivity*. The remedies provided for in this **Section 9.2** are not exclusive and shall not limit any rights or remedies that may be available to any indemnified party at law or in equity or pursuant to any other agreement.

(f) *Survival*. The indemnities provided in this **Section 9.2** shall survive the Transfer of any Registrable Securities by such Stockholder.

9.3 Alternative IPO Entities. In the event that any member of the Company Group elects to effect an Underwritten Offering of equity securities (such entity, the "**Alternative IPO Entity**") rather than an Underwritten Offering of the equity securities of the Company, whether as a result of a reorganization of the Company or otherwise, the Company shall cause the Alternative IPO Entity to enter into an agreement with the Stockholders that provides the Stockholders with Registration rights with respect to the equity securities of the Alternative IPO Entity that are substantially similar to the Registration rights provided to the Stockholders in this Agreement.

9.4 Restructuring in Connection with an IPO. In the event of an IPO, the Company may engage in a recapitalization, stock split, consolidation or other reorganization involving the Shares to preserve the economic effects contemplated hereby and within the Company Constitution.

Section 10. Representations and Warranties

10.1 Representations and Warranties of Company. The Company hereby represents and warrants to each Stockholder that on the date hereof:

(a) *Existence; Authority; Enforceability*. The Company has the necessary power and authority to enter into this Agreement and to carry out its obligations hereunder. The Company is duly incorporated under the Laws of its jurisdiction of organization, and the execution of this Agreement, and the consummation of the transactions contemplated herein, have been authorized by all necessary limited liability company actions, and no other act or proceeding on its part is necessary to authorize the execution of this Agreement or the consummation of any of the transactions contemplated hereby. This Agreement has been duly executed by the Company and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar Laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and any implied covenant of good faith and fair dealing.

(b) *Absence of Conflicts*. The execution and delivery by the Company of this Agreement and the performance of its obligations hereunder do not and will not (i) conflict with, or result in the breach of, any provision of the Company Constitution or the organizational

documents of any of its Subsidiaries; (ii) result in any violation, breach, conflict, default or event of default (or an event which, with notice, lapse of time or both, would constitute a default or event of default), or give rise to any right of acceleration or termination or any additional payment obligation, under the terms of any material contract, agreement or permit to which the Company or any of its Subsidiaries is a party or by which the Company's or any of its Subsidiaries' assets or operations are bound or affected; or (iii) violate, in any material respect, any Law applicable to the Company or any of its Subsidiaries.

(c) *Consents*. Other than any consents that have already been obtained, no governmental consent, waiver, approval, authorization, exemption, registration, license or declaration or spousal consent is required to be made or obtained by the Company or any of its Subsidiaries in connection with (i) the execution, delivery or performance of this Agreement or (ii) the consummation of any of the transactions contemplated herein.

10.2 Representations and Warranties of the Stockholders. Each Stockholder represents and warrants, severally and not jointly, and solely on its own behalf, to each other Stockholder and to the Company that on the date hereof:

(a) *Existence; Authority; Enforceability*.

(i) Such Stockholder, if it is not an individual, is duly organized or formed, validly existing and in good standing under the Laws of its jurisdiction of organization or formation and the execution, delivery and performance by it of this Agreement is within its powers, has been duly authorized by all necessary corporate or other action on its behalf, requires no action by or in respect of, or filing with, any governmental body, agency or official, and does not and will not contravene, or constitute a default under, any provision of applicable Law or regulation or of its certificate of incorporation or other comparable organizational documents or any agreement, judgment, injunction, Order, decree or other instrument to which such Stockholder is a party or by which such Stockholder or any of its properties is bound. This Agreement constitutes a valid and binding agreement of such Stockholder, enforceable against such Stockholder in accordance with its terms.

(ii) If such Stockholder is an individual, the execution, delivery and performance by such Stockholder of this Agreement is within such Stockholder's legal right, power and capacity, requires no action by or in respect of, or filing with, any governmental body, agency, or official, and does not and will not contravene, or constitute a default under, any provision of applicable Law or regulation or of any agreement, judgment, injunction, Order, decree or other instrument to which such Stockholder is a party or by which such Stockholder or any of his or her properties is bound. This Agreement constitutes a valid and binding agreement of such Stockholder, enforceable against such Stockholder in accordance with its terms.

(b) *Consents*. Other than any consents that have already been obtained, no governmental consent, waiver, approval, authorization, exemption, registration, license or declaration is required to be made or obtained by such Stockholder in connection with (i) the execution, delivery or performance of this Agreement or (ii) the consummation of any of the transactions contemplated herein.

(c) *Investment Intent*.

(i) Such Stockholder is fully aware that the Shares in the Company have not been and may not be Registered under the Securities Act and have been issued in reliance upon federal and state exemptions for transactions not involving a Public Offering.

(ii) Such Stockholder's Shares have been acquired for its own account solely for investment and not with a view to resale or distribution thereof.

(iii) (A) Such Stockholder's financial condition is such that such Stockholder can afford to bear the economic risk of holding its Shares for an indefinite period of time, (B) such Stockholder can afford to suffer a complete loss of such Stockholder's investment in its Shares, (C) such Stockholder understands and has taken cognizance of all risks related to the purchase of its Shares and (D) such Stockholder's knowledge and experience in financial and business matters are such that such Stockholder is capable of evaluating the merits and risks of purchasing its Shares.

(iv) Such Stockholder has been given the opportunity to (A) ask questions of, and receive answers from, the Company concerning the terms and conditions of the offering of Shares and other matters pertaining to an investment in the Company and (B) obtain any additional information which the Company can acquire without unreasonable effort or expense that is necessary to evaluate the merits and risks of an investment in the Company. In considering its investment in the Company, such Stockholder has not relied upon any representations made by, or other information (whether oral or written) furnished by or on behalf of, the Company or any Director, officer, employee, agent or Affiliate of such Persons, other than as expressly set forth in this Agreement. Such Stockholder has carefully considered and has, to the extent it believes such discussion necessary, discussed with legal, tax, accounting and financial advisers of the suitability of an investment in the Company in light of its particular tax and financial situation and has determined that an investment in the Company is a suitable investment for it.

(v) Such Stockholder (or if such Stockholder is subject to any look-through rules pursuant to the Securities Act, each beneficial owner of such Stockholder within the meaning of Rule 501 of Regulation D promulgated under the Securities Act) is an "accredited investor" as such term is defined in Rule 501 of Regulation D.

[***] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

10.3 Entitlement of the Company and the Stockholders to Rely on Representations and Warranties. The foregoing representations and warranties may be relied upon by the Company and by the Stockholders in connection with the entering into of this Agreement.

Section 11. Miscellaneous

11.1 Termination of this Agreement. This Agreement shall remain in effect until terminated automatically (a) upon the cessation of the business of the Company and its Subsidiaries and winding up of their affairs or (b) immediately prior to a Change of Control. Notwithstanding any termination of this Agreement, however, the provisions of this Agreement shall survive any such termination to the extent necessary for any Person to enforce any right of such Person that accrued hereunder prior to or on account of such termination.

11.2 No Conflict. In the event of any conflict between the terms of this Agreement (or any portion thereof) and the Company Constitution, the terms of this Agreement shall prevail.

11.3 Injunctive Relief. Each of the parties hereto acknowledges that it will be impossible to measure in money the damage to the Company and to the other parties hereto if there is a failure to comply with this Agreement. It is therefore agreed that the Company or any other party hereto, in addition to any other rights or remedies that it may have, shall be entitled to immediate injunctive relief and to specific performance to enforce this Agreement and that if any action or proceeding is brought in equity to enforce it, no party will urge as a defense that there is an adequate remedy at law. The parties hereto agree that by seeking the remedies provided for in this **Section 11.3**, a party shall not in any respect waive its right to seek at any time any other form of relief that may be available to a party under this Agreement, including any other remedy to which such party is entitled at law or in equity.

11.4 Governing Law. This Agreement and all relationships created by it and arising out of or in connection with it, together with all disputes arising out of or in connection with it, will in all respects be governed by and construed in accordance with Irish law.

11.5 Jurisdiction. The parties agree that the Irish courts will have exclusive jurisdiction to hear, settle and/or decide any dispute arising out of or in connection with this Agreement and the parties agree that the Irish courts are the most appropriate and convenient courts to hear and decide any such dispute and therefore that they will not argue to the contrary.

11.6 Waiver of Jury Trial. EACH PARTY HERETO HEREBY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND

UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (A) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (B) EACH SUCH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (C) EACH SUCH PARTY MAKES THIS WAIVER VOLUNTARILY AND (D) EACH SUCH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS **Section 11.6**.

11.7 Successors; Assigns and Transferees. Each Stockholder may assign all or a portion of its rights hereunder to a Permitted Transferee to which such Stockholder Transfers all or any of its Shares; provided that such Person shall only be admitted as a party hereunder upon its, his or her execution and delivery of a Joinder, whereupon such Person will be treated as a Stockholder for all purposes of this Agreement, with the same rights, benefits and obligations hereunder as the Transferring Stockholder with respect to the Shares (if applicable, and except that if such Person was a Stockholder prior to such Transfer, such Person shall have the same rights, benefits and obligations with respect to such Transferred Shares as were applicable to Shares held by such Person prior to such Transfer). Any assignment in contravention of this **Section 11.7** shall be null and void.

11.8 Binding Effect. Except as otherwise provided in this Agreement, the terms and provisions of this Agreement shall be binding on and inure to the benefit of each of the parties hereto and their respective successors.

11.9 Severability. If any provision of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

11.10 Headings. The heading references herein are for convenience purposes only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

11.11 Other Activities. Notwithstanding anything in this Agreement, none of the provisions of this Agreement shall in any way limit a Stockholder or any of its Affiliates from engaging in any brokerage, investment advisory, financial advisory, anti-raid advisory, principaling, merger advisory, financing, asset management, trading, market-making, arbitrage, investment activity and other similar activities conducted in the ordinary course of their business.

11.12 Notices. All notices, consents, waivers and other communications under this Agreement must be in writing and will be deemed to have been duly given when: (a) delivered

by hand (with written confirmation of receipt); (b) sent by fax or electronic mail; provided that a copy is immediately sent by an internationally recognized overnight delivery service (receipt requested); or (c) when received by the addressee, if sent by an internationally recognized overnight delivery service (receipt requested), in each case to the appropriate addresses, fax numbers and electronic mail addresses set forth below (or to such other addresses, fax numbers and electronic mail addresses as a party may designate by written notice):

If to the Company:

Noden Pharma DAC
56 Fitzwilliam Square
Dublin, 2
Ireland
Attn: Chief Executive Officer
Email: efarah@nodenpharma.com
Fax: +353 (0) 61 363 682

With a copy (which shall not constitute notice) to:

PDL BioPharma, Inc.
932 Southwood Boulevard
Incline Village, Nevada 89451
Attn: General Counsel
Email: general.counsel@pdl.com
Fax: (775) 832-8502

If to Farah:

5 Belsize Drive
Toronto, Ontario, Canada
M4S 1L3

If to Farah:

5 Belsize Drive
Toronto, Ontario, Canada
M4S 1L3

If to a Minority Stockholder:

(At the address listed on **Annex A**).

11.13 Modification and Waiver. No amendment, modification or waiver of this Agreement shall be effective unless made in a written instrument that specifically references this Agreement and that is signed by the Company and PDL; provided that no amendment to the

Agreement that adversely affects any Stockholder in a disproportionate manner shall be made without the consent of such Stockholder. The waiver on the part of any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a further or continuing waiver of such breach or as a waiver of any other or subsequent breach, except as otherwise explicitly provided for in such waiver, and shall be effective only to the extent specifically set forth in such waiver. Except as expressly provided herein, the failure of the Company or any Stockholder to enforce at any time, or for any period of time, any provisions of this Agreement shall not be construed as a waiver of any provision or of the right of any such Person to enforce each and every provision of this Agreement. Notwithstanding anything contained in this Agreement to the contrary, each Stockholder hereby acknowledges and agrees that no Minority Stockholder shall have any right to enforce this Agreement against any other Minority Stockholder or compel or seek to compel the Company or PDL to enforce this Agreement against any other Minority Stockholder, and such right to enforce this Agreement against a Minority Stockholder shall be solely and exclusively vested in the Company and PDL (and their respective successors and assigns).

11.14 Counterparts; Facsimile or PDF. This Agreement may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same instrument. This Agreement may be executed by facsimile or electronic transmission in portable document format (.pdf), each of which shall be deemed an original.

11.15 Third Parties. Nothing expressed or implied in this Agreement is intended or shall be construed to confer on any Person, other than the Company and the Stockholders, any rights hereunder.

11.16 Complete Agreement; Modification and Termination; Joinder. This Agreement contains a complete statement of all the arrangements among the parties with respect to its subject matter, supersedes all existing agreements among them concerning that subject matter and cannot be changed, except in writing signed by the parties that have the right to effect such amendment under this Agreement, other than (i) for the purpose of adding additional holders of Shares, from time to time, which may be accomplished through the execution of a Joinder, or terminated, except in a writing signed by all of the parties or pursuant to its terms, or (ii) or to update **Annex A** in accordance with the terms of this Agreement.

* * * * *

[***] Certain information in this document has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

IN WITNESS WHEREOF, the parties hereto have executed this Stockholders Agreement as of the date first above written.

COMPANY:

Noden Pharma DAC

By: _____
Name: Elie Farah
Title: Chief Executive Officer

[Signature Page to Noden Pharma DAC Investment and Stockholders' Agreement]

PDL:

PDL BIOPHARMA, INC.

By: _____
Name:
Title:

[Signature Page to Noden Pharma DAC Investment and Stockholders' Agreement]

FARAH:

_____

Name: Elie Farah

MANAGEMENT STOCKHOLDERS:

_____
Name:

_____
Name:

_____
Name:

_____
Name:

_____
Name:

_____
Name:

ANNEX A

COMPANY SHARES

Party	Address	Number of Shares Issued	Type of Shares	Date of Issuance	Amount Credited as Paid Up on the Shares	Share Premium
PDL	See **Section 11.12**.	8,800	Ordinary Shares	Initial Closing Date	$880	$0
PDL	See **Section 11.12.**	9,400,000	Preferred Shares	Initial Closing Date	$94,000	$66,150,000 and $[***]
PDL	See **Section 11.12.**	1	Preferred Shares	On the date the Anniversary Consideration is paid	$0.01	[_____]
PDL	See **Section 11.12.**	1	Preferred Shares	On the date the Milestone 1 Consideration is paid	$0.01	[_____]
PDL	See **Section 11.12.**	1	Preferred Shares	On the date the Milestone 2 Consideration is paid	$0.01	[_____]
PDL	See **Section 11.12.**	1	Preferred Shares	On the date the Milestone 3 Consideration is paid	$0.01	[_____]
PDL	See **Section 11.12.**	1	Preferred Shares	On the date the Milestone 4 Consideration is paid	$0.01	[_____]
Farah	See **Section 11.12.**	600	Ordinary Shares	Initial Closing Date	$60	$0
Farah	See **Section 11.12.**	600,000	Preferred Shares	Initial Closing Date	$6,000	$233,833

EXHIBIT A

JOINDER AGREEMENT

Dated as of [_____]

WHEREAS, Noden Pharma DAC, a designated activity company limited by shares organized under the Laws of Ireland (the "**Company**"), and various of the holders of its ordinary shares of $1.00 ("**Ordinary Shares**") and preferred shares of $1.00 ("**Preferred Shares**"), are parties to the Investment and Stockholders' Agreement, dated as of July 1, 2016 (the "**Stockholders' Agreement**"), a copy of which is attached hereto as **Exhibit A**; and

WHEREAS, pursuant to an agreement of event date herewith, [_____] (the "**New Stockholder**") is acquiring from [_____], [_____] Ordinary Shares; and

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the New Stockholder agrees as follows:

By [its][his]her] execution of this Joinder, the New Stockholder hereby becomes a party to the Stockholders' Agreement and agrees that [it][he][she] will be bound by, and be entitled to the benefits of, all of the terms and conditions of the Stockholders' Agreement as if [it][he][she] had originally been named as [PDL][a Management Stockholder][a Minority Stockholder] therein. Execution and delivery of this Joinder by the New Stockholder shall also constitute execution and delivery by [it][him][her] of the Stockholders' Agreement, without further action of any party.

Annex A to the Stockholders' Agreement shall be amended to read as set forth on **Schedule A** attached hereto.

IN WITNESS WHEREOF, the New Stockholder has executed this Joinder as of the date first above written.

NEW STOCKHOLDER:

[NAME OF ENTITY]

By:_____
Name:
[Title:]

or

_____
Name: [Name of Individual]

Acknowledged and Accepted
as of the date first above written:

COMPANY:

Noden Pharma DAC

By:_____
Name: Elie Farah
Title: Chief Executive Officer

Exhibit 12.1

PDL BIOPHARMA, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Unaudited)
(Amount in thousands, except for ratios)

	2011	2012	2013	2014	2015	For the Six Months Ended June 30, 2016
Earnings:						
Income before income taxes	$ 307,428	$ 327,133	$ 401,876	$ 501,272	$ 530,138	$ 95,646
Add: fixed charges	36,153	29,097	24,931	39,274	27,123	9,043
Earnings	$ 343,581	$ 356,230	$ 426,807	$ 540,546	$ 557,261	$ 104,689
Fixed Charges:						
Interest expense[1]	$ 36,102	$ 29,036	$ 24,871	$ 39,211	$ 27,059	$ 9,011
Estimated interest portion of rent expense[2]	51	61	60	63	64	32
Fixed charges	36,153	$ 29,097	$ 24,931	$ 39,274	$ 27,123	$ 9,043
Ratio of earnings to fixed charges	9.50	12.24	17.12	13.76	20.55	11.58

[1] Interest expense includes amortization of debt discount and expenses.
[2] Represents the estimated portion of operating lease rental expense that is considered by us to be representative of interest and amortization of discount related to indebtedness.

Exhibit 31.1

CERTIFICATIONS

I, John P. McLaughlin, President and Chief Executive Officer, of PDL BioPharma, Inc., certify that:

(1) I have reviewed this Quarterly Report on Form 10-Q of PDL BioPharma, Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2016

/s/ John P. McLaughlin

John P. McLaughlin

President and Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Peter S. Garcia, Vice President and Chief Financial Officer, of PDL BioPharma, Inc., certify that:

(1) I have reviewed this Quarterly Report on Form 10-Q of PDL BioPharma, Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2016

/s/ Peter S. Garcia

Peter S. Garcia

Vice President and Chief Financial Officer

(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. Section 1350), John P. McLaughlin, Chief Executive Officer of PDL BioPharma, Inc. (the "Company"), and Peter S. Garcia, Vice President and Chief Financial Officer of the Company, each hereby certifies that, to the best of their knowledge:

(1) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, and

(2) The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 4, 2016

By:

/s/ JOHN P. MCLAUGHLIN

John P. McLaughlin
President and Chief Executive Officer
(Principal Executive Officer)

By:

/s/ PETER S. GARCIA

Peter S. Garcia
Vice President and Chief Financial Officer
(Principal Financial Officer)

(1)This certification accompanies the Quarterly Report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of PDL BioPharma, Inc. under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing. A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to PDL BioPharma, Inc. and will be retained by PDL BioPharma, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.