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, 2018

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ *Accelerated filer* ☒ *Non-accelerated filer* ☐ *Smaller reporting company* ☐ *Emerging growth company* ☐
(Do not check if a smaller reporting company)

If an emerging growth company, indicated by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

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 30, 2018, there were 145,400,381 shares of the registrant's Common Stock outstanding.

PDL BIOPHARMA, INC.
2018 Form 10-Q
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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,	
	2018	2017	2018	2017
Revenues				
Royalties from Queen et al. patents	$ 1,218	$ 16,285	$ 4,001	$ 30,441
Royalty rights - change in fair value	12,842	83,725	23,933	96,871
Interest revenue	751	5,460	1,500	10,917
Product revenue, net	31,761	18,829	55,085	31,410
License and other	3	19,536	574	19,636
Total revenues	46,575	143,835	85,093	189,275
Operating expenses				
Cost of product revenue (excluding intangible asset amortization)	14,524	4,515	25,090	7,067
Amortization of intangible assets	6,384	6,148	12,677	12,163
General and administrative	14,529	11,288	26,190	23,864
Sales and marketing	5,385	3,616	10,898	6,200
Research and development	684	4,281	1,477	6,047
Impairment of intangible assets	152,330	—	152,330	—
Change in fair value of anniversary payment and contingent consideration	(22,135)	1,207	(22,735)	2,649
Total operating expenses	171,701	31,055	205,927	57,990
Operating income (loss)	(125,126)	112,780	(120,834)	131,285
Non-operating income (expense), net				
Interest and other income, net	1,376	276	3,290	488
Interest expense	(2,811)	(5,015)	(6,396)	(9,986)
Gain on bargain purchase	—	6,271	—	6,271
Total non-operating income (expense), net	(1,435)	1,532	(3,106)	(3,227)
Income (loss) before income taxes	(126,561)	114,312	(123,940)	128,058
Income tax expense (benefit)	(14,265)	53,873	(13,246)	60,425
Net income (loss)	(112,296)	60,439	(110,694)	67,633
Less: Net loss attributable to noncontrolling interests	—	—	—	(47)
Net income (loss) attributable to PDL's shareholders	$ (112,296)	$ 60,439	$ (110,694)	$ 67,680
Net income (loss) per share				
Basic	$ (0.76)	$ 0.39	$ (0.74)	$ 0.42
Diluted	$ (0.76)	$ 0.39	$ (0.74)	$ 0.42
Weighted average shares outstanding				
Basic	146,923	155,654	149,186	159,677
Diluted	146,923	156,394	149,186	160,168

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,	
	2018	**2017**	**2018**	**2017**
Net income (loss)	$ (112,296)	$ 60,439	$ (110,694)	$ 67,633
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	—	—	(578)	—
Adjustment for net gains realized and included in net income, net of tax	—	—	(603)	—
Total change in unrealized gains on investments in available-for-sale securities, net of tax[(a)]	—	—	(1,181)	—
Total other comprehensive income/(loss), net of tax	—	—	(1,181)	—
Comprehensive income (loss)	(112,296)	60,439	(111,875)	67,633
Less: Comprehensive loss attributable to noncontrolling interests	—	—	—	(47)
Comprehensive income (loss) attributable to PDL's shareholders	$ (112,296)	$ 60,439	$ (111,875)	$ 67,680

[(a)] Net of tax of zero and zero for the three months ended June 30, 2018 and 2017, respectively, and $314 and zero for the six months ended June 30, 2018 and 2017, respectively.

See accompanying notes.

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

	June 30, 2018 (unaudited)	December 31, 2017 (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 395,653	$ 527,266
Short-term investments	—	4,848
Accounts receivable, net	19,531	31,183
Notes receivable	58,058	53,613
Inventories	14,801	9,147
Prepaid and other current assets	20,628	14,386
Total current assets	508,671	640,443
Property and equipment, net	9,223	7,222
Royalty rights - at fair value	335,163	349,223
Notes and other receivables, long-term	12,829	17,124
Intangible assets, net	54,472	215,823
Other assets	25,637	13,288
Total assets	$ 945,995	$ 1,243,123
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 11,212	$ 19,785
Accrued liabilities	34,294	45,881
Accrued income taxes	217	1,377
Convertible notes payable	—	126,066
Total current liabilities	45,723	193,109
Convertible notes payable	120,945	117,415
Contingent consideration	18,900	42,000
Other long-term liabilities	47,799	44,709
Total liabilities	233,367	397,233
Commitments and contingencies (Note 12)		
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; 145,971 and 153,775 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	1,460	1,538
Additional paid-in capital	(100,229)	(102,443)
Accumulated other comprehensive income	—	1,181
Retained earnings	811,397	945,614
Total stockholders' equity	712,628	845,890
Total liabilities and stockholders' equity	$ 945,995	$ 1,243,123

See accompanying notes.

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

	Six Months Ended June 30,	
	2018	**2017**
Cash flows from operating activities		
Net income (loss)	$ (110,694)	$ 67,633
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of convertible notes and term loan offering costs	3,911	5,394
Amortization of intangible assets	12,677	12,164
Impairment of intangible assets	152,330	—
Change in fair value of royalty rights - at fair value	(23,933)	(96,871)
Change in fair value of derivative asset	(74)	(136)
Change in fair value of anniversary payment and contingent consideration	(22,735)	2,649
Other amortization, depreciation and accretion of embedded derivative	2,028	591
Gain on sale of available-for-sale securities	(764)	(93)
Loss on disposal of property and equipment	66	—
Inventory obsolescence	(491)	161
Bad debt allowance	43	54
Stock-based compensation expense	2,218	2,075
Deferred income taxes	(11,276)	29,223
Changes in assets and liabilities, net of effects of business acquired:		
Accounts receivable	10,764	15,058
Receivables from licensees and other	945	6,000
Prepaid and other current assets	(6,816)	(2,700)
Accrued interest on notes receivable	(150)	15,263
Inventories	(5,343)	(1,823)
Other assets	(1,531)	8
Accounts payable	(8,679)	993
Accrued liabilities	(5,789)	5,542
Deferred revenue	(5,970)	—
Accrued income taxes	(1,159)	10,278
Other long-term liabilities	666	(9,851)
Net cash provided by (used in) operating activities	(19,756)	61,612
Cash flows from investing activities		
Purchase of investments	—	(19,860)
Proceeds from sales of available-for-sale securities	4,116	29,045
Proceeds from royalty rights - at fair value	37,993	48,062
Sale of royalty rights - at fair value	—	108,169
Proceeds from sales of assets held for sale	—	8,142
Purchase of property and equipment	(3,915)	(705)
Net cash provided by investing activities	38,194	172,853
Cash flows from financing activities		
Repayment of convertible notes	(126,447)	—
Cash paid for purchase of noncontrolling interest	—	(2,170)
Cash dividends paid	—	(21)
Repurchase and retirement of common stock	(23,604)	(30,000)
Net cash used in financing activities	(150,051)	(32,191)
Net increase (decrease) in cash and cash equivalents	(131,613)	202,274
Cash and cash equivalents at beginning of the period	527,266	147,154
Cash and cash equivalents at end of period	$ 395,653	$ 349,428
Supplemental cash flow information		
Cash paid for income taxes	$ 3,980	$ 14,205
Cash paid for interest	$ 4,591	$ 4,695
Supplemental schedule of non-cash investing and financing activities		

Asset held for sale reclassified from notes receivable to other assets	$	—	$	10,000
Assets held for sale reclassified from other assets to intangibles	$	1,811	$	—
Extinguishment of notes receivable	$	—	$	43,909

See accompanying notes.

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of PDL Biopharma, Inc. and its subsidiaries (collectively, the "Company" or "PDL") have been prepared in accordance with Generally Accepted Accounting Principles (United States) ("GAAP") for interim financial information. The financial statements include all adjustments (consisting only of normal recurring adjustments), that management of the Company 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 the Company's audited Consolidated Financial Statements and the related notes thereto for the year ended December 31, 2017, included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the Securities and Exchange Commission ("SEC") on March 16, 2018. The Condensed Consolidated Balance Sheet at December 31, 2017, has been derived from the audited Consolidated Financial Statements at that date, but does not include all disclosures required by GAAP.

Significant Accounting Policies

The Company's significant accounting policies are described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Summarized below are the accounting pronouncements adopted subsequent to December 31, 2017.

Adopted Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. The new standard provides for specific guidance how certain transactions are classified in the statement of cash flows. Effective January 1, 2018, the Company adopted the requirements of ASU No. 2016-15. The adoption did not have an effect on the Consolidated Financial Statements on the adoption date and no adjustment to prior year Consolidated Financial Statements was required.

In October 2016, the FASB issued ASU No. 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory*, which requires companies to account for the income tax effects of intercompany sales and transfers of assets other than inventory in the period in which the transfer occurs. Effective January 1, 2018, the Company adopted the requirements of ASU No. 2016-16. The adoption did not have an effect on the Consolidated Financial Statements on the adoption date and no adjustment to prior year Consolidated Financial Statements was required.

In November 2016, the FASB issued ASU No. 2016-18, *Restricted Cash*, which requires entities to show the changes in total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. Effective January 1, 2018, the Company adopted the requirements of ASU No. 2016-18. The adoption did not have an effect on the Consolidated Financial Statements on the adoption date and no adjustment to prior year Consolidated Financial Statements was required.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). Effective January 1, 2018, the Company adopted the requirements of ASU No. 2014-09 using the modified retrospective method as discussed in Note 2 below. All amounts and disclosures set forth in this Quarterly Report on Form 10-Q reflect these changes.

Recently Issued Accounting Pronouncements

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 Condensed Consolidated Financial Statements.

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 more timely recognition of losses. ASU No. 2016-13 has an effective date of the fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating ASU No. 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. Revenue from Contracts with Customers

Adoption of New Revenue Standard

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* that supersedes Accounting Standards Codification ("ASC") Topic 605, *Revenue Recognition*. Subsequently, the FASB issued several updates to ASU No. 2014-09, which are pending content or otherwise codified in ASC Topic 606 ("ASC 606"). ASC 606 also includes new guidance on costs related to a contract, which is codified in ASC Subtopic 340-40. The Company adopted ASC 606 on January 1, 2018 using the modified retrospective method for all contracts not substantially completed as of the date of adoption. The cumulative impact of the adoption ASC 606 was not material to the Company therefore the Company did not record any adjustments to retained earnings. The reported results for 2018 reflect the application of ASC 606 guidance while the reported results for 2017 were prepared under the guidance of ASC Topic 605, which is also referred to herein as "legacy GAAP" or the "previous guidance".

Revenue

A. Significant Accounting Policy

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised products and services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these products and services. A five-step model is utilized to achieve the core principle and includes the following steps: (1) identify the customer contract; (2) identify the contract's performance obligation; (3) determine the transactions price; (4) allocate the transactions price to the performance obligation; and (5) recognize revenue when the performance obligation is satisfied.

B. Practical Expedients

Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue.

Shipping and handling costs associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of revenues.

Sales commissions and other incremental costs of obtaining contracts are expensed as incurred as the amortization periods are less than one year.

C. Nature of Goods and Services

The following is a description of principal activities - separated by reportable segments - from which the Company generates its revenue. For more detailed information about reportable segments, see Note 20.

i. Pharmaceutical

The pharmaceutical segment of the Company principally generates revenue from products sold to wholesalers and distributors. Customer orders are generally fulfilled within a few days of receipt resulting in minimal order backlog. Contractual performance obligations are usually limited to transfer of the product to the customer. The transfer occurs either upon shipment or upon receipt of the product in certain non-U.S. countries after considering when the customer obtains control of the product. In addition, for some non-U.S. countries, the Company sells product on a consignment basis where control is not transferred until the customer resells the product to an end user. At these points, customers are able to direct the use of and obtain substantially all of the remaining benefits of the product.

Sales to customers are initially invoiced at contractual list prices. Payment terms are typically 30 to 90 days based on customary practice in each country. Revenue is reduced from the list price at the time of recognition for expected charge-backs, discounts, rebates, sales allowances and product returns, which are referred to as gross-to-net adjustments. These reductions are attributed to various commercial agreements, managed healthcare organizations and government programs such as Medicare, Medicaid, and the 340B Drug Pricing Program containing various pricing implications such as mandatory discounts, pricing protection below wholesaler list price and other discounts when Medicare Part D beneficiaries are in the coverage gap. These various reductions in the transaction price have been estimated using either a most likely amount or expected value method depending on their nature and have been reflected as liabilities and are settled through cash payments, typically within time periods ranging from a few months to one year. Significant judgment is required in estimating gross-to-net adjustments considering legal interpretations of applicable laws and regulations, historical experience, payer channel mix, current contract prices under applicable programs, unbilled claims, processing time lags and inventory levels in the distribution channel.

ii. Medical Devices

The medical devices segment of the Company principally generates revenue from the sale and lease of the LENSAR® Laser System ("LLS"), related procedure devices and licenses, and service agreements.

For bundled packages, the Company accounts for individual products and services separately if they are distinct - i.e. if a product or service is separately identifiable from other items in the bundled package and if the customer can benefit from it on its own or with other resources that are readily available to the customer. As the Company both sells and leases the LLS, the consideration (including any discounts) is first allocated between lease and non-lease components and then allocated between the separate products and services based on their stand-alone selling prices. The consideration (including any discounts) is allocated between separate products and services in a bundle based on their stand-alone selling prices. The stand-alone selling prices for the Patient Interface Devices ("PIDs") and procedure licenses are determined based on the prices at which the Company separately sells the PIDs and procedure licenses. The LLS system and warranty stand-alone selling prices are determined using the expected cost plus a margin approach.

The Company sells and leases the LLS to customers. For LSS sales, the Company recognizes revenue in products revenue when a customer takes possession of the system. This usually occurs after the customer signs a contract, LENSAR installs the system, and LENSAR performs the requisite training for use of the system. For LLS leases, the Company recognizes revenue in products revenue over the length of the lease in products revenue in accordance with ASC Topic 840, *Leases*.

The LLS requires both a consumable, a PID, and a procedure license to perform each procedure. The Company recognizes revenue for PIDs in products revenue when the customer takes possession of the PID. PIDs are sold by the case. The Company recognizes revenue for procedure licenses in products revenue when a customer purchases a procedure license from the web portal. Typically, consideration for PIDs and procedure licenses is considered fixed consideration except as noted below. Certain customer agreements provide for variable consideration through tiered volume discount pricing.

The Company provides an extended warranty that provides additional services beyond the standard warranty. The Company recognizes revenue in products revenue over the warranty period. Customers have the option of renewing the warranty period, which is considered a new and separate contract.

iii. Income Generating Assets

Licenses of intellectual property: If the license to the Company's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Company recognizes revenues from non-refundable, up-front fees allocated to the license when the license is transferred to the customer and the customer is able to use and benefit from the license.

In January 2018, DFM, LLC, a wholly-owned subsidiary of the Company, granted an exclusive license related to certain Direct Flow Medical assets in exchange for $0.5 million in cash and up to $2.0 million in royalty payments. The $0.5 million payment was accounted for in accordance with ASC 606 under which the full cash payment was recognized as revenue in the first quarter of 2018 as DFM, LLC had fulfilled its performance obligation under the agreement.

Royalties: The Company recognizes royalty revenues related to the sale of products by its licensees that incorporate the Company's technologies. Royalties qualify for the sales-and-usage exemption under Topic 606 as (i) royalties are based strictly on the sales-and-usage by the licensee; and (ii) a license of IP is the sole or predominant item to which such royalties relate. Based on this exemption, these royalties are earned under the terms of a license agreement in the period the products are sold by the Company's partner and the Company has a present right to payment.

D. Disaggregation of Revenue

The Company disaggregates its revenue from contracts with customers by segment and geographic location, as the Company believes it best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors. In the following table, revenue is disaggregated by segment and primary geographical market for the three and six months ended June 30, 2018:

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
(in thousands)	**Medical Devices**	**Pharmaceutical**	**Medical Devices**	**Pharmaceutical**
Primary geographical markets:				
North America	$ 615	$ 10,776	$ 2,319	$ 21,707
Europe	679	6,371	1,294	12,362
Asia	1,643	8,732	2,757	10,152
Other	107	—	220	—
Total revenue from contracts with customers[1]	$ 3,044	$ 25,879	$ 6,590	$ 44,221

[1] The table above does not include Medical Device lease revenue of $2.8 million and $4.3 million for the three and six months ended June 30, 2018, respectively.

E. Contract Balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

(in thousands)	**June 30, 2018**	**January 1, 2018**
Receivables, current and non-current, net	$ 19,970	$ 30,771
Contract assets	$ 3,235	$ —
Contract liabilities	$ 5,114	$ 10,084

Receivables, Net—Receivables, net, include amounts billed and currently due from customers. The amounts due are stated at their net estimated realizable value. The Company maintains an allowance for doubtful accounts to provide for the estimated amount of receivables that will not be collected. The allowance is based upon an assessment of customer creditworthiness, historical payment experience, the age of outstanding receivables and collateral to the extent applicable.

Contract assets—The Company's contract assets represent revenue recognized for performance obligations completed before an unconditional right to payment exists, and therefore invoicing or associated reporting from the customer regarding the computation of the net product sales has not yet occurred. The Company classifies contract assets as current based on the timing of when it expects to receive payment and is included in prepaid and other current assets in the Company's consolidated balance sheets.

(in thousands)	**Medical Devices**	**Pharmaceutical**	**Total**
Contract assets at January 1, 2018	$ —	$ —	$ —
Contract assets recognized	—	3,235	3,235
Contract assets at June 30, 2018	$ —	$ 3,235	$ 3,235

Contract Liabilities—The Company's contract liabilities consist of deferred revenue for products sold to customers for which the performance obligation has not been completed by the Company. The Company classifies deferred revenue as current or noncurrent based on the timing of when it expects to recognize revenue. The noncurrent portion of deferred revenue is included in other long-term liabilities in the Company's consolidated balance sheets.

(in thousands)	Medical Devices	Pharmaceutical	Total
Contract liabilities at January 1, 2018	$ 1,391	$ 8,693	$ 10,084
Additions	547	3,880	4,427
Amounts recognized into revenue	(704)	(8,693)	(9,397)
Contract liabilities at June 30, 2018	$ 1,234	$ 3,880	$ 5,114

F. Transaction Price Allocated to Future Performance Obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period.

(in thousands)	Six Months Ended December 31, 2018	Thereafter	Total
Pharmaceutical product sales	$ 1,000	$ —	$ 1,000
Medical device product sales	$ 1,878	$ 2,352	$ 4,230

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with original expected lengths of one year or less or (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for the products delivered or services performed.

3. Net Income (loss) per Share

	Three Months Ended June 30,		Six Months Ended June 30,	
Net Income (Loss) per Basic and Diluted Share:	**2018**	**2017**	**2018**	**2017**
(in thousands except per share amounts)				
Numerator				
Income (loss) attributable to PDL's shareholders used to compute net income per basic and diluted share	$ (112,296)	$ 60,439	$ (110,694)	$ 67,680
Denominator				
Total weighted average shares used to compute net income attributable to PDL's shareholders, per basic share	146,923	155,654	149,186	159,677
Restricted stock outstanding	—	740	—	491
Shares used to compute net income (loss) attributable to PDL's shareholders, per diluted share	146,923	156,394	149,186	160,168
Net income (loss) attributable to PDL's shareholders per share - basic	$ (0.76)	$ 0.39	$ (0.74)	$ 0.42
Net income (loss) attributable to PDL's shareholders per share - diluted	$ (0.76)	$ 0.39	$ (0.74)	$ 0.42

The Company computes 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 pursuant to outstanding stock options and restricted stock awards, the 4.0% Convertible Senior Notes due February 1, 2018 (the "February 2018 Notes") that were repaid on February 1, 2018, and the 2.75% Convertible Senior Notes due December 1, 2021 (the "December 2021 Notes"), in each case, 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.

December 2021 Notes Capped Call Potential Dilution

In November 2016, the Company issued $150.0 million in aggregate principal of the December 2021 Notes, which provide in certain situations for the conversion of the outstanding principal amount of the December 2021 Notes into shares of the Company's common stock at a predefined conversion rate. For additional information on the conversion rates on the Company's convertible debt, see Note 13. In conjunction with the issuance of the December 2021 Notes, the Company entered into a capped call transaction with a hedge counterparty. The capped call transaction is expected generally to reduce the potential dilution, and/or offset, to an extent, the cash payments the Company may choose to make in excess of the principal amount, upon conversion of the December 2021 Notes. The Company has excluded the capped call transaction from the net income (loss) per diluted share computation as such securities would have an antidilutive effect and those securities should be considered separately rather than in the aggregate in determining whether their effect on net income (loss) per diluted share would be dilutive or antidilutive. For additional information regarding the capped call transaction related to the Company's December 2021 Notes, see Note 13.

Anti-Dilutive Effect of Restricted Stock Awards and Stock Options

For the three months ended June 30, 2018 and 2017, the Company excluded approximately 1.0 million and 2.2 million shares underlying restricted stock awards, respectively, and for the six months ended June 30, 2018 and 2017, the Company excluded approximately 1.1 million and 2.0 million shares underlying restricted stock awards, respectively, calculated on a weighted average basis, from its net income (loss) per diluted share calculations because their effect was anti-dilutive.

For the three months ended June 30, 2018 and 2017, the Company excluded approximately 4.9 million and zero shares underlying outstanding stock options, respectively, and for the six months ended June 30, 2018 and 2017, the Company excluded approximately 4.9 million and zero shares underlying outstanding stock options, respectively, calculated on a weighted average basis, from its net income (loss) per diluted share calculations because their effect was anti-dilutive.

4. Fair Value Measurements

The fair value of the Company's financial instruments are estimates of the amounts that would be received if the Company 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.

Assets/Liabilities Measured and Recorded at Fair Value on a Recurring Basis

The following table presents the fair value of the Company's financial instruments measured at fair value on a recurring basis by level within the valuation hierarchy:

	June 30, 2018				December 31, 2017			
(in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets:								
Money market funds	$ 324,105	$ —	$ —	$ 324,105	$ 417,563	$ —	$ —	$ 417,563
Corporate securities	—	—	—	—	4,848	—	—	4,848
Warrants	—	103	—	103	—	29	—	29
Royalty rights - at fair value	—	—	335,163	335,163	—	—	349,223	349,223
Total	$ 324,105	$ 103	$ 335,163	$ 659,371	$ 422,411	$ 29	$ 349,223	$ 771,663
Financial liabilities:								
Contingent consideration, current[1]	$ —	$ —	$ 1,140	$ 1,140	$ —	$ —	$ —	$ —
Contingent consideration, non-current	—	—	18,900	18,900	—	—	42,000	42,000
Total	$ —	$ —	$ 20,040	$ 20,040	$ —	$ —	$ 42,000	$ 42,000

[1] Contingent consideration, current is classified as "Accrued liabilities" on the Condensed Consolidated Balance Sheet. See Note 11 for details.

There have been no transfers between levels during the six month periods ended June 30, 2018 and December 31, 2017. The Company recognizes transfers between levels on the date of the event or change in circumstances that caused the transfer.

Corporate Securities

Corporate securities consisted primarily of U.S. corporate equity holdings. The fair value of corporate securities is estimated using market quoted prices.

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.

Royalty Rights - At Fair Value

Depomed Royalty Agreement

On October 18, 2013, the Company entered into the Royalty Purchase and Sale Agreement (the "Depomed Royalty Agreement") with Depomed, Inc. and Depo DR Sub, LLC (together, "Depomed"), 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 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, Inc. ("Santarus") (which was subsequently acquired by Salix Pharmaceuticals, Inc. ("Salix"), which itself was acquired by Valeant Pharmaceuticals International, Inc. (which was subsequently acquired by Bausch Health Companies Inc.) ("Bausch Health")) with respect to sales of Glumetza (metformin HCL extended-release tablets) in the United States; (b) from Merck & Co., Inc. 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 recently approved fixed-dose combination of Invokana® (canagliflozin) and extended-release metformin tablets, marketed as Invokamet XR®; (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, including its recently approved products, Jentadueto XR® and Syngardy XR®; and (e) from LG Life Sciences and Bausch Health 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, 2018 and December 31, 2017, the Company determined that its royalty purchase interest in Depo DR Sub, LLC 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, LLC that most significantly impact Depo DR Sub, LLC's economic performance and is not the primary beneficiary of Depo DR Sub, LLC; therefore, Depo DR Sub, LLC 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 the Company's valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future commercialization for products not yet approved by regulatory agencies outside of the United States. The discounted cash flows are based upon expected royalties from sales of licensed products over a nine-year period. The discount rates utilized range from 10% to 24%. Significant judgment is required in selecting appropriate discount rates. At June 30, 2018, an evaluation was performed to assess those rates and general market conditions potentially affecting the fair market value, of the financial asset. Should these discount rates increase or decrease by 2.5%, the fair value of the asset could decrease by $12.8 million or increase by $14.7 million, respectively. A third-party expert was engaged to assist 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. The Company periodically assesses the expected future cash flows and to the extent such payments are greater or less than its initial estimates, or the timing of such payments is materially different than the original estimates, the Company 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 or decrease by $5.4 million, respectively.

When the Company 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 and 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 the Company's lack of direct access to information as to the levels of inventory of Glumetza in the distribution channels, the Company commenced a review of all public statements by Salix, publicly available historical third-party prescription data, analyst reports and other relevant data sources. The Company 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 Bausch Health in early April 2015. In mid-2015, Bausch Health implemented two price increases on Glumetza. At year-end 2015, a third-party expert was engaged by the Company to assess the impact of the Glumetza price adjustments and near-term market entrance of generic equivalents 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 and August 2016, a total of three generic equivalents to Glumetza were approved to enter the market. In February 2016, Lupin Pharmaceuticals, Inc. and in August 2017, Teva Pharmaceutical Industries, Ltd., each launched a generic equivalent approved product. To date, the third generic equivalent to Glumetza has not launched.

In May 2017, the Company received notification that a subsidiary of Bausch Health had launched an authorized generic equivalent product in February 2017, and the Company received royalties on such authorized generic equivalent product under the same terms as the branded Glumetza product, retroactive to February 2017.

At December 31, 2017, management re-evaluated, with assistance of a third-party expert, the market share data, the gross-to-net revenue adjustment assumptions and Glumetza demand data, including the delay in launch of additional generic equivalent

products and the entry of an authorized generic product by Bausch Health. These data and assumptions are based on available but limited information. At June 30, 2018, management updated the expected future cash flows based on the current period demand and supply data of Glumetza and the authorized generic equivalent product launched by Bausch Health.

As of June 30, 2018, the Company's discounted cash flow analysis reflects its expectations as to the amount and timing of future cash flows up to the valuation date, including future cash flows for the authorized generic equivalent product. The Company continues to monitor whether the generic competition further affects sales of Glumetza and thus royalties on such sales paid to the Company, and the impact of the launched authorized generic equivalent. Due to the uncertainty around Bausch Health's marketing and pricing strategy, as well as the recent generic competition and limited historical demand data after generic market entrance, the Company may need to further evaluate future cash flows in the event of more rapid reduction or increase in market share of Glumetza and its authorized generic equivalent product and/or a further erosion in net pricing.

In February 2016, at the Company's request and pursuant to the Depomed Royalty Agreement, Depomed exercised its audit right with respect to Glumetza royalties. The independent auditor engaged to perform the royalty audit completed it in July 2017, and based upon the results of the audit, Depomed, on behalf of the Company, filed a lawsuit on September 7, 2017, against Bausch Health and one of its subsidiaries, claiming damages for unpaid royalties, fees and interest. Bausch Health, Depomed and the Company entered into a settlement agreement on October 27, 2017 whereby the parties agreed to dismiss the litigation, with prejudice, and Bausch Health agreed to pay to Depomed $13.0 million. The full amount of the settlement payment was transferred to the Company under the terms of the Depomed Royalty Agreement in November 2017.

On May 31, 2016, the Company obtained a notification indicating that the U.S. Food and Drug Administration ("FDA") approved Jentadueto XR for use in patients with Type 2 diabetes. In June 2016, the Company received a $6.0 million FDA approval milestone pursuant to the terms of the Depomed Royalty Agreement. The product approval was earlier than initially expected. Based on the FDA approval and anticipated timing of the product launch, the Company adjusted the timing of future cash flows and discount rate used in the discounted cash flow model at June 30, 2016. As of December 31, 2017, management re-evaluated, the cash flow assumptions for Jentadueto XR and revised the discounted cash flow model. As of June 30, 2018, the Company's discounted cash flow analysis reflects its expectations as to the amount and timing of future cash flows up to the valuation date.

On September 21, 2016, the Company obtained a notification indicating that the FDA approved Invokamet XR for use in patients with Type 2 diabetes. The product approval triggered a $5.0 million approval milestone payment to the Company pursuant to the terms of the Depomed Royalty Agreement. Based on the FDA approval and timing of the product launch, the Company adjusted the timing of future cash flows and discount rate used in the discounted cash flow model.

On December 13, 2016, the Company obtained a notification indicating that the FDA approved Synjardy XR for use in patients with Type 2 diabetes. The product approval triggered a $6.0 million approval milestone payment to the Company pursuant to the terms of the Depomed Royalty Agreement. Based on the FDA approval and the April 2017 launch of Synjardy XR by Boehringer Ingelheim, the Company adjusted the timing of future cash flows and discount rate used in the discounted cash flow model.

As of June 30, 2018, the fair value of the asset acquired as reported in the Company's Condensed Consolidated Balance Sheet was $214.1 million and the maximum loss exposure was $214.1 million.

Viscogliosi Brothers Royalty Agreement

On June 26, 2014, the Company entered into a Royalty Purchase and Sale Agreement (the "VB Royalty Agreement") with Viscogliosi Brothers, LLC ("VB"), 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 held by VB and commercialized by Paradigm Spine, LLC ("Paradigm Spine"), 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 2.3 times the cash payment made to VB, after which all rights to receive royalties will be returned to VB. VB's ability to repurchase the royalty right for as specified amount expired on June 26, 2018.

The fair value of the royalty right at June 30, 2018, 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 the Company's 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 15.0%. 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 $1.4 million or increase by $1.6 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase 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 the Company's 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, 2018, the fair value of the asset acquired as reported in the Company's Condensed Consolidated Balance Sheet was $14.7 million and the maximum loss exposure was $14.7 million.

University of Michigan Royalty Agreement

On November 6, 2014, the Company acquired a portion of all royalty payments of the Regents of the University of Michigan's ("U-M") worldwide royalty interest in Cerdelga (eliglustat) for $65.6 million pursuant to the Royalty Purchase and Sale Agreement with U-M (the "U-M Royalty Agreement"). Under the terms of the U-M Royalty Agreement, the Company receives 75% of all royalty payments due under U-M's license agreement with Genzyme Corporation, a Sanofi company ("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. Cerdelga was approved in the United States in August 2014, in the European Union in January 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 United States, the European Union and Japan, national pricing and reimbursement decisions are delayed in some countries. At December 31, 2017, a third-party expert was engaged by the Company 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 December 31, 2017. As of June 30, 2018, the Company's discounted cash flow analysis reflects its expectations as to the amount and timing of future cash flows up to the valuation date.

The fair value of the royalty right at June 30, 2018 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 the Company's 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 four-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 $1.2 million or increase by $1.4 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase or decrease by $0.7 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 the Company's 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, 2018, the fair value of the asset acquired as reported in the Company's Condensed Consolidated Balance Sheet was $26.1 million and the maximum loss exposure was $26.1 million.

AcelRx Royalty Agreement

On September 18, 2015, the Company entered into a royalty interest assignment agreement (the "AcelRx Royalty Agreement") with ARPI LLC, a wholly owned subsidiary of AcelRx Pharmaceuticals, Inc. ("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 receives 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 (expected to be in January of 2032). Zalviso received marketing approval by the European Commission in September 2015. Grünenthal launched Zalviso in the second quarter of 2016 and the Company started to receive royalties in the third quarter of 2016.

As of June 30, 2018, and December 31, 2017, the Company determined that its royalty rights under the AcelRx Royalty Agreement 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, 2018 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 the Company's 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 fourteen-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 $9.8 million or increase by $12.0 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase or decrease by $1.9 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 the Company's estimates. Based on the number of treated patients to date, management adjusted the timing of the expected future cash flows used in the discounted cash flow model at December 31, 2017. At June 30, 2018, management performed an evaluation of those estimates, discount rates utilized and general market conditions to determine the fair market value of the asset, and such an evaluation is performed for each reporting period. As of June 30, 2018, the Company's discounted cash flow analysis reflects its expectations as to the amount and timing of future cash flows up to the valuation date.

As of June 30, 2018, the fair value of the asset acquired as reported in the Company's Condensed Consolidated Balance Sheet was $77.4 million and the maximum loss exposure was $77.4 million.

Kybella Royalty Agreement

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

The fair value of the royalty right at June 30, 2018, 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 the Company's 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 a licensed product over a seven-year period. The discount rate utilized was approximately 14.4%. 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 $0.2 million or increase by $0.3 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase or decrease by $0.1 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 the Company's 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, 2018, the fair value of the asset acquired as reported in the Company's Condensed Consolidated Balance Sheet was $2.8 million and the maximum loss exposure was $2.8 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, 2018:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) - Royalty Rights Assets

(in thousands)		Royalty Rights - At Fair Value
Fair value as of December 31, 2017		$ 349,223
Total net change in fair value for the period		
Change in fair value of royalty rights - at fair value	$ 23,933	
Proceeds from royalty rights - at fair value	$ (37,993)	
Total net change in fair value for the period		(14,060)
Fair value as of June 30, 2018		$ 335,163

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) - Royalty Rights Assets

(in thousands)	Fair Value as of December 31, 2017	Royalty Rights - Change in Fair Value	Fair Value as of June 30, 2018
Depomed	$ 232,038	$ (17,967)	$ 214,071
VB	14,380	284	14,664
U-M	26,769	(620)	26,149
AcelRx	72,894	4,539	77,433
Avinger	396	(396)	—
KYBELLA	2,746	100	2,846
	$ 349,223	$ (14,060)	$ 335,163

Fair Value Measurements Using Significant Unobservable Inputs (Level 3) - Liabilities

(in thousands)	Contingent Consideration
Fair value as of December 31, 2017	$ (42,000)
Total net change in fair value for the period	22,735
Fair value of financial instruments acquired	(1,560)
Settlement of financial instrument	785
Fair value as of June 30, 2018	$ (20,040)

The fair value of the contingent consideration was determined using an income approach derived from revenue estimates and a probability assessment with respect to the likelihood of achieving (a) the level of net sales or (b) generic product launch that would trigger the milestone payments. The key assumptions in determining the fair value are the discount rate and the probability assigned to the potential milestones being achieved. The fair value of the contingent consideration is remeasured each reporting period, with changes in fair value recorded in the Condensed Consolidated Statements of Income. The change in fair value of the contingent consideration during the six months ending June 30, 2018 is due primarily to the changes in the probabilities in the generic entry milestones and the additional contingent consideration acquired as part of the assets acquired by LENSAR from Precision Eye Services, as described in note 9.

Gains and losses from changes in Level 3 assets included in earnings for each period are presented in "Royalty rights - change in fair value" and gains and losses from changes in Level 3 liabilities included in earnings for each period are presented in "Change in fair value of anniversary payment and contingent consideration" as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2018	2017	2018	2017
Total change in fair value for the period included in earnings for royalty right assets held at the end of the reporting period	$ 12,842	$ 83,725	$ 23,933	$ 96,871
Total change in fair value for the period included in earnings for liabilities held at the end of the reporting period	$ 22,135	$ (1,207)	$ 22,735	$ (2,649)

Assets/Liabilities Measured and Recorded at Fair Value on a Nonrecurring Basis

The Company remeasures the fair value of certain assets and liabilities upon the occurrence of certain events. Such assets consist of cost-method equity investments and long-lived assets, including property and equipment and intangible assets. During the three months ended June 30, 2018, the Company recorded an impairment charge of $152.3 million for the Noden intangible asset related to the increased probability of a generic version of aliskiren being launched in the United States. As a result of this impairment charge, which was based on the estimated fair value of the assets, the remaining carrying value of the these intangible assets was determined to be $40.1 million. The fair value calculation included level 3 inputs. For additional information on the impairment charge, see note 10.

Assets/Liabilities Not Subject to Fair Value Recognition

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, 2018			December 31, 2017		
(in thousands)	Carrying Value	Fair Value Level 2	Fair Value Level 3	Carrying Value	Fair Value Level 2	Fair Value Level 3
Assets:						
Wellstat Diagnostics note receivable	$ 50,191	$ —	$ 57,224	$ 50,191	$ —	$ 51,308
Hyperion note receivable	1,200	—	1,200	1,200	—	1,200
CareView note receivable	19,496	—	19,507	19,346	—	18,750
Total	$ 70,887	$ —	$ 77,931	$ 70,737	$ —	$ 71,258
Liabilities:						
February 2018 Notes	$ —	$ —	$ —	$ 126,066	$ 126,131	$ —
December 2021 Notes	120,945	139,052	—	117,415	148,028	—
Total	$ 120,945	$ 139,052	$ —	$ 243,481	$ 274,159	$ —

As of June 30, 2018 and December 31, 2017, the estimated fair values of the Hyperion Catalysis International, Inc. note receivable, and CareView Communications, Inc. ("CareView") 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 the Company engages a third-party valuation expert to assist in evaluating its investments and the related inputs needed to estimate the fair value of certain investments. The Company determined its notes receivable assets are Level 3 assets as the Company's 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, the Company 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 CareView note receivable is secured by substantially all assets of, and equity interests in CareView. The Wellstat Diagnostics note receivable is secured by substantially all assets of Wellstat Diagnostics and is supported by a guaranty from the Wellstat Diagnostics Guarantors (as defined in Note 7 below). 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, 2018, the carrying values of several of the Company's 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.

The fair values of the Company's convertible notes were determined using quoted market pricing or dealer quotes.

The following table represents significant unobservable inputs used in determining the estimated fair value of impaired notes receivable investments:

Asset	Valuation Technique	Unobservable Input	June 30, 2018	December 31, 2017
Wellstat Diagnostics				
Wellstat Guarantors Intellectual Property	*Income Approach*			
		Discount rate	12%	12%
		Royalty amount	$21 million	$21 million
Settlement Amount	*Income Approach*			
		Discount rate	15%	15%
		Settlement amount	$36 million	$32 million
Real Estate Property	*Market Approach*			
		Annual appreciation rate	4%	4%
		Estimated realtor fee	6%	6%
		Estimated disposal date	6/30/2019	6/30/2019
CareView				
Note receivable cash flows	*Income Approach*			
		Discount rate	17.5%	17.5%

At June 30, 2018, the Company had three notes receivable investments on non-accrual status with a cumulative investment cost and fair value of approximately $70.9 million and $77.9 million, respectively, compared to three note receivable investments on non-accrual status at December 31, 2017 with a cumulative investment cost and fair value of approximately $70.7 million and $71.3 million, respectively. For the three and six months ended June 30, 2018, the Company recognized $0.8 million and $1.5 million, respectively, of interest revenue for the CareView note receivable investment as a result of cash interest payments made during the period; for the three and six months ended June 30, 2017, the Company did not recognize any interest for note receivable investments on non-accrual status. During the three and six months ended June 30, 2018, the Company recognized losses on extinguishment of notes receivable of zero and zero, respectively, and during the three and six months ended June 30, 2017, the Company recognized losses on extinguishment of notes receivable of $12.2 million and $12.2 million, respectively.

5. Cash, Cash Equivalents and Short-term Investments

As of June 30, 2018, and December 31, 2017, the Company had invested its excess cash balances primarily in cash, money market funds and a corporate equity security. The Company's 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 4 for fair value measurement information. The cost of securities sold is based on the specific identification method. To date, the Company has not experienced credit losses on investments in these instruments, and it does not require collateral for its investment activities.

The following tables summarize the Company's cash and available-for-sale securities' amortized cost, gross unrealized gains and fair value by significant investment category reported as cash and cash equivalents, or short-term investments as of June 30, 2018 and December 31, 2017:

(in thousands)	Amortized Cost	Unrealized Gains	Estimated Fair Value	Reported as: Cash and Cash Equivalents	Reported as: Short-Term Investments
June 30, 2018					
Cash	$ 71,548	$ —	$ 71,548	$ 71,548	$ —
Money market funds	324,105	—	324,105	324,105	—
Total	$ 395,653	$ —	$ 395,653	$ 395,653	$ —
December 31, 2017					
Cash	$ 109,703	$ —	$ 109,703	$ 109,703	$ —
Money market funds	417,563	—	417,563	417,563	—
Corporate securities	3,353	1,495	4,848	—	4,848
Total	$ 530,619	$ 1,495	$ 532,114	$ 527,266	$ 4,848

The Company recognized zero and $0.8 million of gains on sales of available-for-sale securities in the three and six months ended June 30, 2018, respectively. The Company did not recognize any gains or losses on sales of available-for-sale securities in the three and six months ended June 30, 2017.

The unrealized gains on investments included in "Other comprehensive income (loss), net of tax" was zero and $1.2 million as of June 30, 2018, and December 31, 2017, respectively.

6. Concentration of Credit Risk

Product Line Concentration

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

Licensee	Product Name	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Biogen	*Tysabri®*	3%	11%	5%	16%
Depomed	*Glumetza, Janumet XR, Jentadueto XR, Synjardy XR and Invokamet XR*	20%	61%	20%	49%
N/A	*Tekturna, Tekturna HCT, Rasilez and Rasilez HCT*	56%	11%	52%	15%
LENSAR	*LENSAR Laser System*	13%	2%	13%	1%

7. Notes and Other Long-Term Receivables

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

Wellstat Diagnostics Note Receivable and Credit Agreement and Related Litigation

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, the Company 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. A portion of the proceeds of the $40.0 million credit agreement were used to repay certain notes receivable which Wellstat Diagnostics entered into in March 2012.

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. The Company 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, the Company exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to the Company and applied the funds to amounts due under the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby the Company agreed to refrain from exercising additional remedies for 120 days. 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 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 herein, 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, the Company 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).

In June 2014, the Company received information from Wellstat Diagnostics showing that it was generally unable to pay its debts as they became due, constituting an event of default under the amended and restated credit agreement.

On August 5, 2014, the Company delivered a notice of default (the "Wellstat Diagnostics Borrower Notice") to Wellstat Diagnostics, 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, (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 a notice (the "Wellstat Diagnostics Guarantor Notice") to each of the guarantors of Wellstat Diagnostics' obligations to the Company (collectively, the "Wellstat Diagnostics Guarantors") under the credit agreement, which 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 an ex-parte petition for appointment of receiver with the Circuit Court of Montgomery County, Maryland (the "Wellstat Diagnostics Petition"), which was granted on the same day. Wellstat Diagnostics remained in operation during the period of the receivership with incremental additional funding from the Company. On May 24, 2017, Wellstat Diagnostics transferred substantially all of its assets to the Company pursuant to a credit bid. The credit bid reduced the outstanding balance of the loan by an immaterial amount.

On September 4, 2015, the Company 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 certain of the 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, the Company filed in the same court an ex parte application for a temporary restraining order and order of attachment of the Wellstat Diagnostics Guarantor defendants' assets. Although the court denied the Company's request for a temporary restraining order at a hearing on September 24, 2015, it ordered that assets

of the Wellstat Diagnostics Guarantor defendants should be held in *status quo ante* and only used in the normal course of business.

On July 29, 2016, the Supreme Court of New York granted the Company's motion for summary judgment and held that the Wellstat Diagnostics Guarantor defendants are liable for all "Obligations" owed by Wellstat Diagnostics to the Company. After appeal by the Wellstat Diagnostics Guarantor defendants, on February 14, 2017, the Appellate Division of the Supreme Court of New York reversed on procedural grounds a portion of the Memorandum of Decision granting the Company summary judgment in lieu of complaint, but affirmed the portion of the Memorandum of Decision denying the Wellstat Diagnostics Guarantor defendants' motion for summary judgment in which they sought a determination that the guarantees had been released. As a result, the litigation has been remanded to the Supreme Court of New York to proceed on the Company's claims as a plenary action. On June 21, 2017, the Supreme Court of New York ordered the Company to file a Complaint, which was filed by the Company on July 20, 2017. The Wellstat Diagnostics Guarantors filed their answer on August 9, 2017, including counterclaims against the Company alleging breach of contract, breach of fiduciary duty, and tortious interference with prospective economic advantage. This case is currently pending and in the pre-trial phase.

On October 14, 2016, the Company sent a notice of default and reference to foreclosure proceedings to certain of the Wellstat Diagnostics Guarantors which are not defendants in the New York action, but which are owners of real estate assets over which a deed of trust in favor of the Company securing the guarantee of the loan to Wellstat Diagnostics had been executed. On March 2, 2017, the Company sent a second notice to foreclose on the real estate assets, and noticed the sale for March 29, 2017. The sale was taken off the calendar by the trustee under the deed of trust and has not been re-scheduled yet. On March 6, 2017, the Company sent a letter to the Wellstat Diagnostics Guarantors seeking information in preparation for a UCC Article 9 sale of some or all of the intellectual property-related collateral of the Wellstat Diagnostics Guarantors. The Wellstat Diagnostics Guarantors did not respond to the Company's letter, but on March 17, 2017, filed an order to show cause with the Supreme Court of New York to enjoin the Company's sale of the real estate or enforcing its security interests in the Wellstat Diagnostics Guarantors' intellectual property during the pendency of any action involving the guarantees at issue. In June 2018, the Delaware Supreme Court largely affirmed a September 2017 decision of the Delaware Chancery Court awarding Wellstat Therapeutics $55.8 million in damages, plus interest, against BTG International, Inc. for breach of contract. In October 2017, the Company had filed a motion with the Supreme Court of New York requesting a pre-judgement attachment of the award. On February 6, 2018, the Supreme Court of New York issued an order from the bench which enjoins the Wellstat Diagnostics Guarantors from selling, encumbering, removing, transferring or altering the collateral pending the outcome of the proceedings before it. The Supreme Court of New York also issued an order precluding the Company from foreclosing on certain of the Wellstat Diagnostics Guarantors' collateral pending the outcome of the proceedings before it.

On October 22, 2015, certain of the Wellstat Diagnostics Guarantors filed a separate 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. This case has been joined for all purposes, including trial, and consolidated with the pending case filed by the Company.

Effective April 1, 2014, and as a result of the event of default, the Company determined the loan to be impaired and it ceased to accrue interest revenue. At that time and as of June 30, 2018, 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, the Company and Hyperion Catalysis International, Inc. ("Hyperion") (which is also a Wellstat Diagnostics Guarantor) entered into an agreement whereby Hyperion sold to the Company the royalty streams due from Showa Denko K.K. ("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 the Company in exchange for the lump sum payment to Hyperion of $2.3 million. In exchange for the lump sum payment, the Company 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. Effective as of such date and as a result of the event of default, the Company ceased to accrue interest revenue. As of June 30, 2018, 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.

Avinger Credit and Royalty Agreement

On April 18, 2013, the Company entered into a credit agreement with Avinger, Inc. (the "Avinger Credit and Royalty Agreement"). 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 $21.4 million pursuant to its 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 18, 2018. The Company has accounted for the royalty rights in accordance with the fair value option. As of April 18, 2018, there are no further obligations owed to PDL.

LENSAR Credit Agreement

On October 1, 2013, the Company entered into a credit agreement with LENSAR, Inc. ("LENSAR"), pursuant to which the Company 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 was never funded. Outstanding borrowings under the loans bore interest at the rate of 15.5% per annum, payable quarterly in arrears.

On May 12, 2015, the Company entered into a forbearance agreement with LENSAR, pursuant to which the Company 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, the Company 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 sell the business and repay 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, the Company 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 the Company agreed to fund LENSAR's operations while LENSAR continued to negotiate a potential sale of its assets.

On November 15, 2015, LENSAR, LLC ("LENSAR/Alphaeon"), a wholly owned subsidiary of Alphaeon Corporation ("Alphaeon"), and LENSAR entered into the Asset Purchase Agreement whereby LENSAR/Alphaeon agreed to acquire certain assets of LENSAR and assumed certain liabilities of LENSAR. The acquisition was consummated on December 15, 2015.

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

The Company has 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 assets. 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, 2018.

In December 2016, LENSAR, re-acquired the assets from LENSAR/Alphaeon and the Company entered into a second amended and restated credit agreement with LENSAR whereby LENSAR assumed all obligations under the amended and restated credit agreement with LENSAR/Alphaeon. Also in December, LENSAR filed for a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code ("Chapter 11 case") with the support of the Company. In January 2017, the Company agreed to provide debtor-in-possession financing of up to $2.8 million in new advances to LENSAR so that it could continue to operate its business during the Chapter 11 case. LENSAR filed a Chapter 11 plan of reorganization with the Company's support under which LENSAR would issue 100% of its equity interests to the Company in exchange for the cancellation of the Company's claims as a secured creditor in the Chapter 11 case, other than with respect to the debtor-in-possession financing, and would thereby become an operating wholly-owned subsidiary of the Company. On April 26, 2017, the bankruptcy court approved the plan of reorganization.

Pursuant to the plan of reorganization, LENSAR emerged from bankruptcy on May 11, 2017 as a wholly-owned subsidiary of the Company, and the Company started to consolidate LENSAR's financial statements under the voting interest model beginning May 11, 2017.

For additional information on LENSAR please refer to Note 10 under "Intangible Assets," Note 19 under "Business Combinations" and Note 20 under "Segment Information."

Direct Flow Medical Credit Agreement

On November 5, 2013, the Company entered into a credit agreement with Direct Flow Medical, Inc. ("Direct Flow Medical") under which the Company 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.

On November 10, 2014, the Company 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 the Company 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.

Outstanding borrowings under tranche one bore interest at the rate of 15.5% per annum, payable quarterly in arrears, until the occurrence of the second tranche. 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, Direct Flow Medical's obligation to repay loan principal commenced on the twelfth interest payment date, September 30, 2016. The principal amount outstanding at commencement of repayment was required to be repaid in equal installments until final maturity of the loans. The loans were to mature on November 5, 2018. The obligations under the credit agreement were 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 the Company 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, which was subsequently extended on January 14, 2016, and further delayed the timing of the interest payments through the period ending September 30, 2016 while Direct Flow Medical sought additional financing to operate its business.

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

On February 26, 2016, the Company 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 the Company. The commitment for the second tranche was not funded and has since expired. In addition, (i) the Company 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 the Company 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.

On July 15, 2016, the Company and Direct Flow Medical entered into the fifth amendment and limited waiver to the credit agreement. The Company 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 the Company warrants to purchase shares of convertible preferred stock at an exercise price of $0.01 per share.

On September 12, 2016, the Company and Direct Flow Medical entered into the sixth amendment and limited waiver to the credit agreement under which the Company 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. In addition, Direct Flow Medical agreed to issue to

the Company a specified amount of warrants to purchase shares of convertible preferred stock at an exercise price of $0.01 per share.

On September 30, 2016, the Company and Direct Flow Medical entered into a waiver to the credit agreement where the parties agreed, among other things, to (i) delay payment on all overdue interest payments until October 31, 2016, (ii) waive the initial principal repayment until October 31, 2016 and (iii) continue to waive the liquidity requirements until October 31, 2016. Further, Direct Flow Medical agreed to issue to the Company a specified amount of warrants to purchase shares of convertible preferred stock at an exercise price of $0.01 per share.

On October 31, 2016, the Company agreed to extend the waivers described above until November 30, 2016 and on November 14, 2016, the Company advanced an additional $1.0 million loan while Direct Flow Medical continued to seek additional financing.

On November 16, 2016, Direct Flow Medical advised the Company that its potential financing source had modified its proposal from an equity investment to a loan with a substantially smaller amount and under less favorable terms. Direct Flow Medical shut down its operations in December 2016 and in January 2017 made an assignment for the benefit of creditors. The Company then initiated foreclosure proceedings, resulting in the Company obtaining ownership of most of the Direct Flow Medical assets through the Company's wholly-owned subsidiary, DFM, LLC. The assets were held for sale and carried at the lower of carrying amount or fair value, less estimated selling costs, which is primarily based on supporting data from market participant sources, and valid offers from third parties.

At December 31, 2016, the Company completed an impairment analysis and concluded that the situation qualified as a troubled debt restructuring and recognized an impairment loss of $51.1 million.

In January 2017, the Company started to actively market the asset held for sale. On January 23, 2017, the Company and DFM, LLC entered into an Intellectual Property Assignment Agreement with Hong Kong Haisco Pharmaceutical Co., Limited ("Haisco"), a Chinese pharmaceutical company, whereby Haisco acquired former Direct Flow Medical clinical, regulatory and commercial information and intellectual property rights exclusively in China for $7.0 million. The Company, through DFM, LLC also sold Haisco certain manufacturing equipment for $450,000 and collected $692,000 on outstanding Direct Flow Medical accounts receivable during the year ended December 31, 2017.

On January 6, 2018, DFM, LLC and HaisThera Advisors Co., Limited ("HaisThera") entered into a license agreement whereby DFM, LLC granted HaisThera an exclusive license to develop, manufacture and commercialize percutaneously implanting stentless aortic valve in the European Union. The consideration for the license agreement was $500,000 upfront and up to $2.0 million in royalty payments.

kaléo Note Purchase Agreement

On April 1, 2014, the Company entered into a note purchase agreement with Accel 300, LLC ("Accel 300"), a wholly-owned subsidiary of kaléo, Inc. ("kaléo"), pursuant to which the Company acquired $150.0 million of secured notes due 2029 (the "kaléo Note"). The kaléo Note was issued pursuant to an indenture between Accel 300 and U.S. Bank, National Association, as trustee, and was secured by 20% of net sales of its 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 "kaléo Revenue Interests"), and a pledge of kaléo's equity ownership in Accel 300.

On September 21, 2017, the Company entered into an agreement (the "kaléo Note Sale Agreement") with MAM-Kangaroo Lender, LLC, a Delaware limited liability company (the "kaléo Purchaser"), pursuant to which the Company sold its entire interest in the kaléo Note.

Pursuant to the kaléo Note Sale Agreement, the kaléo Purchaser paid to the Company an amount equal to 100% of the then outstanding principal, a premium of 1% of such amount and accrued interest under the kaléo Note, for an aggregate cash purchase price of $141.7 million, subject to an 18-month escrow holdback of $1.4 million against certain potential contingencies. For a further discussion on this topic, see Note 12.

CareView Credit Agreement

On June 26, 2015, the Company 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, net of fees, was funded by the Company upon CareView's attainment of a specified milestone relating to the

placement of CareView Systems®, on October 7, 2015. On October 7, 2015, the Company and CareView entered into an amendment of the credit agreement to modify certain definitions related to the first and second tranche milestones. The second $20.0 million tranche would be funded upon CareView's attainment of specified milestones relating to the placement of CareView Systems and consolidated earnings before interest, taxes, depreciation and amortization, to be accomplished no later than June 30, 2017. Such milestones were not achieved, and there is no additional funding obligation due from the Company. 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 an exercise price of $0.45 per share. The Company has 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.

In connection with the October 2015 amendment of the credit agreement, the Company 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.

In February 2018, the Company entered into a modification agreement with CareView whereby the Company agreed, effective as of December 28, 2017, to modify the credit agreement before remedies could otherwise have become available to the Company under the credit agreement in relation to certain obligations of CareView that would potentially not be met, including the requirement to make principal payments. Under the modification agreement the Company agreed that (i) a lower liquidity covenant would be applicable and (ii) principal repayment would be delayed for a period of up to December 31, 2018. In exchange for agreeing to these modifications, among other things, the exercise price of the Company's warrants to purchase 4.4 million shares of common stock of CareView was repriced from $0.40 to $0.03 per share and, subject to the occurrence of certain events, CareView agreed to grant the Company additional equity interests. At June 30, 2018, the Company determined an estimated fair value of the warrant to be $0.1 million.

Effective October 1, 2017, the Company determined the loan to be impaired and it ceased to accrue interest revenue. At June 30, 2018, it has been determined that an allowance on the carrying value of the note was not necessary.

8. Inventories

Inventories consisted of the following:

(in thousands)	June 30, 2018	December 31, 2017
Raw materials	$ 1,771	$ 1,717
Work in process	1,677	1,119
Finished goods	11,353	6,311
Total inventory	$ 14,801	$ 9,147

As of June 30, 2018 and December 31, 2017, the Company deferred approximately $0.2 million and $1.3 million, respectively, of costs associated with inventory transfers made under the Company's third party logistic provider service arrangement. These costs have been recorded as other assets on the Company's Condensed Consolidated Balance Sheet as of June 30, 2018 and December 31, 2017. The Company will recognize the cost of product sold as inventory is transferred from its third-party logistics provider to the Company's customers.

During the three and six months ended June 30, 2018, the Company recognized a reduction in the inventory provision of $0.6 million and $0.5 million, respectively, and during the three and six months ended June 30, 2017, the Company recognized an inventory write-down of $0.1 million and $0.2 million, respectively, related to Tekturna®, Tekturna HCT®, Rasilez® and Rasilez HCT® (collectively, the "Noden Products" or "Tekturna") that the Company would not be able to sell prior to their expiration.

9. Asset Acquisition

On January 8, 2018, LENSAR entered into an Asset Purchase Agreement with Precision Eye Services ("PES") to purchase assets used in PES' laser-assisted cataract surgery business. The assets purchased include equipment, inventory and PES' customer contracts. No workforce was transferred as part of the transaction.

The Company assessed the acquisition of PES assets under ASC Topic 805, Business Combinations ("ASC 805"). Under ASC 805, the Company determined that the acquired assets did not constitute a business and that the transaction would be accounted for as an asset acquisition.

The following table summarizes the fair values of the identifiable assets acquired and liabilities assumed at the acquisition date (in thousands):

Equipment and inventory	$	848
Fixed assets		67
Intangible assets (customer relationships)		1,845
Total identifiable assets	$	2,760
Consideration paid at closing, cash	$	1,200
Conversion consideration		920
Contingent consideration		640
Total fair value of consideration	$	2,760

10. Intangible Assets

Intangible Assets, Net

On June 8, 2018, Noden Pharma DAC ("Noden DAC"), a wholly owned subsidiary of the Company, entered into a Settlement Agreement (the "Settlement Agreement") with Anchen Pharmaceuticals, Inc. and its affiliates ("Anchen") to resolve the patent litigation relating to infringement of U.S. Patent No. 8,617,595 (the "595 Patent") based on their submission of an Abbreviated New Drug Application ("ANDA") seeking authorization from the U.S. FDA to market a generic version of aliskiren, the active ingredient in the Tekturna and Tekturna HCT drug. Under the Settlement Agreement, Anchen, the sole ANDA filer of which the Company is aware, agreed to not commercialize its generic version of aliskiren prior to March 1, 2019. Per the Settlement Agreement, Anchen may commercialize their formulation of aliskiren, but is not permitted to commercialize a copy of Tekturna.

Accordingly, management evaluated the ongoing value of the Noden DAC asset group based upon the probability of Anchen's market entry of a generic version of aliskiren in the United States and the associated cash flows and conducted a test for impairment. Due to the increased probability of a generic version of aliskiren being launched in the United States the Company revised its estimates of future cash flows and as a result of this analysis determined that the sum of undiscounted cash flows was not greater than the carrying value of the assets. Therefore, the Company performed a discounted cash flow analysis to estimated the fair value of the asset group in accordance with ASC Topic 360, *Impairment or Disposal of Long-lived Assets*. The cash flows are those expected to be generated by market participants, discounted to reflect an appropriate amount of risk, which was determined to be 21%. The Company concluded that the Noden DAC acquired product rights and customer relationship long-lived assets, with a carrying amount of $192.5 million, were no longer recoverable and wrote them down to their estimated fair value of $40.1 million, resulting in an impairment charge of $152.3 million as of June 30, 2018. This write-down is included in "Impairment of intangible assets" in the Condensed Consolidated Statements of Income and the Condensed Consolidated Statements of Cash Flows. The remaining Noden DAC intangible asset balance, part of the Pharmaceutical reportable segment, of $40.1 million will be amortized straight-line over the remaining useful life of 8 years.

The components of intangible assets as of June 30, 2018 and December 31, 2017 were as follows:

(in thousands)	June 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-lived intangible assets:						
Acquired products rights[1]	$ 36,143	$ —	$ 36,143	$ 216,690	$ (32,503)	$ 184,187
Customer relationships[1][2]	8,028	(341)	7,687	26,080	(3,729)	22,351
Acquired technology[2][3]	11,011	(806)	10,205	9,200	(409)	8,791
Acquired trademarks[2]	570	(133)	437	570	(76)	494
	$ 55,752	$ (1,280)	$ 54,472	$ 252,540	$ (36,717)	$ 215,823

(1) The Company acquired certain intangible assets as part of the Noden Transaction. They are amortized on a straight-line basis over a weighted average period of 8.0 years.

(2) The Company acquired certain intangible assets as part of the LENSAR transaction, as described further in Note 19. They are amortized over a weighted average period of 15.0 years. The intangible assets for acquired technology and trademarks are being amortized over their estimated useful lives using the straight-line method of amortization. The intangible assets for customer relationships are being amortized using a double-declining method of amortization as such method better represents the economic benefits to be obtained.

(3) The Company acquired certain intangible assets as part of the foreclosure on certain of Direct Flow Medical assets, as described further in Note 7. They are amortized over a weighted average period of 10.0 years. The intangible assets for acquired technology are being amortized over their estimated useful lives using the straight-line method of amortization.

For the three and six months ended June 30, 2018, amortization expense was $6.4 million and $12.7 million, respectively, and for the three and six months ended June 30, 2017, amortization expense was $6.1 million and $12.2 million, respectively.

Based on the intangible assets recorded at June 30, 2018, and assuming no subsequent additions to or impairment of the underlying assets, the remaining estimated amortization expense is expected to be as follows (in thousands):

Fiscal Year	Amount
2018 (Remaining six months)	$ 3,154
2019	6,275
2020	6,240
2021	6,209
2022	6,104
2023	6,040
Thereafter	20,450
Total remaining estimated amortization expense	$ 54,472

11. Accrued Liabilities

Accrued liabilities consist of the following:

(in thousands)	June 30, 2018	December 31, 2017
Compensation	$ 7,046	$ 6,043
Interest	344	2,451
Deferred revenue	4,904	9,741
Dividend payable	77	79
Legal	1,027	595
Accrued rebates, chargebacks and other revenue reserves	16,931	19,613
Refund to manufacturer	—	647
Customer advances	—	3,198
Contingent consideration, current	1,140	—
Other	2,825	3,514
Total	$ 34,294	$ 45,881

The following table provides a summary of activity with respect to the Company's sales allowances and accruals for the six months ended June 30, 2018:

(in thousands)	Discount and Distribution Fees	Government Rebates and Chargebacks	Assistance and Other Discounts	Product Return	Total
Balance at December 31, 2017:	$ 3,422	$ 8,709	$ 4,178	$ 3,304	$ 19,613
Allowances for current period sales	4,749	7,859	4,174	1,291	18,073
Allowances for prior period sales	—	24	—	65	89
Credits/payments for current period sales	(2,057)	(2,847)	(2,019)	—	(6,923)
Credits/payments for prior period sales	(3,724)	(7,629)	(2,178)	(390)	(13,921)
Balance at June 30, 2018:	$ 2,390	$ 6,116	$ 4,155	$ 4,270	$ 16,931

12. Commitments and Contingencies

Wellstat Litigation

On September 4, 2015, the Company 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 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 seeking a determination that they were no longer liable under the guarantees. 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. On July 29, 2016, the Wellstat Diagnostics Guarantors filed a notice of appeal from the Memorandum of Decision to the Appellate Division of the Supreme Court of New York. On February 14, 2017, the Appellate Division reversed the summary judgment decision of the Supreme Court in the Company's favor, but affirmed the denial of the Wellstat Guarantors' cross-motion for summary judgment. The Appellate Division determined that the action was inappropriate for summary judgment pursuant to New York Civil Practice Law & Rules section 3213 on procedural grounds, but specifically made no determination regarding whether the Company was entitled to a judgment on the merits. Pursuant to this decision, the action has been remanded to the Supreme Court for further proceedings on the merits. The proceeding is being conducted as a plenary proceeding, with both parties having the opportunity to take discovery and file dispositive motions in accordance with New York civil procedure.

Noden Pharma DAC v Anchen Pharmaceuticals, Inc. et al

On June 12, 2017, Noden filed a complaint against Anchen Pharmaceuticals, Inc. ("Anchen") and Par Pharmaceutical ("Par") for infringement of the 595 Patent based on their submission of an ANDA seeking authorization from the FDA to market a generic version of aliskiren hemifumarate tablets, 150 mg and 300 mg, in the United States. Noden's suit triggered a 30-month stay of FDA approval of that application under the Hatch Waxman Act. Par filed a counterclaim seeking a declaratory judgment that their proposed generic version of aliskiren hemifumarate hydrochlorothiazide tablets (150 mg eq. base/12.5 mg HCT, 150 mg eq. base/25 mg HCT, 300 mg eq. base/12.5 mg HCT, and 300 mg eq. base/25 mg HCT), described in a separate ANDA submitted by Par to FDA, alleging noninfringement of U.S. Patent No. 8,618,172 (the "'172 Patent"), also owned by Noden. This case was filed in the United States District Court for the District of Delaware. In March 2018, each of the parties to the proceeding filed a joint stipulation of dismissal of the defendants' counterclaim seeking a declaratory judgment of non-infringement of the '172 Patent. In the stipulation, Anchen and Par agreed that they will not seek, or otherwise join or assist in, any post-grant review, including *inter partes* review, of the '172 Patent or U.S. Patent No. 9,023,893 (the "893 Patent"). The defendants further stipulated that they will not seek approval of Par's ANDA or submit any other ANDA seeking approval to market aliskiren hemifumarate hydrochlorothiazide prior to the expiration of the '172 Patent in July of 2028. Both the '172 Patent and the '893 Patent are listed in the Orange Book for Tekturna HCT.

On June 8, 2018, Noden and Anchen entered into the Settlement Agreement. Under the Settlement Agreement, the parties agreed to file a stipulation of dismissal with the court to facilitate dismissal of the litigation in its entirety, with prejudice. In the Settlement Agreement, Noden granted Anchen a non-exclusive, royalty free, fully paid up and non-transferable license to manufacture and commercialize in the United States a generic version of aliskiren which is described in Anchen's ANDA, and Anchen agreed not to commercialize its generic version of aliskiren prior to March 1, 2019. The license grant excludes certain formulations covered by the '595 patent which closely relate to the commercial formulation of Tekturna marketed by Noden. The Settlement Agreement includes a release by each party for liabilities associated with the litigation and an acknowledgement from Anchen that the '595 patent claims are valid and enforceable. Anchen's ANDA has not yet been approved by the FDA and any commercialization by Anchen will be subject to their ability to obtain such approval.

Other Legal Proceedings

From time to time, the Company is 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. The Company makes 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 the Company's operations of that period and on its cash flows and liquidity.

Lease Guarantee

In connection with the spin-off (the "Spin-Off") by the Company of Facet Biotech Corporation ("Facet"), the Company entered into amendments to the leases for the Company's 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. As of June 30, 2018, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $39.5 million. In April 2010, Abbott Laboratories acquired Facet and later renamed the entity AbbVie Biotherapeutics, Inc. ("AbbVie"). If AbbVie were to default under its lease obligations, the Company could be held liable by the landlord as a co-tenant and, thus, the Company has in substance guaranteed the payments under the lease agreements for the Redwood City facilities.

The Company prepared a discounted, probability weighted cash flow analysis to calculate the estimated fair value of the lease guarantee as of the Spin-Off. The Company was 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 the Company 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.

The Company has recorded a liability of $10.7 million on its Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, related to this guarantee. In future periods, the Company may adjust this liability for any changes in the ultimate outcome of this matter that are both probable and estimable.

Purchase Obligations

Noden and Novartis entered into a supply agreement pursuant to which Novartis will manufacture and supply to Noden a bulk tableted form of the Noden Products, and for the additional supply of active pharmaceutical ingredient form, for specified periods of time prior to the transfer of manufacturing responsibilities for the Noden Products to another manufacturer. The supply agreement may be terminated by either party for material breach that remains uncured for a specified time period. Noden has placed firm orders for bulk product of $14.4 million, which will be fulfilled within the next twelve months. Under the terms of the supply agreement, Noden is committed to purchase certain minimum quantities of bulk product and active pharmaceutical ingredient that would amount to approximately $114.3 million over the next twenty-four months if fulfilled, of which $61.4 million is committed over the next twelve months. While the supply agreement provides that the parties will agree to reasonable accommodations with respect to changes in firm orders, the Company expects that Noden will meet the requirements of the supply agreement, unless otherwise negotiated. The commitments in the supply agreement terminate upon transfer to another manufacturer.

LENSAR and Coherent, Inc. entered into an Original Equipment Manufacturer agreement pursuant to which Coherent, Inc. will manufacture and supply to LENSAR Staccato Lasers. The supply agreement commits LENSAR to a minimum purchase obligation of approximately $3.5 million over the next twenty-four months, of which $1.2 million is committed over the next twelve months. The Company expects that LENSAR will meet this requirement. For more information about the LENSAR transaction, see Note 19.

Escrow Receivable

On September 21, 2017, the Company entered into the kaléo Note Sale Agreement, pursuant to which the Company sold its entire interest in the kaléo Note.

Pursuant to the kaléo Note Sale Agreement, the purchaser paid to the Company an amount equal to 100% of the then outstanding principal, a premium of 1% of such amount and accrued interest under the kaléo Notes, for an aggregate cash purchase price of $141.7 million.

Pursuant to the terms of the kaléo Note Sale Agreement, $1.4 million of the aggregate purchase price was deposited into an escrow account as a potential payment against certain contingencies, which expires on the 18th month anniversary of the closing date. Upon the expiration of escrow period, the escrow agent is required to release remaining funds to the Company.

The Company does not expect there to be any claims by the purchaser under the escrow agreement. However, in the event that such a claim is made, and if successful, the amount of such a claim up to $1.4 million would be released from the escrow account to the purchaser, which amount would be reduced from the amount released to the Company at the end of the 18-month escrow period. As of June 30, 2018, the Company is not aware of any claims by the purchaser that would reduce the escrow receivable.

13. Convertible Notes

		Principal Balance Outstanding	Carrying Value	
Description	**Maturity Date**	**June 30, 2018**	**June 30, 2018**	**December 31, 2017**
(In thousands)				
Convertible Notes				
February 2018 Notes	February 1, 2018	$ —	$ —	$ 126,066
December 2021 Notes	December 1, 2021	$ 150,000	120,945	117,415
Total			$ 120,945	$ 243,481

February 2018 Notes

On February 12, 2014, the Company 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 were due February 1, 2018, and the Company paid 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 Company's 2.975% Convertible Senior Notes due February 17, 2016.

On November 20, 2015, the Company'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 a partial extinguishment of the February 2018 Notes. 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. In connection with this repurchase of the February 2018 Notes, the Company unwound a portion of the purchased call options related to the notes. As a result of this unwinding, the Company received $0.3 million in cash. The payments received have been recorded as an increase to additional paid-in-capital. In addition, the Company unwound a portion of the warrants for $0.2 million in cash, payable by the Company. The payments have been recorded as a decrease to additional paid-in-capital.

On November 22, 2016, the Company repurchased $120.0 million in aggregate principal amount of its February 2018 Notes for approximately $121.5 million in cash (including $1.5 million of accrued interest) in open market transactions. It was determined that the repurchase of the principal amount shall be accounted for as an extinguishment. The extinguishment included the de-recognition of the original issuance discount of $4.3 million and outstanding deferred issuance costs of $1.3 million. In connection with the repurchase of the February 2018 Notes, the Company unwound a portion of the purchased call options. The unwind transaction of the purchased call option did not result in any cash payments between the parties. In addition, the Company and the counterparties agreed to unwind a portion of the warrants, which also did not result in any cash payments between the parties.

In accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, the Company was 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, the Company 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 the Company on the date of issuance, the Company 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 was 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%.

On February 1, 2018, upon maturity of the February 2018 Notes, the Company repaid a total cash amount of $129.0 million to the custodian, The Bank of New York Mellon Trust Company, N.A., which was comprised of $126.4 million in principal amount and $2.6 million in accrued interest, to retire the February 2018 Notes.

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

(In thousands)	June 30, 2018	December 31, 2017
Principal amount of the February 2018 Notes	$ —	$ 126,447
Unamortized discount of liability component	—	(381)
Net carrying value of the February 2018 Notes	$ —	$ 126,066

Interest expense for the February 2018 Notes on the Company's Condensed Consolidated Statements of Income was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2018	2017	2018	2017
Contractual coupon interest	$ —	$ 1,264	$ 421	$ 2,529
Amortization of debt issuance costs	—	250	88	499
Amortization of debt discount	—	851	293	1,699
Total	$ —	$ 2,365	$ 802	$ 4,727

Purchased Call Options and Warrants

In connection with the issuance of the February 2018 Notes, the Company entered into purchased call option transactions with two hedge counterparties. The Company 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 covered, subject to anti-dilution and certain other customary adjustments substantially similar to those in the February 2018 Notes, approximately 13.8 million shares of the Company's common stock. The purchased call options expired on February 1, 2018.

In addition, the Company 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 Company received an aggregate amount of $11.4 million for the sale from the two counterparties.

The purchased call options and warrants are considered indexed to the Company stock, require net-share settlement, and met all criteria for equity classification at inception and in subsequent periods. 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.

December 2021 Notes

On November 22, 2016, the Company issued $150.0 million in aggregate principal amount, at par, of the December 2021 Notes in an underwritten public offering, for net proceeds of $145.7 million. The December 2021 Notes are due December 1, 2021, and the Company pays interest at 2.75% on the December 2021 Notes semiannually in arrears on June 1 and December 1 of each year, beginning June 1, 2017. A portion of the proceeds from the December 2021 Notes, net of amounts used for the capped call transaction described below, was used to extinguish $120.0 million of the February 2018 Notes.

Upon the occurrence of a fundamental change, as defined in the indenture, holders have the option to require the Company to repurchase their December 2021 Notes at a purchase price equal to 100% of the principal, plus accrued interest.

The December 2021 Notes are convertible under any of the following circumstances:

- During any fiscal quarter (and only during such fiscal quarter) commencing after the fiscal quarter ended June 30, 2017, if the last reported sale price of Company common stock for at least 20 trading days (whether or not consecutive), in the period of 30 consecutive trading days, ending on, and including, the last trading day of the immediately preceding fiscal quarter, exceeds 130% of the conversion price for the notes on each applicable trading day;
- During the five business-day period immediately after any five consecutive trading-day period, which the Company refers 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 Company common stock and the conversion rate for the notes for each such trading day; or
- Upon the occurrence of specified corporate events as described in the indenture.

The initial conversion rate for the December 2021 Notes is 262.2951 shares of the Company's common stock per $1,000 principal amount of December 2021 Notes, which is equivalent to an initial conversion price of approximately $3.81 per share of common stock, subject to adjustments upon the occurrence of certain specified events as set forth in the indenture.

In accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, the Company was 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, the Company separated the principal balance of the December 2021 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 9.5%, which represents the estimated market interest rate for a similar nonconvertible instrument available to the Company on the date of issuance, the Company recorded a total debt discount of $4.3 million, allocated $23.8 million to additional paid-in capital and allocated $12.8 million to deferred tax liability. The discount is being amortized to interest expense over the term of the December 2021 Notes and increases interest expense during the term of the December 2021 Notes from the 2.75% cash coupon interest rate to an effective interest rate of 3.4%. As of June 30, 2018, the remaining discount amortization period is 3.4 years.

The carrying value and unamortized discount of the December 2021 Notes were as follows:

(In thousands)	June 30, 2018	December 31, 2017
Principal amount of the December 2021 Notes	$ 150,000	$ 150,000
Unamortized discount of liability component	(29,055)	(32,585)
Net carrying value of the December 2021 Notes	$ 120,945	$ 117,415

Interest expense for the December 2021 Notes on the Company's Condensed Consolidated Statements of Income was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2018	2017	2018	2017
Contractual coupon interest	$ 1,031	$ 1,032	$ 2,062	$ 2,063
Amortization of debt issuance costs	19	18	38	36
Amortization of debt discount	135	131	269	261
Amortization of conversion feature	1,626	1,469	3,225	2,899
Total	$ 2,811	$ 2,650	$ 5,594	$ 5,259

As of June 30, 2018, the December 2021 Notes are not convertible. At June 30, 2018, the if-converted value of the December 2021 Notes did not exceed the principal amount.

Capped Call Transaction

In connection with the offering of the December 2021 Notes, the Company entered into a privately-negotiated capped call transaction with an affiliate of the underwriter of such issuance. The aggregate cost of the capped call transaction was $14.4 million. The capped call transaction is generally expected to reduce the potential dilution upon conversion of the December 2021 Notes and/or partially offset any cash payments the Company is required to make in excess of the principal amount of converted December 2021 Notes in the event that the market price per share of the Company's common stock, as measured under the terms of the capped call transaction, is greater than the strike price of the capped call transaction. This initially corresponds to the approximate $3.81 per share conversion price of the December 2021 Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the December 2021 Notes. The cap price of the capped call transaction was initially $4.88 per share, and is subject to certain adjustments under the terms of the capped call transaction. The Company will not be required to make any cash payments to the option counterparty upon the exercise of the options that are a part of the capped call transaction, but the Company will be entitled to receive from it an aggregate amount of cash and/or number of shares of the Company's common stock, based on the settlement method election chosen for the related convertible notes, with a value equal to the amount by which the market price per share of the Company's common stock, as measured under the terms of the capped call transaction, is greater than the strike price of the capped call transaction during the relevant valuation period under the capped call transaction, with such number of shares of the Company's common stock and/or amount of cash subject to the cap price.

The Company evaluated the capped call transaction under authoritative accounting guidance and determined that they should be accounted for as separate transactions and classified as a net reduction to additional paid-in capital within stockholders' equity with no recurring fair value measurement recorded.

14. Other Long-Term Liabilities

Other long-term liabilities consist of the following:

(in thousands)	June 30, 2018	December 31, 2017
Accrued lease liability	$ 10,700	$ 10,700
Long-term incentive accrual	1,978	1,729
Uncertain tax positions	31,133	30,682
Long-term deferred tax liabilities	3,538	1,208
Dividend payable	45	47
Other	405	343
Total	$ 47,799	$ 44,709

In connection with the Spin-Off, the Company entered into amendments to the leases for the Company's former facilities in Redwood City, California, by which the Company has in substance guaranteed the payments under the lease agreements for the Redwood City facilities. For further discussion of the Spin-Off and the lease guarantee, see Note 12. The Company has recorded a liability of $10.7 million on the Company's Condensed Consolidated Balance Sheets as of June 30, 2018, and December 31, 2017, related to this guarantee.

15. Stock-Based Compensation

The Company grants restricted stock awards and stock options pursuant to a stockholder approved stock-based incentive plan. This incentive plan is described in further detail in Note 16, Stock-Based Compensation, of Notes to the Condensed Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

The following table summarizes the Company's stock option and restricted stock award activity during the six months ended June 30, 2018:

	Stock Options		Restricted Stock Awards	
(In thousands except per share amounts)	Number of Shares Outstanding	Weighted Average Exercise Price	Number of Shares Outstanding	Weighted Average Grant-date Fair Value Per Share
Balance at December 31, 2017	961	$ 3.21	2,305	$ 2.68
Granted	3,894	$ 2.94	481	$ 2.71
Vested or released	—	$ —	(401)	$ 2.50
Forfeited or canceled	—	$ —	(119)	$ 2.38
Balance at June 30, 2018	4,855	$ 2.99	2,266	$ 2.73

16. Income Taxes

Income tax expense (benefit) for the three months ended June 30, 2018 and 2017, was $(14.3) million and $53.9 million, respectively, and for the six months ended June 30, 2018 and 2017, was $(13.2) million and $60.4 million, respectively, which resulted primarily from applying the federal statutory income tax rate to income before income taxes. The Company's effective tax rate for the current period differs from the U.S. federal statutory rate of 21% due primarily to the effect of the foreign rate differential related to the impairment of the intangible assets related to the Noden Products.

The uncertain tax positions increased during the three months ended June 30, 2018 and 2017, by zero and $28.9 million, respectively, and for the six months ended June 30, 2018 and 2017, zero and $29.7 million, respectively, resulting from an increase in tax uncertainties and estimated tax liabilities.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the 2017 Tax Cuts and Job Act. The accounting for all items is expected to be complete during 2018 as additional guidance related to Global Intangible Low-Taxed Income ("GILTI") is released. Any differences between what was previously recorded and the final amounts or estimates done for subsequent quarters are not expected to be material.

The Company's income tax returns are subject to examination by U.S. federal, state and local tax authorities for tax years 2000 forward. The Company is currently under income tax examination by the state of California for the tax years 2009 through 2015 and by the Internal Revenue Service for the tax year 2016. 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, the Company does not anticipate any material change to the amount of its unrecognized tax benefit over the next 12 months.

17. Stockholders' Equity

Stock Repurchase Program

On March 1, 2017, the Company's board of directors authorized the repurchase through March 2018 of issued and outstanding shares of the Company's common stock having an aggregate value of up to $30.0 million pursuant to a share repurchase program. The repurchases under the share repurchase program were made from time to time in the open market or in privately negotiated transactions and were funded from the Company's working capital. All shares of common stock repurchased under the Company's share repurchase program were retired and restored to authorized but unissued shares of common stock at June 30, 2017. The Company repurchased 13.3 million shares of its common stock under the share repurchase program during the fiscal year ended December 31, 2017, for an aggregate purchase price of $30.0 million, or an average cost of $2.25 per share, including trading commission.

On September 25, 2017, the Company's board of directors authorized the repurchase of issued and outstanding shares of the Company's common stock having an aggregate value of up to $25.0 million pursuant to a new share repurchase program. The repurchases under the new share repurchase program are made from time to time in the open market or in privately negotiated transactions and are funded from the Company's working capital. The amount and timing of such repurchases are dependent upon the price and availability of shares, general market conditions and the availability of cash. Repurchases may also be made under a trading plan under Rule 10b5-1, which would permit shares to be repurchased when the Company might otherwise be precluded from doing so because of self-imposed trading blackout periods or other regulatory restrictions. All shares of common stock repurchased under the Company's new share repurchase program are expected to be retired and restored to authorized but unissued shares of common stock. The Company repurchased 6.8 million shares of its common stock under the share repurchase program during the three months ended June 30, 2018, for an aggregate purchase price of $19.4 million, or an average cost of $2.87 per share, including trading commissions, and a total of 8.2 million shares of its common stock during the six months ended June 30, 2018, for an aggregate purchase price of $23.6 million, or an average cost of $2.89 per share, including trading commission. All shares repurchased were retired.

From July 1, 2018 to July 5, 2018, the Company completed the $25.0 million share repurchase program by repurchasing approximately 0.6 million shares of its common stock at a weighted average price of $2.44 per share for a total of $1.4 million. The total amounts repurchased by the Company under the share repurchase program equal approximately 8.7 million shares of its common stock for an aggregate purchase price of $25.0 million, or an average cost of $2.89 per share, including trading commissions.

18. Accumulated Other Comprehensive Income

Comprehensive income is comprised of net income (loss) and other comprehensive income (loss). The Company includes unrealized net gains (losses) on investments held in its available-for-sale securities in other comprehensive income (loss), and present the amounts net of tax. The Company's other comprehensive income (loss) is included in the Company's Condensed Consolidated Statements of Comprehensive Income.

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

(in thousands)	Unrealized gains (losses) on available-for-sale securities	Total Accumulated Other Comprehensive Income (Loss)
Beginning Balance at December 31, 2017	$ 1,181	$ 1,181
Activity for the six months ended June 30, 2018	(1,181)	(1,181)
Ending Balance at June 30, 2018	$ —	$ —

19. Business Combinations

LENSAR TRANSACTION

Description of the LENSAR Transaction

In December 2016, LENSAR filed the Chapter 11 case with the support of the Company, as its largest senior secured creditor under a credit agreement, as amended, that the Company and LENSAR had entered into in 2013. For more information regarding the credit agreement between the Company and LENSAR, please see Note 7. In January 2017, the Company agreed to provide debtor-in-possession financing of up to $2.8 million in new advances to LENSAR so that it could continue to operate its business during the remainder of the Chapter 11 case. As part of the Chapter 11 case, LENSAR filed a Chapter 11 plan of reorganization, with the Company's support, under which LENSAR would issue 100% of its equity securities to the Company in exchange for the cancellation of the Company's claims as a secured creditor in the Chapter 11 case. Following consummation of the Plan, LENSAR would become an operating subsidiary of the Company and the Company provided LENSAR a new, senior-secured, first-priority term loan facility (the "Exit Facility").

On April 26, 2017, the bankruptcy court approved the plan of reorganization. On May 11, 2017, LENSAR and the Company consummated the plan of reorganization and LENSAR emerged from bankruptcy. Pursuant to the plan of reorganization, the Company obtained control of 100% of the outstanding voting shares of LENSAR. All assets of the LENSAR bankruptcy estate re-vested in reorganized LENSAR free and clear of all liens, claims or charges. The consummation of the plan of reorganization related transactions effect binding and valid transfers to reorganized LENSAR with all rights, title and interest in the acquired assets. Upon consummation of the plan of reorganization, all debt owed to the Company was eliminated other than the Exit Facility. Liabilities to other creditors, including general unsecured creditors, were satisfied through the plan of reorganization.

The Company concluded that the LENSAR transaction shall be accounted in accordance with ASC 805 that do not involve a transfer of consideration ("combinations by contract") by applying the acquisition method.

Fair Value of Consideration Transferred

Contemporaneously with the cancellation of the Company's notes receivable with a carrying value of $43.9 million, the Company acquired 100% equity interests in LENSAR, at fair value, for $31.7 million, resulting in a loss on extinguishment of notes receivable of $10.6 million. The fair value of the equity interest in LENSAR was determined primarily using the "income method," which starts with a forecast of all expected future cash flows of the acquired business. The acquisition resulted in a gain on bargain purchase because the fair value of assets acquired and liabilities assumed exceeded the total of the fair value of the equity interest in LENSAR by approximately $9.3 million, which was recorded in the Consolidated Statement of Income for the year ended December 31, 2017.

Assets Acquired and Liabilities Assumed

The following table summarizes the fair values of the identifiable intangible assets acquired and liabilities assumed at the acquisition date (in thousands):

Cash	$	1,983
Tangible assets		18,647
Intangible assets [1]		11,970
Net deferred tax assets		25,723
Total identifiable assets		58,323
Current liabilities		(6,673)
Total liabilities assumed		(6,673)
Net loss on derecognition of notes receivables		(10,615)
Gain on bargain purchase, net of loss on extinguishment of notes receivable		(9,309)
Total fair value of consideration	$	31,726

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[1] As of the effective date of the transaction, identifiable intangible assets are required to be measured at fair value. The fair value measurement is based on significant inputs that are unobservable in the market and thus represents a Level 3 measurement. The Company used an income approach to estimate the preliminary fair value of the intangibles which includes technology, trademarks and customer relationships. The assumptions used to estimate the cash flows of the business included a discount rate of 16%, estimated gross margins ranging from 37-72%, income tax rate of 35%, and operating expenses consisting of direct costs based on the anticipated level of revenues. The intangible assets have a weighted-average useful life of approximately 15.0 years. The intangible assets for acquired technology and trademarks are being amortized over their estimated useful lives using the straight-line method of amortization. The intangible assets for customer relationship are being amortized using a double-declining method of amortization as such method better represents the economic benefits to be obtained.

Pro Forma Impact of Business Combination

The following table represents the unaudited consolidated financial information for the Company on a pro forma basis for the three and six months ended June 30, 2018 and 2017, assuming that the LENSAR transaction had closed on January 1, 2016. The historical financial information has been adjusted to give effect to pro forma items that are directly attributable to the acquisitions and are expected to have a continuing impact on the consolidated results. Additionally, the following table sets forth unaudited financial information and has been compiled from historical financial statements and other information, but is not necessarily indicative of the results that actually would have been achieved had the transactions occurred on the dates indicated or that may be achieved in the future.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2018**	**2017**	**2018**	**2017**
Pro forma revenues	$ 46,575	$ 145,554	$ 85,093	$ 194,820
Pro forma net income (loss)	$ (112,296)	$ 59,351	$ (110,694)	$ 64,124
Pro forma net income (loss) per share - basic	$ (0.76)	$ 0.38	$ (0.74)	$ 0.40
Pro forma net income (loss) per share - diluted	$ (0.76)	$ 0.38	$ (0.74)	$ 0.40

The unaudited pro forma consolidated results include historical revenues and expenses of assets acquired in the LENSAR Transaction with the following adjustments:

- Adjustment to recognize incremental amortization expense based on the fair value of intangibles acquired;
- Elimination of non-recurring charges directly related to the acquisition that were included in the historical results of operations for the Company; and
- Adjustment to recognize pro forma income tax based on income tax benefit on the amortization of intangible asset at the statutory tax rate of the United States, at such time (35.0%), and the income tax benefit on the interest expense at the statutory tax rate of the United States, at such time (35.0%).

20. Segment Information

In connection with acquiring 100% of the equity interests of LENSAR in May 2017, the Company added a third reportable segment, "Medical Devices" and renamed the previous product sales segment "Pharmaceutical".

Information regarding the Company's segments for the three and six months ended June 30, 2018 and 2017 is as follows:

Revenues by segment

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2018**	**2017**	**2018**	**2017**
Pharmaceutical	$ 25,879	$ 16,212	44,221	28,794
Medical devices	5,882	2,617	10,864	2,617
Income generating assets	14,814	125,006	30,008	157,864
Total revenues	$ 46,575	$ 143,835	$ 85,093	$ 189,275

Income (loss) by segment

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2018**	**2017**	**2018**	**2017**
Pharmaceutical	$ (111,335)	$ (891)	(113,048)	(4,624)
Medical devices	(1,904)	(1,195)	(2,491)	(1,195)
Income generating assets	943	62,525	4,845	73,499
Total net income (loss)	$ (112,296)	$ 60,439	$ (110,694)	$ 67,680

Information regarding the Company's segments as of June 30, 2018 and December 31, 2017 is as follows:

Long-lived assets by segment

(in thousands)	**June 30, 2018**	**December 31, 2017**
Pharmaceutical	$ 3,474	$ 822
Medical devices	5,606	6,263
Income generating assets	143	137
Total long-lived assets	$ 9,223	$ 7,222

The operations for the Company's Pharmaceutical and Medical Devices segments are primarily located in Ireland and the United Stated, respectively.

21. Subsequent Events

Share Repurchase Program

From July 1, 2018 to July 5, 2018, the Company completed the $25.0 million share repurchase program by repurchasing approximately 0.6 million shares of its common stock at a weighted average price of $2.44 per share for a total of $1.4 million. The total amounts repurchased by the Company under the share repurchase program equal approximately 8.7 million shares of its common stock for an aggregate purchase price of $25.0 million, or an average cost of $2.89 per share, including trading commissions.

Depomed Reversionary Interest Purchase

On August 2, 2018, PDL Investment Holding, LLC ("PDLIH"), a subsidiary of the Company, entered into an amendment of the Depomed Royalty Agreement, pursuant to which PDLIH, as an assignee of the Company, acquired all of Depomed's remaining rights to royalties and milestones payable on sales of type 2 diabetes products licensed by Depomed for up to $20.0 million.

Prior to this amendment of the Depomed Royalty Agreement, the Company would have shared future royalties equally with Depomed after total cash received by the Company reached $481.0 million, or two times the Company's original investment, which the Company expects to occur by October 2020.

On August 2, 2018, under the terms of the amendment, the Company made an initial payment of $10.0 million to Depomed. On August 7, 2018, an additional $10.0 million payment was made to Depomed, as certain conditions specified in the amendment were met.

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. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. 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. The forward-looking statements in this quarterly report are only predictions. 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. These forward-looking statements, including with regards to our future financial condition and results of operations, 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. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

OVERVIEW

We seek to provide a significant return for our stockholders by acquiring and managing a portfolio of companies, products, royalty agreements and debt facilities in the biotechnology, pharmaceutical and medical device industries. In 2012, we began providing alternative sources of capital through royalty monetizations and debt facilities, and in 2016, we began acquiring commercial-stage products and launching specialized companies dedicated to the commercialization of these products. To date, we have consummated seventeen of such transactions, of which nine are active and outstanding. We have one debt transaction outstanding, representing deployed and committed capital of $20.0 million: CareView; we have one hybrid royalty/debt transaction outstanding, representing deployed and committed capital of $44.0 million: Wellstat Diagnostics; and we have five royalty transactions outstanding, representing deployed and committed capital of $416.1 million and $417.1 million, respectively: KYBELLA®, AcelRx, University of Michigan, Viscogliosi Brothers and Depomed. Our equity and loan investments in Noden represent deployed and committed capital of $179.0 million and $202.0 million, respectively, and our converted equity and loan investment in LENSAR represents deployed capital of $40.0 million.

We operate in three segments designated as Pharmaceutical, Medical Devices and Income Generating Assets.

Our Pharmaceutical segment consists of revenue derived from Tekturna®, Tekturna HCT®, Rasilez® and Rasilez HCT® (collectively, the "Noden Products" or "Tekturna") sales. Our Medical Devices segment consists of revenue derived from the LENSAR® Laser System sales. Our Income Generating Assets segment consists of revenue derived from (i) notes and other long-term receivables, (ii) royalty rights - at fair value, (iii) equity investments and (iv) royalties from issued patents in the United States and elsewhere, covering the humanization of antibodies, which we refer to as the Queen et al. patents. Prospectively, we expect to focus on the acquisition of additional products and devices and expect to transact fewer royalty transactions and still fewer debt transactions. We anticipate that over time more of our revenues will come from our Pharmaceutical and Medical Devices segments and less of our revenues will come from our Income Generating Assets segment.

Pharmaceutical

In 2016 we began acquiring, and plan to continue to acquire, commercial-stage products and companies who own or are acquiring pharmaceutical products. Our objective with respect to these transactions is to maximize our portfolio's total return by generating current income from product sales. We consummated our first transaction of this type with the acquisition of the Noden Products in July 2016.

Noden/Tekturna

On July 1, 2016, our subsidiary, Noden Pharma DAC, entered into an asset purchase agreement ("Noden Purchase Agreement") whereby it purchased from Novartis Pharma AG ("Novartis") the exclusive worldwide rights to manufacture, market, and sell the Noden Products and certain related assets and assumed certain related liabilities (the "Noden Transaction"). Upon the consummation of the Noden Transaction, a noncontrolling interest holder acquired 6% equity interests in Noden. We purchased the equity interest of the noncontrolling interest holder in May 2017.

Tekturna (or Rasilez outside the United States) contains aliskiren, a direct renin inhibitor, for the treatment of hypertension. While indicated as a first line treatment, it is more commonly used as a third line treatment in those patients who are intolerant of angiotensin converting enzyme inhibitors ("ACEIs") and angiotensin II receptor blockers ("ARBs"). It is not indicated for use with ACEIs and ARBs in patients with diabetes or renal impairment. Tekturna HCT (or Rasilez HCT outside the United States) is a combination of aliskiren and hydrochlorothiazide, a diuretic, for the treatment of hypertension in patients not adequately controlled by monotherapy and as an initial therapy in patients likely to need multiple drugs to achieve their blood pressure goals. It is not indicated for use with ACEIs and ARBs in patient with diabetes or renal impairment and not for use in patients with known anuria or hypersensitivity to sulfonamide derived drugs. Studies indicate that approximately 12% of hypertension patients are ACEI/ARB inhibitor-intolerant. Tekturna/Rasilez and Tekturna/Rasilez HCT are contraindicated for use by pregnant women.

The Noden Purchase Agreement provides for various transition periods for development and commercialization activities relating to the Noden Products. Initially, Novartis distributed the Noden Products on behalf of Noden worldwide and Noden received a profit transfer on such sales. In the United States, the duration of the profit transfer ran from July 1, 2016 through October 4, 2016. Outside the United States, the profit transfer ended in the first quarter of 2018. On the transfer of the marketing authorization from Novartis to Noden in each country the profit transfer arrangement terminates. Generally, the profit transfer to Noden is defined as gross revenues less product cost and a low single digit percentage fee to Novartis. Prior to the transfer of the marketing authorization, revenue will be presented on a "net" basis; after the transfer of the marketing authorization, revenue will be presented on a "gross" basis, meaning product costs will be reported separately and there will be no fee to Novartis.

Because Novartis has not actively commercialized the Noden Products for many years, and sales of the Noden Products have been declining annually since that time, the ability of Noden to promote these Noden Products successfully and efficiently will determine whether revenues can be stabilized.

Medical Devices

LENSAR

In December 2016, LENSAR filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code (the "Chapter 11 case"). With our support, LENSAR filed a Chapter 11 plan of reorganization under which LENSAR would issue 100% of its equity interests to us in exchange for the cancellation of our claims as a secured creditor in the Chapter 11 case. On May 11, 2017, pursuant to the plan of reorganization and the Chapter 11 plan of reorganization, most of LENSAR's outstanding debt owed to us was converted to equity and LENSAR became our wholly-owned operating subsidiary.

LENSAR is a medical device company focused on the next generation femtosecond cataract laser technology for refractive cataract surgery. Cataract surgery is the highest volume surgical procedure performed worldwide with over 26.2 million surgeries performed in 2017. The LENSAR® Laser System offers cataract surgeons automation and customization for their astigmatism treatment planning and other essential steps of the refractive cataract surgery procedure with the highest levels of precision, accuracy, and efficiency. These features assist surgeons in managing their astigmatism treatment plans for optimal overall visual outcomes.

The LENSAR® Laser System has been approved by the FDA for anterior capsulotomy, lens fragmentation, and corneal and arcuate incisions. The LENSAR Laser with Augmented Reality™ provides an accurate 3-D model of the relevant anatomical features of each patient's anterior segment, allowing precise laser delivery and to enhance the surgical confidence in performing accurate corneal incisions, precise size, shape and location of free-floating capsulotomies, and efficient lens fragmentation for all grades. The LENSAR® Laser System - fs 3D (LLS-fs 3D) with Streamline™ includes the integration with various pre-op diagnostic devices, automated Iris Registration with automatic cyclorotation adjustment, IntelliAxis-C™ (corneal) and IntelliAxis-L™ (Lens) markers for simple alignment without errors associated with manually marking the eye, of Toric IOLs as well as treatment planning tools for precision guided laser treatments. The corneal incision–only mode, expanded

remote diagnostics capabilities, additional pre-programmable preferences, thoughtful ergonomics, and up to 20 seconds faster laser treatment times with Streamline allow for seamless integration and maximum surgical efficiency.

For details regarding LENSAR, the LENSAR transaction and Chapter 11 case, see Note 19 to the Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

Income Generating Assets

We acquire income generating assets when such assets can be acquired on terms that we believe allow us to increase return to our stockholders. The income generating assets typically consist of (i) notes and other long-term receivables, (ii) royalty rights and hybrid notes/royalty receivables, (iii) equity investments acquired in connection with note receivable transactions and (iv) royalties from issued patents in the United States and elsewhere. We primarily focus our income generating asset acquisition strategy on commercial-stage therapies and medical devices having strong economic fundamentals. However, our acquired income generating assets will not, in the near term, replace completely the revenues we generated from our license agreements related to our 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 11%, 68% and 82% of our 2017, 2016 and 2015 revenues, respectively.

Royalty Rights - At Fair Value

We have entered into various royalty purchase agreements with counterparties, whereby the counterparty conveys to us the right to receive royalties that are typically payable on sales revenue 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.

We record 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 us with the development of our 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.

While we currently maintain this portfolio of royalty rights, our intention is to pursue fewer of these transactions while we focus on acquiring additional pharmaceutical products or companies. At June 30, 2018, we had a total of five royalty rights transactions outstanding.

Notes and Other Long-Term Receivables

We have entered, and may continue to enter, into credit agreements with borrowers across the healthcare industry, under which we make available cash loans to be used by the borrower. Obligations under these credit agreements are typically secured by a pledge of substantially all the assets of the borrower and any of its subsidiaries. While we currently maintain this portfolio of notes receivable, our intention is to pursue fewer debt transactions, and focus on acquiring additional pharmaceutical products or companies. At June 30, 2018, we had a total of two notes receivable transaction outstanding.

Equity Investments

In connection with credit and royalty agreements, from time to time we may make equity investments in healthcare companies. Our investment objective with respect to potential equity investments is to maximize our portfolio total return by generating current income from capital appreciation, and our primary business objectives are to increase our net income, net operating income and asset value by investing in companies with the potential for equity appreciation and realized gains.

Royalties from Queen et al. patents

While the Queen et al. patents have expired and the resulting royalty revenue has dropped substantially since the first quarter of 2016, we continue to receive royalty revenue from one product under the Queen et al. patent licenses, Tysabri®, as a result of sales of licensed product that was manufactured prior to patent expiry. In November 2017, we were notified by Biogen Inc. ("Biogen") that product supply for Tysabri® that was manufactured prior to patent expiry, and for which we would receive royalties on, had been extinguished in the United States and was rapidly being reduced in other countries. As a result, we

anticipate royalties from product sales of Tysabri to be substantially lower in 2018 and are expected to cease after the first quarter of 2019.

Intellectual Property

Patents

Tekturna is protected by multiple patents worldwide, which specifically cover the composition of matter, the pharmaceutical formulations and methods of production. In the United States, the FDA Orange Book lists one patent, U.S. patent No. 5,559,111 (the "'111 Patent"), which covers compositions of matter comprising aliskiren. The '111 Patent expires on January 21, 2019, which was previously extended through a pediatric extension. In addition, the FDA Orange Book for Tekturna lists U.S. Patent No. 8,617,595, which covers certain compositions comprising aliskiren, together with other formulation components, and will expire on February 19, 2026. The FDA Orange Book for Tekturna HCT lists U.S. patent No. 8,618,172, which covers certain compositions comprising aliskiren, together with other formulation components, and will expire on July 13, 2028. In Europe, European patent No. 678 503B (the "'503B Patent") expired in 2015. However, numerous SPCs have been granted which are based on the '503B Patent and which will provide for extended protection. These SPCs generally expire in April of 2020.

LENSAR has developed the LENSAR® Laser System (the "LENSAR Technology"). The LENSAR Technology is the only femtosecond cataract laser built specifically for refractive cataract surgery. The LENSAR Technology is protected by over 60 patents in the United States and the rest of the world and over 45 pending patents in the United States and rest of the world.

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 U.S. patent No. 5,693,761 (the "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 European patent no. 0 451 216B (the "216B Patent") expired in Europe in December 2009. We have been granted Supplementary Protection Certificates ("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.

Licensing Agreements

We previously 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. 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 $1.2 million and $16.3 million, net of rebates and foreign exchange hedge adjustments, for the three months ended June 30, 2018 and 2017, respectively, and $4.0 million and $30.4 million, net of rebates and foreign exchange hedge adjustments, for the six months ended June 30, 2018 and 2017, respectively.

Licensing Agreements for Marketed Products

In the three and six months ended June 30, 2018 and 2017, we received royalties on sales of Tysabri from Biogen.

Biogen

We entered into a patent license agreement, effective April 24, 1998, under which we granted to Elan Corporation, plc ("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. This license agreement 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, Inc. ("Biogen") completed its purchase of Elan's interest in Tysabri, and in connection with such purchase all obligations under our patent license agreement with Elan were assumed by Biogen.

In November 2017, we were notified by Biogen that product supply that was manufactured prior to patent expiry, and for which we would receive royalties on, had been extinguished in the United States and was rapidly being reduced in other countries. This will result in a reduction in royalties from product sales of Tysabri, and we expect royalties to be substantially lower in 2018 and are expected to cease in the first quarter of 2019.

Economic and Industry-wide Factors

Various economic and industry-wide factors are relevant to 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 "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 for additional factors that may impact our business and results of operations.

Critical Accounting Policies and Use of Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which we have prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and the disclosure of contingent assets and liabilities in our financial statements. We base our estimates on our limited historical experience, known trends and events and various other factors that we believe are reasonable under the circumstances, which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

During the six months ended June 30, 2018, there have been no significant changes to our critical accounting policies and estimates from those presented in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, that are of significance, or potential significance, to us.

Operating Results

Three and six months ended June 30, 2018, compared to three and six months ended June 30, 2017

Revenues

(dollars in thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Change from Prior Year %	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Change from Prior Year %
Revenues						
Royalties from Queen et al. patents	$ 1,218	$ 16,285	(93%)	$ 4,001	$ 30,441	(87%)
Royalty rights - change in fair value	12,842	83,725	(85%)	23,933	96,871	(75%)
Interest revenue	751	5,460	(86%)	1,500	10,917	(86%)
Product revenue, net	31,761	18,829	69%	55,085	31,410	75%
License and other	3	19,536	(100%)	574	19,636	(97%)
Total revenues	$ 46,575	$ 143,835	(68%)	$ 85,093	$ 189,275	(55%)

Total revenues were $46.6 million for the three months ended June 30, 2018, compared with $143.8 million for the three months ended June 30, 2017. Our total revenues decreased by 68%, or $97.3 million, for the three months ended June 30, 2018, when compared to the same period of 2017. Our revenues decreased 55%, or $104.2 million, for the six months ended June 30, 2018, when compared to the same period of 2017. The decrease was primarily due to a higher prior year royalty rights - change in fair value as a result of the increase in fair value of the Depomed, Inc. royalty asset based upon revised future cash flows and

a prior year payment from Merck as part of the previously announced settlement agreement to resolve the patent infringement lawsuits related to Keytruda®, as well as due to the decreased 2018 sales of Tysabri that was manufactured prior to the patent expiry date, decreased interest revenues due to the sale of the kaléo note receivable asset, partially offset by an increase in product revenues derived from sales of the LENSAR Laser System, which we did not begin to recognize until May 2017 and revenue from our Pharmaceutical segment related to Noden.

Revenue from our Pharmaceutical segment for the three and six months ended June 30, 2018 was $25.9 million and $44.2 million, respectively, an increase of 60% and 54%, respectively, compared to the same periods last year. All pharmaceutical revenues were derived from sales of the Noden Products. While we acquired the exclusive worldwide rights to manufacture, market, and sell the Noden Products from Novartis on July 1, 2016, Novartis was still the primary obligor during the first through third quarters of 2017 for ex-U.S. sales, therefore revenue is presented on a "net" basis for those periods for all ex-U.S. sales. Our revenue recognition policies require estimated product returns, pricing discounts including rebates offered pursuant to mandatory federal and state government programs and chargebacks, prompt pay discounts and distribution fees and co-pay assistance for product sales at each period.

The following table provides a summary of activity with respect to our sales allowances and accruals for the six months ended June 30, 2018:

(in thousands)	Discount and Distribution Fees	Government Rebates and Chargebacks	Assistance and Other Discounts	Product Return	Total
Balance at December 31, 2017:	$ 3,422	$ 8,709	$ 4,178	$ 3,304	$ 19,613
Allowances for current period sales	4,749	7,859	4,174	1,291	18,073
Allowances for prior period sales	—	24	—	65	89
Credits/payments for current period sales	(2,057)	(2,847)	(2,019)	—	(6,923)
Credits/payments for prior period sales	(3,724)	(7,629)	(2,178)	(390)	(13,921)
Balance at June 30, 2018	$ 2,390	$ 6,116	$ 4,155	$ 4,270	$ 16,931

Revenue from our Medical Devices segment for the three and six months ended June 30, 2018 was $5.9 million and $10.9 million, respectively. All revenues from our Medical Devices segment were derived from LENSAR laser system revenue, procedures and consumables and service revenue which we began to recognize on May 11, 2017.

Revenue from our Income Generating Assets segment for the three and six months ended June 30, 2018 were $14.8 million and $30.0 million, respectively, a decrease of 88% and 81%, respectively.

The following tables provides a summary of activity with respect to our royalty rights - change in fair value for the three and six months ended June 30, 2018:

	Three Months Ended June 30, 2018		
(in thousands)	Cash Royalties	Change in Fair Value	Royalty Rights - Change in Fair Value
Depomed	$ 17,689	$ (8,535)	$ 9,154
VB	263	147	$ 410
U-M	1,289	(434)	$ 855
AcelRx	68	2,301	$ 2,369
Avinger	61	(101)	$ (40)
KYBELLA	—	94	$ 94
	$ 19,370	$ (6,528)	$ 12,842

	Six Months Ended June 30, 2018		
(in thousands)	Cash Royalties	Change in Fair Value	Royalty Rights - Change in Fair Value
Depomed	$ 34,597	$ (17,967)	$ 16,630
VB	543	284	827
U-M	2,284	(620)	1,664
AcelRx	120	4,539	4,659
Avinger	366	(396)	(30)
KYBELLA	83	100	183
	$ 37,993	$ (14,060)	$ 23,933

The following table summarizes the percentage of our total revenues that individually accounted for 10% or more of our total revenues for the three and six months ended June 30, 2018 and 2017:

		Three Months Ended June 30,		Six Months Ended June 30,	
Licensee	**Product Name**	**2018**	**2017**	**2018**	**2017**
Biogen	*Tysabri*	3%	11%	5%	16%
Depomed	*Glumetza, Janumet XR, Jentadueto XR, Synjardy XR and Invokamet XR*	20%	61%	20%	49%
N/M	*Tekturna, Tekturna HCT, Rasilez and Rasilez HCT*	56%	11%	52%	15%
LENSAR	*LENSAR Laser System*	13%	2%	13%	1%

Operating Expenses

	Three Months Ended June 30,		Change from Prior	Six Months Ended June 30,		Change from Prior
(In thousands)	2018	2017	Year %	2018	2017	Year %
Cost of product revenue, (excluding intangible amortization)	$ 14,524	$ 4,515	222%	$ 25,090	$ 7,067	255%
Amortization of intangible assets	6,384	6,148	4%	12,677	12,163	4%
General and administrative	14,529	11,288	29%	26,190	23,864	10%
Sales and marketing	5,385	3,616	49%	10,898	6,200	76%
Research and development	684	4,281	(84)%	1,477	6,047	(76)%
Impairment of intangible assets	152,330	—	*N/M*	152,330	—	*N/M*
Change in fair value of acquisition-related contingent consideration	(22,135)	1,207	*N/M*	(22,735)	2,649	*N/M*
Total operating expenses	$ 171,701	$ 31,055	453%	$ 205,927	$ 57,990	255%
Percentage of total revenues	369%	22%		242%	31%	

N/M = Not meaningful

The increase in operating expenses for the three months ended June 30, 2018, as compared to the same period in 2017, was a result of an impairment of intangible assets related to the Noden Products due to the increased probability of a generic version

of aliskiren being launched in the United States, partially offset by a decrease in fair value of the contingent liability related to changes in the probabilities in the generic entry milestones. Further events, such as FDA approval of a generic version of aliskiren or publicly announced plans of a launch of a generic version of aliskiren, may be indicators of impairment which may require the Company to perform additional impairment tests including testing for recoverability by estimating the undiscounted future cash flows with respect to the asset against its carrying value. The Pharmaceutical and Medical Devices segments contributed additional cost of product revenue of $8.4 million and $1.6 million, respectively, which was due to increased revenue in the Pharmaceutical segment and recognition of costs of goods for ex-U.S. revenue and increased revenue from the Medical Devices segment which PDL did not begin to recognized until May 2017. General and administrative expenses increased $3.2 million due to a full quarter of expenses from LENSAR in 2018 versus a partial quarter as a result of its acquisition in May 2017, operation growth for our Pharmaceutical segment and due to business development expenses for the Income Generating Asset segment. Sales and marketing expense increased $1.8 million due to an increase in marketing efforts in the pharmaceutical and medical device segments.

The increase in operating expenses for the six months ended June 30, 2018, as compared to the same period in 2017, was primarily a result of the impairment of intangible assets related to the Noden Products due to the increased probability of a generic version of aliskiren being launched in the United States, partially offset by a decrease in fair value of the contingent liability related to changes in the probabilities in the generic entry milestones. The Pharmaceutical and Medical Devices segments contributed additional cost of product revenue of $14.0 million and $4.0 million, respectively, which was due to increased revenue in the Pharmaceutical segment and recognition of costs of goods for ex-U.S. revenue and increased revenue from the Medical Devices segment, which we did not begin to recognize until May 2017.

Non-operating Income (Expense), Net

Non-operating income (expense), net, for the three and six months ended June 30, 2018 decreased, as compared to the same period in 2017, primarily due to the repayment of the February 2018 Notes in February 2018, partially offset by an increase in interest income from investments. The decrease in interest expense for the three and six months ended June 30, 2018, as compared to the same period in 2017, 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, 2018 and 2017, was $(14.3) million and $53.9 million, respectively, and for the six months ended June 30, 2018 and 2017, was $(13.2) million and $60.4 million, respectively, which resulted primarily from applying the federal statutory income tax rate to income before income taxes. Our effective tax rate for the current period differs from the U.S. federal statutory rate of 21% due primarily to the foreign rate differential related to the impairment of intangible assets related to the Noden Products.

The uncertain tax positions increased during the three months ended June 30, 2018 and 2017, by zero and $28.9 million, respectively, and for the six months ended June 30, 2018 and 2017, zero and $29.7 million, respectively, resulting from an increase in tax uncertainties and estimated tax liabilities.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the 2017 Tax Cuts and Job Act. The accounting for all items is expected to be complete during 2018 as additional guidance related to GILTI is released. Any differences between what was previously recorded and the final amounts or estimates done for subsequent quarters are not expected to be material.

The Company’s income tax returns are subject to examination by U.S. federal, state and local tax authorities for tax years 2000 forward. The Company is currently under income tax examination by the state of California for the tax years 2009 through 2015 and by the Internal Revenue Service for the tax year 2016. 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, the Company does not anticipate any material change to the amount of its unrecognized tax benefit over the next 12 months.

Net Income (Loss) Per Share

Net income (loss) per share for the three and six months ended June 30, 2018 and 2017, is presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss) per share - basic	$ (0.76)	$ 0.39	$ (0.74)	$ 0.42
Net income (loss) per share - diluted	$ (0.76)	$ 0.39	$ (0.74)	$ 0.42

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, interest income on invested capital and revenues from product sales. We currently have 19 full-time employees managing our intellectual property, our asset acquisitions, operations and other corporate activities as well as providing for certain essential reporting and management functions of a public company. In addition, we have 15 full-time employees at our operating subsidiary, Noden, who manage Noden's business and operations, and 58 full time employees at our operating subsidiary, LENSAR, who manage the medical device business and operations.

Our future capital requirements are difficult to forecast and will depend upon many factors, including our ability to identify and acquire pharmaceutical products, the costs and timing of future commercialization activities, including product manufacturing, marketing, sales and distribution, the resources we devote to developing and supporting our products and other factors. Additionally, we will continue to evaluate possible acquisitions of new products, devices, royalty revenues or other income generating assets, which may require the use of cash or additional financing.

The general cash needs of our Pharmaceutical, Medical Device and Income Generating Assets segments can vary significantly. In our Pharmaceutical segment, cash needs tend to be driven primarily by material purchases and anticipated near-term capital expenditures. In our Medical Device segment, the primary factors determining cash needs tend to be the funding of our operations. The cash needs of our Income Generating Assets segment tend to be driven by legal and professional service fees. On a consolidated basis, cash needs tend to be driven by funding of potential repurchases of our common stock and additional acquisition transactions.

We had cash, cash equivalents and short-term investments in the aggregate of $395.7 million and $532.1 million at June 30, 2018 and December 31, 2017, respectively. The decrease was primarily attributable to the repayment of the February 2018 Notes of $126.4 million, the repurchase of common stock for $23.6 million, the purchase of fixed assets of $3.9 million and cash used in operating activities of $19.8 million, partially offset by proceeds from royalty right payments of $38.0 million and proceeds from the sale of available for sale securities of $4.1 million.

On September 25, 2017, we announced that our board of directors authorized the repurchase of issued and outstanding shares of our common stock having an aggregate value of up to $25.0 million pursuant to a share repurchase program. Due to trading restrictions, we did not implement the share repurchase plan until March 2018. The repurchases under the share repurchase program are made from time to time in the open market or in privately negotiated transactions and are funded from our working capital. The amount and timing of such repurchases are dependent upon the price and availability of shares, general market conditions and the availability of cash. Repurchases may also be made under a trading plan under Rue 10b5-1, which would permit shares to be repurchased when we might otherwise be precluded from doing so because of self-imposed trading blackout periods or other regulatory restrictions. All shares of common stock repurchased under the share repurchase program are expected to be retired and restored to authorized but unissued shares of common stock. The total amounts repurchased by us under the share repurchase program equal approximately 8.7 million shares of common stock for an aggregate purchase price of $25.0 million, or an average cost of $2.89 per share, including trading commissions.

We believe that cash from future revenues from acquired income generating assets and products, 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. Our continued success is dependent on our ability to acquire new income generating assets and products, and the timing of these transactions, 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, including, for example, purchasing income generating assets, selling discreet assets, buying back our convertible notes, repurchasing our common stock and selling our company.

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.

Off-Balance Sheet Arrangements

As of June 30, 2018, we did not have any off-balance sheet arrangements, as defined under SEC Regulation S-K Item 303(a)(4)(ii).

Contractual Obligations

Convertible Notes

As of June 30, 2018, our convertible note obligation consisted of our December 2021 Notes, which in the aggregate totaled $150.0 million in principal.

We expect that our debt service obligations over the next several years will consist of interest payments and repayment of our December 2021 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.

Noden Purchase Agreement

Pursuant to the Noden Purchase Agreement, Noden is required to pay up to $95.0 million in milestone payments, subject to the occurrence of such milestones. If the milestones are achieved, we expect to fund at least $38.0 million in the form of additional equity contributions to Noden.

LENSAR Asset Purchase Agreement

Pursuant to the LENSAR Asset Purchase Agreement with Precision Eye Services ("PES"), LENSAR is required to pay up to $1.6 million in milestone payments, subject to the occurrence of such milestones. As of June 30, 2018, there have been $0.8 million in milestone payments.

Kybella Royalty Agreement

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

Guarantees

Redwood City Lease Guarantee

In connection with the Spin-Off of Facet, 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.

Purchase Obligation

Noden and Novartis entered into a supply agreement pursuant to which Novartis will manufacture and supply to Noden a and bulk tableted form of the Noden Products, and for the additional supply of active pharmaceutical ingredient form, for specified periods of time prior to the transfer of manufacturing responsibilities for the Noden Products to another manufacturer. The supply agreement may be terminated by either party for material breach that remains uncured for a specified time period. Noden has placed firm orders for bulk product of $14.4 million, which will be fulfilled within the next twelve months. Under

the terms of the supply agreement, Noden is committed to purchase certain minimum quantities of bulk product and active pharmaceutical ingredient that would amount to approximately $114.3 million over the next twenty-four months, of which $61.4 million is committed over the next twelve months. While the supply agreement provides that the parties will agree to reasonable accommodations with respect to changes in firm orders, the Company expects that Noden will meet the requirements of the supply agreement, unless otherwise negotiated. The commitments in the supply agreement terminate upon transfer to another manufacturer.

LENSAR and Coherent, Inc. entered into an Original Equipment Manufacturer agreement pursuant to which Coherent, Inc. will manufacture and supply to LENSAR Staccato Lasers. The supply agreement commits LENSAR to a minimum purchase obligation of approximately $3.5 million over the next twenty-four months, of which $1.2 million is committed over over the next twelve months. The Company expects that LENSAR will meet this requirement.

Escrow Receivable

On September 21, 2017, we entered into an agreement (the "kaléo Note Sale Agreement") with MAM-Kangaroo Lender, LLC, a Delaware limited liability company (the "Purchaser"), pursuant to which we sold our entire interest in the notes issued by Accel 300, LLC ("Accel 300") pursuant to that certain Indenture, dated as of April 1, 2014, by and between Accel 300 and U.S. Bank National Association, as the current trustee of the notes described therein (the "kaléo Note").

Pursuant to the kaléo Note Sale Agreement, the Purchaser paid to us an amount equal to 100% of the then outstanding principal, a premium of 1% of such amount and accrued interest under the kaléo Notes, for an aggregate cash purchase price of $141.7 million.

Pursuant to the terms of the kaléo Note Sale Agreement, $1.4 million of the aggregate purchase price was deposited into an escrow account as a potential payment against certain contingencies, which expires on the 18th month anniversary of the closing date. Upon the expiration of the escrow period, the escrow agent is required to release remaining funds to us.

We do not expect there to be any claims by the Purchaser under the escrow agreement. However, in the event that such a claim is made, and if successful, the amount of such a claim up to $1.4 million would be released from the escrow to the Purchaser, which amount would be reduced from the amount released to us at the end of the 18 month escrow period. As of June 30, 2018, we are not aware of any claims by the Purchaser that would reduce the escrow receivable.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of June 30, 2018, there have been no material changes in our market risk from that described in "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

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 June 30, 2018. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2018, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, on May 11, 2017, we acquired LENSAR. In accordance with the SEC's published guidance, our Annual Report on Form 10-K for the year ending December 31, 2017 did not include consideration of the internal controls of LENSAR within management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2017. We are in the process of integrating LENSAR into our overall internal control over financial reporting process and will incorporate LENSAR into our annual assessment of internal control over financial reporting as of December 31, 2018.

Beginning January 1, 2018, we implemented ASC 606, *Revenue from Contracts with Customers*. Although the new revenue standard is expected to have an immaterial impact on our ongoing net income (loss), we did implement changes to our processes related to revenue recognition and the control activities with them. These included the development of new policies based on the five-step model provided in the new revenue standard, new training, ongoing contract review requirements, and gathering of information provided for disclosures.

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, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis, and 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

The information set forth in Note 12 "Commitments and Contingencies" to our Notes to Condensed Consolidated Financial Statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q is incorporated by reference herein.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors included in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no unregistered sales of equity securities during the period covered by this report.

Issuer Purchases of Equity Securities

The following table contains information relating to the repurchases of our common stock made by us in the three months ended June 30, 2018 (in thousands):

Fiscal Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of a Publicly Announced Program	Approximate Dollar Amount of Shares That May Yet be Purchased Under the Program[1]
April 1, 2018 to April 30, 2018	1,652	3.03	1,652	15,841
May 1, 2018 to May 31, 2018	2,861	2.93	2,861	7,469
June 1, 2018 to June 30, 2018	2,252	2.70	2,252	1,392
Total during three months ended June 30, 2018	6,765	$ 2.87	6,765	$ 1,392

[1] On September 25, 2017, our board of directors authorized the repurchase of issued and outstanding shares of our common stock having an aggregate value of up to $25.0 million pursuant to a new share repurchase program. The repurchase program may be suspended or discontinue at any time without notice.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

EXHIBIT INDEX

Exhibit Number	Exhibit Title
3.1	Restated Certificate of Incorporation effective March 23, 1993 (incorporated by reference to Exhibit 3.1 to Annual Report on Form 10-K filed March 31, 1993)
3.2	Certificate of Amendment of Certificate of Incorporation effective August 21, 2001 (incorporated by reference to Exhibit 3.3 to Annual Report on Form 10-K filed March 14, 2002)
3.3	Certificate of Amendment of Certificate of Incorporation effective January 9, 2006 (incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed January 10, 2006
3.4	Certificate of Designation, Preferences and Rights of the Terms effective August 25, 2006 (incorporated by reference to Exhibit 3.4 to Registration Statement on Form 8-A filed September 6, 2006)
3.5	Third Amended and Restated Bylaws effective December 4, 2014 (incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed December 9, 2014)
3.6	Certificate of Amendment of Restated Certificate of Incorporation effective May 22, 2013 (incorporated by reference to Exhibit 4.4 to Registration Statement on Form S-3 filed June 21, 2013)
10.1*#	2018 Annual Bonus Plan
10.2#	Amendment No. 1 to Royalty Purchase and Sale Agreement and Bill of Sale between PDL Investment Holding, LLC and Depomed, Inc. and Depo DR Sub, LLC, dated August 2, 2018
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.

* Management contract or compensation plan or arrangement

** 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.

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 9, 2018

PDL BIOPHARMA, INC. (REGISTRANT)

/s/ John P. McLaughlin

John P. McLaughlin

Chief Executive Officer
(Principal Executive Officer)

/s/ Peter S. Garcia

Peter S. Garcia

Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 10.1

PDL BIOPHARMA, INC.

2018 Annual Bonus Plan

This 2018 Annual Bonus Plan (the "**Plan**") is intended to enhance stockholder value by promoting a connection between the performance of PDL BioPharma, Inc. (the "**Company**") and the compensation of personnel of the Company and to promote retention of high performing personnel. The Plan is being implemented under the Company's Amended and Restated 2005 Equity Incentive Plan (as amended, the "**2005 Equity Plan**"), which was approved by the Company's stockholders. The annual bonuses will be granted as a Cash-Based Award pursuant to the 2005 Equity Plan.

1. All employees of the Company working 30 hours per week or more (each, a "**Participant**") are eligible to receive annual bonuses for 2018 according to this Plan. The Plan will be administered by the Compensation Committee of the Board of Directors of the Company (the "**Committee**"). The Committee shall have all powers and discretion necessary to administer the Plan, determine awards and to control its operation and may delegate responsibilities to Company officers as it deems appropriate. A Participant who does not demonstrate satisfactory individual performance (50% or higher), however, will not be eligible for any portion of his or her bonus, including the portion based on Company performance.

2. The determination of the amount of payments under the plan shall be based on the performance of the 2018 Corporate Goals and the 2018 Individual Goals as well as the other factors set forth in this Section 3. Company performance shall be determined by the Committee based on the Company's ability to accomplish corporate goals ("**2018 Corporate Goals**") as approved by the Committee and the Board of Directors and set forth in **Exhibit A(i)**. The Committee may adjust or modify the 2018 Corporate Goals to reflect changed Company objectives. Individual performance of the Company's officers shall be reviewed and recommended to the Committee by the Chief Executive Officer, except for the performance of the Chief Executive Officer, which shall be determined by the Committee based on the Company's achievement of established Corporate Goals. Individual performance of employees shall be reviewed by the appropriate manager and approved by the Chief Executive Officer. In all cases, individual performance shall be based on the 2018 Individual Goals that have been approved by the Chief Executive Officer and set forth as **Exhibit B**, which may be adjusted or modified to reflect changed employee objectives (the "**2018 Individual Goals**").

The Committee shall have the sole discretion on the basis of individual or corporate performance metrics to determine that the actual amount paid with respect to a Participant's award will be equal to or less than (but not greater than) the maximum payout calculated. For clarification, the Committee may determine, in its sole discretion on the basis of individual or corporate performance metrics that a reduced bonus, or no bonus, shall be paid to individual, regardless of achievement of the 2018 Corporate Goals or the 2018 Individual Goals.

3. To be eligible for a bonus, a Participant must be on payroll prior to October 1, 2018, and must be employed by the Company as of the date of payment of the bonus. A Participant hired after April 1, 2018, shall be eligible for a pro-rated bonus.

4. A Participant who has taken an approved leave of absence pursuant to the Company's policies during 2018 shall receive a pro-rated bonus, at the Compensation Committee's discretion. The amount of a Participant's bonus is based on a target percentage of such Participant's annual base salary for the 2018 calendar year. The target percentage for executives has been determined by the Committee and for employees has been determined by the manager at the beginning of the Plan Year. The target percentage shall then be adjusted based on the level of attainment of 2018 Corporate Goals and 2018 Individual Goals over the course of the Plan Year to arrive at a final performance percentage. For each person, the target percentage and ratio of attainment of 2018 Corporate Goals and 2018 Individual Goals is set forth as **Exhibit C.**

5. The Company performance percentage and/or the individual performance percentage may exceed 100% in the event the Company or the individual Participant exceeds expected goals, provided that neither percentage may exceed 200%; provided, that, for the avoidance of doubt, the stretch goals set forth in **Exhibit A(ii)** shall be calculated exclusive of such percentages. For example, assuming the Company has met 100% of its 2018 Corporate Goals, a Participant, who has met 150% of his or her 2018 Individual Goals, has a target percentage of 25%, has a corporate-to-individual goal ratio of 50%/50% and a base pay rate of $100,000 will receive a bonus of $31,250 (100% x 0.5 + 150% x 0.5 = 125%; and 125% x 25% = 31.25%; and 31.25% of Participant's base pay rate of $100,000 = $31,250). All determinations and decisions made by the Committee shall be final, conclusive and binding on all persons and shall be given the maximum deference permitted by law.

6. This Plan is effective for the Company's 2018 calendar year beginning January 1, 2018, through December 31, 2018 (the "**Plan Year**"), and will expire automatically on December 31, 2018. Bonus payments will be made no later than February 15th, 2019.

7. The Company shall withhold all applicable taxes from any bonus payment, including any federal, state and local taxes.

8. Nothing in this Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment or service at any time, with or without cause. Nothing in these guidelines should be construed as an employment agreement or an entitlement to any Participant for any incentive payment hereunder.

9. This Plan and all awards shall be construed in accordance with and governed by the laws of the State of Nevada, without regard to its conflict of law provisions.

10. Payments under this Plan shall be unsecured, unfunded obligations of the Company. To the extent a Participant has any rights under this Plan, the Participant's rights shall be those of a general unsecured creditor of the Company.

AMENDMENT NO. 1
TO ROYALTY PURCHASE AND SALE AGREEMENT
AND BILL OF SALE

AMENDMENT NO. 1 TO ROYALTY PURCHASE AND SALE AGREEMENT AND BILL OF SALE dated as of August 2, 2018 (the "Amendment") among **DEPOMED, INC.**, a California corporation ("**Depomed**"), **DEPO DR SUB, LLC**, a Delaware limited liability company (the "**Seller**", and together with Depomed, the "**Selling Parties**"), and **PDL Investment Holdings, LLC**, a Delaware limited liability company (as assignee of **PDL BIOPHARMA, INC**., the "**Purchaser**")

PRELIMINARY STATEMENTS

A. The Purchaser, Depomed and the Seller have entered into that certain Royalty Purchase and Sale Agreement dated as of October 18, 2013 (as amended, restated, amended and restated, supplemented or otherwise modified prior to the date hereof, the "Existing Royalty Purchase Agreement" and as amended, restated, supplemented or otherwise modified from time to time including pursuant hereto, the "Royalty Purchase Agreement").

B. Pursuant to Section 5.8 of the Existing Royalty Purchase Agreement, upon the Reversionary Interest Commencement Date, Depomed shall be entitled to receive the Reversionary Interest.

C. In exchange for a payment of up to $20,000,000 from the Purchaser, the Selling Parties are willing to (1) amend the Existing Royalty Purchase Agreement and the other Transaction Documents to, among other changes, remove the right of Depomed to receive the Reversionary Interest, and (2) transfer the equity interest in the Seller from Depomed to the Purchaser or its designee, in each case upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the sufficiency and receipt of all of which is hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Amendment have the same meanings as specified in the Royalty Purchase Agreement.

SECTION 2. Amendments to Existing Royalty Purchase Agreement and Bill of Sale. Subject to the terms and conditions set forth herein, effective on the Amendment Effective Date (as defined below):

(a) Section 1.1 of the Existing Royalty Purchase Agreement shall be amended by:

(i) adding the following definition in appropriate alphabetical order: "**DM Portfolio Intellectual Property Transferee**" has the meaning set forth in Section 5.5(b).";

(ii) adding the following definition in appropriate alphabetical order: ""**First Amendment**" means the Amendment No. 1 to Royalty Purchase and Sale Agreement, dated as of the Amendment Effective Date (as defined therein), among Depomed, the Seller and the Purchaser.";

(iii) deleting the definitions of "**Reversionary Interest**", "**Reversionary Interest Commencement Date**" and "**Reversionary Interest Threshold**", and any reference to any such defined terms in the Royalty Purchase Agreement or any other Transaction Document shall be deemed deleted and of no further force and effect; and

(iv) deleting the phrase ", subject to the Reversionary Interest" in the definition of "**Subject Assets**".

(b) Section 2.5(a) of the Existing Royalty Purchase Agreement shall be amended by deleting the phrase ", subject to the Reversionary Interest".

(c) Section 5.5(b) of the Existing Royalty Purchase Agreement shall be amended and restated in its entirety as follows:

"(b) The Selling Parties shall not, without the prior written consent of the Purchaser and subject in all respects to Section 5.5(a), withhold any consent, grant any consent, exercise or waive any right or option, fail to exercise or waive any right or option or take or fail to take any action in respect of, affecting or relating to the Subject

Assets, any DM Portfolio Product or the License Agreements, insofar as they relate to any DM Portfolio Product or DM Portfolio Intellectual Property Rights, until and unless all of the membership interests in Seller have been transferred to the Purchaser, and thereafter only if doing so could not reasonably be expected to, in any case, (i) result in an Adverse Change or (ii) conflict with or cause a default under, or breach or termination of any Transaction Document or the License Agreements. In addition, Depomed shall in no event directly or indirectly sell, assign, convey, transfer or otherwise dispose of any DM Portfolio Intellectual Property Rights to a Person (a "**DM Portfolio Intellectual Property Transferee**") unless any applicable License Agreement has been concurrently assigned to such DM Portfolio Intellectual Property Transferee."

(d) Section 5.8 of the Existing Royalty Purchase Agreement shall be amended by deleting it in its entirety and replacing it with: "[Intentionally Omitted]."

(e) Section 5.9 of the Existing Royalty Purchase Agreement shall be amended by:

(i) revising the first two sentences of Section 5.9(a) to read as follows: "Notwithstanding the accounting treatment thereof, for United States federal, state, local and foreign tax purposes, the Selling Parties and the Purchaser shall (i) treat the transactions contemplated by the Transaction Documents as a sale as of the Closing Date and (ii) treat the transactions contemplated by the First Amendment as a sale as of the Amendment Effective Date (as defined in the First Amendment). Accordingly, any and all Royalty Payments made pursuant to the License Agreements after the Closing Date (including any Royalty Payments in respect of the interest treated as sold to Purchaser pursuant to the transactions contemplated by the First Amendment) shall be treated as made to the Purchaser for United States federal, state, local and foreign tax purposes."

(ii) changing the references to Section 5.8 in Section 5.9(b) to Section 5.9.

(f) A new Section 5.17 is hereby added to the Existing Royalty Purchase Agreement as follows:

"**Section 5.17 Power of Attorney.**

(a) Appointment and Powers of PDL Subsidiary. Depomed, in its capacity as Member of Seller, hereby irrevocably constitutes and appoints the PDL Subsidiary and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of Depomed, in its capacity as Member of Seller, and in the name of Depomed, Seller, or in PDL Subsidiary's own name, for the purpose of carrying out the terms of the LLC Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of the LLC Agreement, without notice to or assent by Depomed or Seller. To the extent permitted by law, Depomed and Seller each hereby ratifies all that PDL Subsidiary shall lawfully do or cause to be done by virtue of this Power of Attorney. This Power of Attorney is a power coupled with an interest and is irrevocable.

(b) Ratification by Seller. To the extent permitted by law, each Grantor hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue of this Section 5.17. This power of attorney is a power coupled with an interest and is irrevocable.

(c) No Duty on the PDL Subsidiary. The powers conferred on the PDL Subsidiary, its directors, officers and agents pursuant to this Section 5.17 are solely to protect the PDL Subsidiary's and the Purchaser's interests under the Transaction Documents and shall not impose any duty (fiduciary or otherwise) upon any of them to exercise any such powers.

(g) Section 7.1 of the Existing Royalty Purchase Agreement shall be amended by adding the following clauses (C) and (D) to the proviso thereof:

"(C) from and after the Amendment Effective Date (as defined in the First Amendment), to the extent resulting from acts or omissions of the Seller directed by the Purchaser or its Affiliates pursuant to the power of attorney granted under Section 5.17 or (D) from and after the Consent Effective Date (as defined in the First Amendment), to the extent resulting from acts or omissions of the Seller directed by the Purchaser or its Affiliates acting in the capacity as the Manager of the Seller or a Member of the Seller."

(h) Section 7 of the Bill of Sale shall be amended by deleting the phrase ", subject to the Reversionary Interest" in the definition of "**Subject Assets**".

(i) As of the Amendment Effective Date, all rights granted to Depomed with respect to the Reversionary Interest by the Existing Royalty Purchase Agreement shall terminate, have no further force and effect and, if necessary, are hereby reconveyed to the Purchaser.

(j) Notwithstanding anything herein or any of the Transaction Documents, on and after the Amendment Effective Date, none of Depomed, or any of its unit holders, shareholders, managers, officers, directors, heirs, successors and assigns, shall have any duty, liability or obligation of any nature with respect to the actions or inactions of Seller that are solely the result of the exercise by PDL Subsidiary of its rights, obligations or control under the LLC Agreement. Further, from and after the transfer of the Seller to the Purchaser as contemplated by Section 6(c) of this Amendment, none of Depomed, or any of its unit holders, shareholders, managers, officers, directors, heirs, successors and assigns, shall have not have any duty, liability or obligation of any nature with respect to the actions or inactions of Seller.

SECTION 3. Conditions to Effectiveness of Amendment. This Amendment shall become effective on the date (the "**Amendment Effective Date**") when:

(a) the Purchaser shall have received a copy of this Amendment, duly executed and delivered by each of the Selling Parties;

(b) the Purchaser shall have received, in form and substance satisfactory to the Purchaser, an executed release with respect to any lien granted on the Reversionary Interest and the equity interests of the Seller in favor of Deerfield Private Design Fund III, L.P., as collateral agent (in such capacity, the " **Deerfield Collateral Agent**") for the purchasers party to the Note Purchase Agreement dated as of April 2, 2015 among Depomed, such purchasers and the Deerfield Collateral Agent; and

(c) the Purchaser shall pay (or cause to be paid) to Depomed $10,000,000 in immediately available funds by wire transfer to the Seller Account.

SECTION 4. Conditions Precedent to Final Payment. The Purchaser shall pay (or cause to be paid) to Depomed $10,000,000 in immediately available funds by wire transfer to the Seller Account when (the date on which the conditions below have been satisfied or waived by the Purchaser, the "**Consent Effective Date**"):

(a) the Purchaser shall have received an executed copy of an amended and restated limited liability company agreement of the Seller in the form attached hereto as Exhibit A (the "**LLC Agreement**") and Depomed, as the sole member of the Seller, shall have taken action by written consent of the sole member in the form attached hereto as Exhibit B to appoint the PDL Subsidiary as the sole manager of the Seller; and

(b) the Purchaser shall have received a Required Consent (as defined in Section 6(b) herein) with respect to the Santarus Agreement.

SECTION 5. Representations and Warranties. Each party hereto represents and warrants to the others that:

(a) Such party has taken all necessary organizational action to authorize the execution, delivery and performance of this Amendment.

(b) This Amendment has been duly executed and delivered by each party and constitutes a legal, valid and binding obligation of such party, enforceable against such party in accordance with its terms, subject to the applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 6. Further Assurances.

(a) Each Seller Party agrees, at the Purchaser's sole cost and expense, to consent to or take any action reasonably requested by the Purchaser to further evidence, give effect to or carry out the terms of this Amendment.

(b) Depomed shall use its commercially reasonable efforts to obtain the Required Consents with respect to each License Agreement within 90 days of the Amendment Effective Date (or such later date as agreed to in writing by the Purchaser in its sole discretion). "**Required Consents**" means the written consent of each Licensee to the transfer of the equity interests in the Seller or rights under the License Agreement from Depomed or the Seller, as applicable, to a Subsidiary of the Purchaser (the "**PDL Subsidiary**") and, in the case of the Santarus Agreement, the appointment of the PDL Subsidiary to serve as the sole manager of the Seller, in form and substance reasonably satisfactory to the Purchaser.

(c) Promptly after receipt of the Required Consents, Depomed shall transfer its membership interests in Seller to the PDL Subsidiary.

SECTION 7. Reference to and Effect on the Existing Royalty Purchase Agreement and the Transaction Documents.

(a) On and after the Amendment Effective Date, each reference in the Existing Royalty Purchase Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Existing Royalty Purchase Agreement shall mean and be a reference to the Existing Royalty Purchase Agreement as amended by this Amendment on the Amendment Effective Date.

(b) The Existing Royalty Purchase Agreement and each of the other Transaction Documents, as specifically amended by this Amendment, are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any of the Purchaser or the Selling Parties under any of the Transaction Documents, nor constitute a modification, acceptance or waiver of any other provision of any of the Transaction Documents.

SECTION 8. Counterparts. This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. Any counterparty may be executed by facsimile or other electronic transmission (including .pdf) and such facsimile or other electronic transmission shall be deemed an original.

SECTION 9. Miscellaneous. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL SUBSTANTIVE LAWS OF THE STATE OF NEW YORK WITHOUT REFERENCE TO THE RULES THEREOF RELATING TO CONFLICTS OF LAW OTHER THAN SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS. Sections 9.2, 9.3, 9.4, 9.7(b)-(d), 9.8, 9.9, 9.11, 9.12, 9.13 and 9.14 of the Existing Royalty Purchase Agreement are hereby incorporated by reference into this Amendment, *mutatis mutandis*, and the parties hereto hereby agree that such provisions shall apply to this Amendment with the same force and effect as if set forth herein in their entirety.

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

DEPOMED, INC.

By: /S/ ARTHUR HIGGINS
Name: Arthur Higgins
Title: Chief Executive Officer

DEPO DR SUB, LLC

By: /S/ ARTHUR HIGGINS
Name: Arthur Higgins
Title: Chief Executive Officer

PDL Investment Holdings, LLC

By: /S/ CHRISTOPHER STONE
Name: Christopher Stone
Title: Chief Executive Officer and Treasurer

Exhibit 12.1

PDL BIOPHARMA, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Unaudited)
(Amount in thousands, except for ratios)

	2013	2014	2015	2016	2017	For the Six Months Ended June 30, 2018
Earnings:						
Income (loss) before income taxes	$ 401,876	$ 501,272	$ 530,138	$ 109,370	$ 184,527	$ (123,940)
Add: fixed charges	24,931	39,274	27,123	18,330	20,507	6,604
Earnings	$ 426,807	$ 540,546	$ 557,261	$ 127,700	$ 205,034	$ (117,336)
Fixed Charges:						
Interest expense[1]	$ 24,871	$ 39,211	$ 27,059	$ 18,267	$ 20,221	$ 6,396
Estimated interest portion of rent expense[2]	60	63	64	63	286	208
Fixed charges	$ 24,931	$ 39,274	$ 27,123	$ 18,330	$ 20,507	$ 6,604
Ratio of earnings to fixed charges	17.12	13.76	20.55	6.97	10.00	(17.77)

[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, 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 9, 2018

/s/ John P. McLaughlin

John P. McLaughlin

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 9, 2018

/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, 2018, 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 9, 2018

By:

/s/ JOHN P. MCLAUGHLIN

John P. McLaughlin
Chief Executive Officer
(Principal Executive Officer)

By:

/s/ PETER S. GARCIA

Peter S. Garcia
Vice President and Chief Financial Officer
(Principal Financial Officer)

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(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.