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 March 31, 2014

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 Number)**

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

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

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

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

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

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

(Do not check if a smaller reporting company)

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

As of April 29, 2014, there were 160,594,818 shares of the Registrant's Common Stock outstanding.

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GLOSSARY OF TERMS AND ABBREVIATIONS

Abbreviation/term	Definition
'216B Patent	European Patent No. 0 451 216B
'761 Patent	U.S. Patent No. 5,693,761
2012 Notes	2.0% Convertible Senior Notes due February 15, 2012, fully retired at June 30, 2011
Abbott	Abbott Laboratories
AbbVie	AbbVie Biotherapeutics, Inc.
Accel 300	Accel 300, LLC, a wholly-owned subsidiary of kaléo, Inc.
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Avinger	Avinger, Inc.
AxoGen	AxoGen, Inc.
Biogen Idec	Biogen Idec, Inc.
Chugai	Chugai Pharmaceutical Co., Ltd.
Depomed	Depomed, Inc.
Direct Flow Medical	Direct Flow Medical, Inc.
Durata	Durata Therapeutics Holding C.V. and Durata Therapeutics International B.V. and Durata Therapeutics, Inc. (parent company)
Elan	Elan Corporation, PLC
ex-U.S.-based Manufacturing and Sales	Products that are both manufactured and sold outside of the United States
ex-U.S.-based Sales	Products that are manufactured in the United States and sold outside of the United States
EBITDA	Earnings before interest, taxes, depreciation and amortization
EMA	European Medicines Agency
Facet	Facet Biotech Corporation. In April 2010, Abbott Laboratories acquired Facet and later renamed the company Abbott Biotherapeutics Corp., and in January 2013, Abbott Biotherapeutics Corp. was renamed AbbVie Biotherapeutics, Inc. and spun off from Abbott Laboratories as a subsidiary of AbbVie Inc.
FASB	Financial Accounting Standards Board
FDA	U.S. Food and Drug Administration
February 2015 Notes	2.875% Convertible Senior Notes due February 15, 2015, fully retired at September 30, 2013
February 2018 Notes	4.0% Convertible Senior Notes due February 1, 2018
GAAP	U.S. Generally Accepted Accounting Principles
Genentech	Genentech, Inc.
Genentech Products	Avastin®, Herceptin®, Lucentis®, Xolair®, Perjeta®, and Kadcyla®
Hyperion	Hyperion Catalysis International, Inc.
kaléo	kaléo, Inc. (formerly known as Intellijject, Inc.)
KMPG	KPMG, LLP
LENSAR	LENSAR, Inc.
Lilly	Eli Lilly and Company
May 2015 Notes	3.75% Senior Convertible Notes due May 2015
Merus Labs	Merus Labs International, Inc.
Non-Recourse Notes	QHP PhaRMA℠ Senior Secured Notes due March 15, 2015, issued through our wholly-owned subsidiary, QHP Royalty Sub LLC, in November 2009, fully repaid in September 2012
Novartis	Novartis AG
OCI	Other Comprehensive Income (Loss)
Paradigm Spine	Paradigm Spine, LLC
PDL, we, us, our, the Company	PDL BioPharma, Inc.
Queen et al. patents	PDL's patents in the United States and elsewhere covering the humanization of antibodies
Roche	F. Hoffman LaRoche, Ltd.
Royalty Agreement	Revenue Interests Purchase Agreement between PDL and AxoGen.

SDK	Showa Denka K.K.
SEC	Securities and Exchange Commission
Series 2012 Notes	2.875% Series 2012 Convertible Senior Notes due February 15, 2015
Settlement Agreement	Settlement Agreement amongst PDL, Genentech and Roche, dated January 31, 2014
SPCs	Supplementary Protection Certificates
SPC Products	Avastin®, Herceptin®, Lucentis®, Xolair® and Tysabri®
Spin-Off	The spin-off by PDL of Facet
Term Loan	Credit agreement among PDL, the Royal Bank of Canada and lenders thereto, dated October 28, 2013
U.S.-based Sales	Products sold in the United States or manufactured in the United States and used or sold anywhere in the world
VWAP	Volume weighted average share price
Wellstat Diagnostics	Wellstat Diagnostics, LLC

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 March 31,	
	2014	**2013**
Revenues		
Royalties	$ 139,664	$ 91,847
Total revenues	139,664	91,847
Operating expenses:		
Cost of royalty revenues (amortization of intangible assets)	11,931	—
General and administrative	4,582	7,186
Total operating expenses	16,513	7,186
Operating income	123,151	84,661
Non-operating expense, net		
Interest and other income, net	9,121	3,838
Interest expense	(10,525)	(6,000)
Loss on extinguishment of debt	(6,143)	—
Total non-operating expense, net	(7,547)	(2,162)
Income before income taxes	115,604	82,499
Income tax expense	42,721	29,028
Net income	$ 72,883	$ 53,471
Net income per share		
Basic	$ 0.48	$ 0.38
Diluted	$ 0.44	$ 0.36
Weighted average shares outstanding		
Basic	151,198	139,816
Diluted	164,571	149,101
Cash dividends declared per common share	$ 0.60	$ 0.60

See accompanying notes.

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

	Three Months Ended March 31,	
	2014	**2013**
Net income	$ 72,883	$ 53,471
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	(1,092)	(3)
Adjustment for net (gains) losses realized and included in net income, net of tax	—	—
Total change in unrealized gains on investments in available-for-sale securities, net of tax[(a)]	(1,092)	(3)
Change in unrealized losses on cash flow hedges:		
Change in fair value of cash flow hedges, net of tax	67	3,567
Adjustment for net (gains) losses realized and included in net income, net of tax	728	1,247
Total change in unrealized losses on cash flow hedges, net of tax[(b)]	795	4,814
Total other comprehensive income (loss), net of tax	(297)	4,811
Comprehensive income	$ 72,586	$ 58,282

[(a)] Net of tax of ($588) and ($2) for the three months ended March 31, 2014 and 2013, respectively.
[(b)] Net of tax of $428 and $2,592 for the three months ended March 31, 2014 and 2013, respectively.

See accompanying notes.

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

	March 31, 2014	December 31, 2013
	(unaudited)	(Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 334,035	$ 94,302
Short-term investments	3,558	5,238
Receivables from licensees and other	11,650	300
Deferred tax assets	2,053	377
Notes receivable	1,200	1,208
Prepaid and other current assets	3,104	6,272
Total current assets	355,600	107,697
Property and equipment, net	35	41
Notes and other receivables, long-term	247,200	193,840
Long-term deferred tax assets	17,369	6,700
Other assets	8,629	—
Intangible assets	223,746	235,677
Total assets	$ 852,579	$ 543,955
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 410	$ 287
Accrued liabilities	87,030	11,857
Accrued income taxes	5,335	—
Term loan payable	55,921	74,397
Convertible notes payable	196,275	320,883
Total current liabilities	344,971	407,424
Convertible notes payable	270,944	—
Other long-term liabilities	34,450	23,042
Total liabilities	650,365	430,466
Commitments and contingencies (Note 9)		
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; 160,228 and 139,935 shares issued and outstanding at March 31, 2014, and December 31, 2013, respectively	1,602	1,399
Additional paid-in capital	(121,011)	(233,173)
Accumulated other comprehensive loss	(5,185)	(4,888)
Retained earnings	326,808	350,151
Total stockholders' equity	202,214	113,489
Total liabilities and stockholders' equity	$ 852,579	$ 543,955

See accompanying notes.

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

	Three Months Ended March 31,	
	2014	**2013**
Cash flows from operating activities		
Net income	$ 72,883	$ 53,471
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of convertible notes and term loan offering costs	4,817	3,251
Amortization of intangible assets	11,931	—
Loss on extinguishment of convertible notes	6,143	—
Other amortization, depreciation and accretion of embedded derivative	(45)	50
Hedge ineffectiveness on foreign exchange contracts	(2)	(3)
Stock-based compensation expense	194	156
Deferred income taxes	(1,012)	(276)
Changes in assets and liabilities:		
Receivables from licensees and other	(11,350)	216
Prepaid and other current assets	844	(479)
Accrued interest on notes receivable	(3,284)	(2,490)
Other assets	—	—
Accounts payable	123	(570)
Accrued liabilities	2,682	(669)
Accrued income taxes	5,335	—
Other long-term liabilities	2,520	198
Net cash provided by operating activities	91,779	52,855
Cash flows from investing activities		
Maturities of investments	—	12,405
Issuance of notes receivable	(50,000)	(2,579)
Repayment of notes receivable	—	9,279
Net cash provided by/(used in) investing activities	(50,000)	19,105
Cash flows from financing activities		
Repurchase of convertible notes	(29,906)	—
Proceeds from the issuance of convertible notes, net	300,000	—
Payment of debt issuance costs	(9,824)	—
Purchase of call options	(30,951)	—
Proceeds from the issuance of warrants	11,427	—
Repayment of term loan	(18,750)	—
Cash dividends paid	(24,042)	(20,980)
Net cash provided by/(used in) financing activities	197,954	(20,980)
Net increase in cash and cash equivalents	239,733	50,980
Cash and cash equivalents at beginning of the period	94,302	131,212
Cash and cash equivalents at end of period	$ 334,035	$ 182,192
Supplemental cash flow information		
Cash paid for income taxes	$ 34,000	$ 28,000
Cash paid for interest (including convertible debt inducement)	$ 5,454	$ 2,588
Stock issued to settle debt	$ 157,591	$ —

See accompanying notes.

1. Summary of Significant Accounting Policies

Basis of Presentation

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

The accompanying Condensed Consolidated Financial Statements and related financial information should be read in conjunction with the audited Consolidated Financial Statements and the related notes thereto for the year ended December 31, 2013, included in our Annual Report on Form 10-K filed with the SEC. The Condensed Consolidated Balance Sheet at December 31, 2013, has been derived from the audited Consolidated Financial Statements at that date.

Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of PDL and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. Our condensed consolidated financial statements are prepared in accordance with GAAP and the rules and regulations of the SEC.

Use of Estimates

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

Notes Receivable and Other Long-Term Receivables

We account for our notes receivable at amortized cost, net of unamortized origination fees, if any. Related fees and costs are recorded net of any amounts reimbursed. Interest is accreted or accrued to interest income using the interest method.

Customer Concentration

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

		Three Months Ended March 31,	
Licensee	**Product Name**	**2014**	**2013**
Genentech	*Avastin*®	29%	36%
	Herceptin®	27%	33%
	Lucentis®	12%	13%
Biogen Idec[1]	*Tysabri*®	9%	14%
Depomed	Glumetza®	17%	0%

[1] In April 2013, Biogen Idec completed its purchase of Elan's interest in Tysabri. Prior to this our licensee for Tysabri was identified as Elan.

Foreign Currency Hedging

We enter into foreign currency hedges to manage exposures arising in the normal course of business and not for speculative purposes.

We hedge certain Euro-denominated currency exposures related to royalties associated with our licensees' product sales with Euro forward contracts. In general, these contracts are intended to offset the underlying Euro market risk in our royalty revenues. These contracts currently extend through the fourth quarter of 2014. We designate foreign currency exchange contracts used to hedge royalty revenues based on underlying Euro-denominated licensee product sales as cash flow hedges.

At the inception of each hedging relationship and on a quarterly basis, we assess hedge effectiveness. The fair value of the Euro contracts is estimated using pricing models with readily observable inputs from actively quoted markets and is disclosed on a gross basis. The aggregate unrealized gain or loss, net of tax, on the effective component of the hedge is recorded in stockholders' equity as accumulated other comprehensive income (loss). Gains or losses on cash flow hedges are recognized as an adjustment to royalty revenue in the same period that the hedged transaction impacts earnings as royalty revenue. Any gain or loss on the ineffective portion of our hedge contracts is reported in interests and other income, net in the period the ineffectiveness occurs.

2. Net Income per Share

	Three Months Ended March 31,	
Net Income per Basic and Diluted Share:	**2014**	**2013**
(in thousands except per share amounts)		
Numerator		
Net income used to compute net income per basic share	$ 72,883	$ 53,471
Add back interest expense for convertible notes, net of estimated tax of approximately $0 and $3 for the three months ended March 31, 2014 and 2013, respectively	—	6
Net income used to compute net income per diluted share	$ 72,883	$ 53,477
Denominator		
Weighted-average shares used to compute net income per basic share	151,198	139,816
Restricted stock outstanding	68	61
Effect of dilutive stock options	21	18
Assumed conversion of Series 2012 Notes	6,903	6,688
Assumed conversion of May 2015 Notes	6,381	2,345
Assumed conversion of February 2015 Notes	—	173
Weighted-average shares used to compute net income per diluted share	164,571	149,101
Net income per basic share	$ 0.48	$ 0.38
Net income per diluted share	$ 0.44	$ 0.36

We compute net income per diluted share using the sum of the weighted-average number of common and common equivalents shares outstanding. Common equivalent shares used in the computation of net income per diluted share include shares that may be issued under our stock options and restricted stock awards, our February 2018 Notes, our Series 2012 Notes and our May 2015 Notes on a weighted average basis for the period that the notes were outstanding, including the effect of adding back interest expense and the underlying shares using the if converted method. In the first quarter of 2012, $179.0 million aggregate principal of our February 2015 Notes was exchanged for our Series 2012 Notes, in the third quarter of 2013, $1.0 million aggregate principal of our February 2015 Notes was exchanged for our Series 2012 Notes, and the February 2015 Notes were retired, and in the first quarter of 2014, $131.7 million aggregate principal of our Series 2012 Notes was retired in a privately negotiated exchange and purchase agreements.

In May 2011, we issued our May 2015 Notes, in January and February 2012, we issued our Series 2012 Notes, and in February 2014, we issued our February 2018 Notes. The February 2018 Notes, Series 2012 Notes and May 2015 Notes are net share settled, with the principal amount settled in cash and the excess settled in our common stock. The weighted average share adjustments related to our February 2018 Notes, Series 2012 Notes and May 2015 Notes, shown in the table above, include the shares issuable in respect of such excess.

May 2015 Notes Purchase Call Option and Warrant Potential Dilution

We excluded from our calculations of net income per diluted share 21.5 million and 20.0 million shares for the three months ended March 31, 2014 and 2013, respectively, for warrants issued in 2011, because conversion of the underlying May 2015 Notes is not assumed. These securities could be dilutive in future periods. Our purchased call options, issued in 2011, will always be anti-dilutive and therefore 25.3 million and 23.5 million shares were excluded from our calculations of net income per diluted share for the three months ended March 31, 2014 and 2013, respectively, because they have no effect on diluted net income per share. For information related to the conversion rates on our convertible debt, see Note 10.

February 2018 Notes Purchase Call Option and Warrant Potential Dilution

We excluded from our calculation of net income per diluted share 29.0 million shares for the three months ended March 31, 2014 for warrants issued in February 2014, because the exercise price of the warrants exceeded the VWAP of our common stock and conversion of the underlying February 2018 Notes is not assumed, no stock would be issuable upon conversion. These securities could be dilutive in future periods. Our purchased call options, issued in February 2014, will always be anti-dilutive and therefore 32.7 million shares were excluded from our calculation of net income per diluted share for the three months ended March 31, 2014, because they have no effect on diluted net income per share. For information related to the conversion rates on our convertible debt, see Note 10.

Anti-Dilutive Effect of Stock Options and Restricted Stock Awards

For the three months ended March 31, 2014, we excluded approximately 115,000 shares underlying outstanding stock options calculated on a weighted average basis, from our net income per diluted share calculations because their effect was anti-dilutive.

For the three months ended March 31, 2013, we excluded approximately 139,000 and 20,000 shares underlying outstanding stock options and restricted stock awards, respectively, calculated on a weighted average basis, from our net income per diluted share calculations because their effect was anti-dilutive.

3. Fair Value Measurements

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

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

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

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

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

	March 31, 2014			December 31, 2013		
	Level 1	Level 2	Total	Level 1	Level 2	Total
(In thousands)						
Financial assets:						
Money market funds	$ 165,051	$ —	$ 165,051	$ 85,970	$ —	$ 85,970
Corporate securities	—	3,558	3,558	—	5,238	5,238
Total	$ 165,051	$ 3,558	$ 168,609	$ 85,970	$ 5,238	$ 91,208
Financial liabilities:						
Foreign currency hedge contracts	$ —	$ 7,646	$ 7,646	$ —	$ 8,871	$ 8,871

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

The fair value of the foreign currency hedge contracts is estimated based on pricing models using readily observable inputs from actively quoted markets and are disclosed on a gross basis.

There have been no transfers between levels during the three months ended March 31, 2014, and December 31, 2013. The Company recognizes transfers between levels on the date of the event or change in circumstances that caused the transfer.

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

	March 31, 2014			December 31, 2013		
	Carrying Value	Fair Value Level 2	Fair Value Level 3	Carrying Value	Fair Value Level 2	Fair Value Level 3
(In thousands)						
Assets:						
Wellstat Diagnostics note receivable	$ 50,191	$ —	$ 52,194	$ 47,694	$ —	$ 46,042
Hyperion	1,200	—	1,200	1,195	—	1,195
AxoGen note receivable and embedded derivative	27,673	—	26,361	26,544	—	25,785
Avinger note receivable	20,336	—	20,155	20,250	—	19,061
LENSAR note receivable	39,581	—	40,000	39,572	—	39,572
Durata note receivable	25,000	—	25,000	24,995	—	24,995
Direct Flow Medical note receivable	34,926	—	35,859	34,799	—	34,799
Paradigm Spine note receivable	49,493	—	49,493	—	—	—
Total	$ 248,400	$ —	$ 250,262	$ 195,049	$ —	$ 191,449
Liabilities:						
Series 2012 Notes	$ 46,761	$ 74,701	$ —	$ 172,630	$ 277,650	$ —
May 2015 Notes	149,514	212,529	—	148,253	212,304	—
February 2018 Notes	270,944	318,135	—	—	—	—
Term loan	55,921	56,250	—	74,397	75,000	—
Total	$ 523,140	$ 661,615	$ —	$ 395,280	$ 564,954	$ —

As of March 31, 2014, the estimated fair value of our Paradigm Spine note receivable, as of March 31, 2014 and December 31, 2013, the estimated fair values of our Wellstat Diagnostics note receivable, Hyperion note receivable, AxoGen note receivable and derivative, Avinger note receivable, LENSAR note receivable, Durata note receivable and Direct Flow Medical note receivable, were determined using one or more discounted cash flow models, incorporating expected payments and the interest rate extended on the notes receivable with fixed interest rates and incorporating expected payments for notes receivable with a variable rate of return. In some instances the carrying values of certain notes receivable exceed their estimated fair market values. This is generally the result of discount rates used when performing a discounted cash flow for fair value valuation purposes. In all cases, the undiscounted expected future cash flows exceed the related carrying value.

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

The carrying value and estimated fair value of the AxoGen note include the value of a change of control embedded derivative valued at $1.1 million and $1.1 million at March 31, 2014, and December 31, 2013, respectively. We utilized discounted cash flows and probability analysis to estimate the fair value of the embedded derivative.

The Wellstat Diagnostics note is collateralized by all assets and equity interest in Wellstat Diagnostics. The estimated fair value of the collateral was determined by using a discounted cash flow analysis related to the underlying technology included in the collateral. On March 31, 2014, the discounted cash flow was based upon expected income from estimated sales over a period of 15 years. The terminal value was estimated using selected market multiples based on sales and EBITDA. On December 31, 2013, the estimated fair value of Wellstat Diagnostics was determined by using a discounted cash flow that was based upon expected income from estimated sales through December 31, 2016.

On March 31, 2014, the carrying value of the Avinger note approximates its fair value. We determined this note to be a Level 3 asset, as our valuation utilized significant unobservable inputs, including a discount rate of 19.5%, estimates of Avinger's future revenues, expectations about settlement and required yield. To provide support for the fair value measurement, we considered forward looking performance related to Avinger, current measures associated with high yield and Standard & Poor's Leveraged Commentary & Data indices, and reviewed the terms and yields of notes placed by specialty finance and venture firms both across industries and in a similar sector.

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

4. Cash Equivalents and Investments

As of March 31, 2014, and December 31, 2013, we had invested our excess cash balances primarily in money market funds, and a corporate security. Our securities are classified as available-for-sale and are carried at estimated fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss) in stockholders' equity, net of estimated taxes. See Note 3 for fair value measurement information. The cost of securities sold is based on the specific identification method. To date, we have not experienced credit losses on investments in these instruments and we do not require collateral for our investment activities.

Summary of Cash and Available-For-Sale Securities	Adjusted Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Cash and Cash Equivalents	Short-Term Investments
(In thousands)						
March 31, 2014						
Cash	$ 168,984	$ —	$ —	$ 168,984	$ 168,984	$ —
Money market funds	165,051	—	—	165,051	165,051	—
Corporate securities	3,500	58	—	3,558	—	3,558
Total	$ 337,535	$ 58	$ —	$ 337,593	$ 334,035	$ 3,558
December 31, 2013						
Cash	$ 8,332	$ —	$ —	$ 8,332	$ 8,332	$ —
Money market funds	85,970	—	—	85,970	85,970	—
Corporate securities	3,500	1,738	—	5,238	—	5,238
Total	$ 97,802	$ 1,738	$ —	$ 99,540	$ 94,302	$ 5,238

No gains or losses on sales of available-for-sale securities were recognized for the three months ended March 31, 2014 and 2013.

As of March 31, 2014, and December 31, 2013, all available-for-sale debt securities have contractual maturities of less than one year.

5. Foreign Currency Hedging

We designate the foreign currency exchange contracts used to hedge our royalty revenues based on underlying Euro-denominated sales as cash flow hedges. Euro forward contracts are presented on a net basis on our Condensed Consolidated Balance Sheets as we have entered into a netting arrangement with the counterparty. As of March 31, 2014, and December 31, 2013, all outstanding Euro forward contracts were classified as cash flow hedges.

In January 2012, we modified our existing Euro forward and option contracts related to our licensees' sales through December 2012 into Euro forward contracts with more favorable rates. Additionally, we entered into a series of Euro forward contracts covering the quarters in which our licensees' sales occur through December 2014.

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

Euro Forward Contracts			March 31, 2014		December 31, 2013	
			(In thousands)		*(In thousands)*	
Currency	Settlement Price ($ per Euro)	Type	Notional Amount	Fair Value	Notional Amount	Fair Value
Euro	1.240	Sell Euro	$ 10,850	$ (1,197)	$ 10,850	$ (1,207)
Euro	1.270	Sell Euro	44,450	(3,710)	44,450	(3,760)
Euro	1.281	Sell Euro	36,814	(2,739)	36,814	(2,785)
Euro	1.300	Sell Euro	—	—	19,500	(1,119)
Total			$ 92,114	$ (7,646)	$ 111,614	$ (8,871)

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

Cash Flow Hedge	Location	March 31, 2014	December 31, 2013
(In thousands)			
Euro contracts	Accrued liabilities	$ 7,646	$ 7,355
Euro contracts	Other long-term liabilities	$ —	$ 1,516

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

	Three Months Ended March 31,	
	2014	2013
(In thousands)		
Net gain (loss) recognized in OCI, net of tax [1]	$ 67	$ 3,568
Gain (loss) reclassified from accumulated OCI into royalty revenue, net of tax [2]	$ (728)	$ (1,247)
Net gain (loss) recognized in interest and other income, net -- cash flow hedges [3]	$ 2	$ 3

(1) Net change in the fair value of the effective portion of cash flow hedges classified in OCI.

(2) Effective portion classified as royalty revenue.

(3) Ineffectiveness from excess hedge was approximately ($2) and ($3) for the three months ended March 31, 2014 and 2013, respectively. Net loss from restructuring hedges was zero for the three months ended March 31, 2014 and 2013.

6. Notes Receivable and Other Long-term Receivables

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

Wellstat Diagnostics Note Receivable and Credit Agreement

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

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

In January 2013, the Company was informed that, as of December 31, 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. PDL sent Wellstat Diagnostics a notice of default on January 22, 2013, and accelerated the amounts owed under the credit agreement. In connection with the notice of default, PDL exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to PDL and applied the funds to amounts due under the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby PDL agreed to refrain from exercising additional remedies for 120 days while Wellstat Diagnostics raised funds to capitalize the business and the parties attempted to negotiate a revised credit agreement. PDL agreed to provide up to $7.9 million to Wellstat Diagnostics to fund the business for the 120-day forbearance period under the terms of the forbearance agreement. Following the conclusion of the forbearance period that ended on June 28, 2013, the Company agreed to forbear its exercise of remedies for additional periods of time to allow the owners and affiliates of Wellstat Diagnostics to complete a pending financing transaction. During such forbearance period, the Company provided approximately $1.3 million to Wellstat Diagnostics to fund ongoing operations of the business. During the year ended December 31, 2013, approximately $8.7 million was advanced pursuant to the forbearance agreement, and no further advances have been provided by the Company to Wellstat Diagnostics during the three months ended March 31, 2014.

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

Except as otherwise described here, the material terms of the amended and restated credit agreement are substantially the same as those of the original credit agreement, including quarterly interest payments at the rate of 5% per annum (payable in cash or in kind). In addition, PDL will 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 are required to contribute additional capital to Wellstat Diagnostics upon the sale of an affiliate entity. The amended and restated credit agreement continues to have an ultimate maturity date of December 31, 2021 (but may mature earlier upon certain specified events).

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

Wellstat Diagnostics may prepay the amended credit agreement at a price that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company. In the event of a change of control, bankruptcy or certain other customary events of defaults, or Wellstat Diagnostics' failure to achieve a specified annual revenue threshold in 2017, Wellstat Diagnostics will be required to prepay the credit agreement at a price that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company. The amended credit agreement is secured by a pledge of all of the assets of Wellstat Diagnostics, a pledge of all of Wellstat Diagnostics’ equity interests by the holders thereof, and a second lien on the assets of the affiliates of Wellstat Diagnostics.

At March 31, 2014, and December 31, 2013, the carrying value of the note was included in non-current assets.

As of March 31, 2014, the Company determined that its interest in Wellstat Diagnostics represented a variable interest in a Variable Interest Entity since Wellstat Diagnostics' equity was not sufficient to finance its operations without amounts advanced to it under the Company's note and forbearance agreement. However, the Company does not have the power to direct the

activities of Wellstat Diagnostics that most significantly impacts Wellstat Diagnostic's economic performance and is not the primary beneficiary of Wellstat Diagnostics; therefore, Wellstat Diagnostics is not subject to consolidation.

As of March 31, 2014, the carrying value of all amounts advanced to Wellstat Diagnostics including accrued interest was $50.2 million, which was recorded in notes receivable. As of March 31, 2014, the maximum loss exposure was $50.2 million.

We believe that Wellstat Diagnostics does not currently have sufficient capital to execute its business plan. Wellstat Diagnostics is considering other sources of financing and strategic alternatives, including selling the company. Depending on the outcome of its efforts and PDL's assessment of Wellstat Diagnostics's financial viability, we may recognize an impairment in a future period. The Company completed an impairment analysis for the quarter ended March 31, 2014. The estimated fair value of the collateral was determined to be approximately $52.2 million. The estimated fair value of the collateral was determined by using a discounted cash flow analysis related to the underlying technology included in the collateral. The discounted cash flow was based upon expected income from sales of planned products over a period of 15 years. The terminal value was estimated using selected market multiples based on sales and EBITDA.

Hyperion Agreement

On January 27, 2012, PDL and Hyperion entered into an agreement whereby Hyperion sold to PDL the royalty streams due from SDK related to a certain patent license agreement between Hyperion and SDK dated December 31, 2008. The agreement assigned the patent license agreement royalty stream accruing from January 1, 2012 through December 31, 2013 to PDL in exchange for the lump sum payment to Hyperion of $2.3 million. In exchange for the lump sum payment, PDL was to receive two equal payments of $1.2 million on both March 5, 2013 and March 5, 2014. The first payment of $1.2 million was paid on March 5, 2013. The second and final payment of $1.2 million was due on March 5, 2014. Hyperion did not make its scheduled payment on March 5, 2014. The Company completed an impairment analysis for the quarter ended March 31, 2013. The estimated fair value of the collateral was determined to be in excess of that of the carrying value. Hyperion is considering other sources of financing and strategic alternatives, including selling the company. Depending on the outcome of its efforts and PDL's assessment of Hyperion's financial viability, we may recognize an impairment in a future period.

Merus Labs Note Receivable and Credit Agreement

In July 2012, PDL loaned $35.0 million to Merus Labs in connection with its acquisition of a commercial-stage pharmaceutical product and related assets. In addition, PDL agreed to provide a $20.0 million letter of credit on behalf of Merus Labs for the seller of the assets to draw upon to satisfy the remaining $20.0 million purchase price obligation. The seller made this draw on the letter of credit in July 2013 and an additional loan to Merus Labs for $20.0 million was recorded for an aggregate of $55.0 million in total borrowings.

Outstanding borrowings under the July 2012 loan bore interest at the rate of 13.5% per annum and outstanding borrowings as a result of the draw on the letter of credit bore interest at the rate of 14.0% per annum. Merus Labs was required to make four periodic principal payments in respect of the July 2012 loan, with repayment of the remaining principal balance of all loans due on March 31, 2015. The borrowings were subject to mandatory prepayments upon certain asset dispositions or debt issuances as set forth in the credit agreement. Merus Labs made the first of these payments in December 2012 in the amount of $5.0 million, and made the second payment in June 2013 in the amount of $7.5 million.

In September 2013, Merus Labs prepaid in full its obligations under the credit agreement, including accrued interest through the payment date and a prepayment fee of 1% of the aggregate principal amount outstanding at the time of repayment. There was no outstanding balance owed as of March 31, 2014.

AxoGen Note Receivable and Royalty Agreement

In October 2012, PDL entered into the Royalty Agreement with AxoGen pursuant to which the Company will receive specified royalties on AxoGen’s net revenues (as defined in the Royalty Agreement) generated by the sale, distribution or other use of AxoGen’s products. The Royalty Agreement has an eight year term and provides PDL with royalties of 9.95% based on AxoGen's net revenues, subject to agreed-upon guaranteed quarterly minimum payments of approximately $1.3 to $2.3 million beginning in the fourth quarter of 2014, and the right to require AxoGen to repurchase the Royalty Agreement at the end of the fourth year. AxoGen has been granted certain rights to call the contract in years five through eight. The total consideration PDL paid to AxoGen for the royalty rights was $20.8 million, including an interim funding of $1.8 million in August 2012. AxoGen was required to use a portion of the proceeds from the Royalty Agreement to pay the outstanding balance under its existing credit facility. AxoGen plans to use the remainder of the proceeds to support the business plan for its products. The royalty rights are secured by the cash and accounts receivable of AxoGen.

Under the Royalty Agreement, beginning on October 1, 2016, or in the event of the occurrence of a material adverse event, AxoGen's bankruptcy or material breach of the Royalty Agreement, the Company may require AxoGen to repurchase the royalty rights at a price that, together with payments already made by AxoGen, would generate a specified internal rate of return to the Company. The Company has concluded that the repurchase option is an embedded derivative which should be bifurcated and separately accounted for at fair value.

In the event of a change of control, AxoGen must repurchase the assigned interests from the Company for a repurchase price equal to an amount that, together with payments already made by AxoGen, would generate a 32.5% internal rate of return to the Company. The Company has concluded that the change of control provision is an embedded derivative that should be bifurcated and separately recorded at its estimated fair value. The estimated fair value of the change of control provision was approximately $1.1 million and $1.1 million as of March 31, 2014, and December 31, 2013, respectively. The estimated fair value of this embedded derivative is included in the carrying value of the AxoGen note receivable. The Company recognized approximately $0.1 million and zero related to the change in the estimated fair value of embedded derivative during the three month periods ended March 31, 2014 and 2013, respectively.

At any time after September 30, 2016, AxoGen, at its option, can repurchase the assigned interests under the Royalty Agreement for a price applicable in a change of control.

During the term of the Royalty Agreement, the Company is entitled to designate an individual to be a member of AxoGen's board of directors. The Company has exercised this right and on October 5, 2012, upon the close of the transaction, the Company's President and Chief Executive Officer was elected to AxoGen's board of directors.

On August 14, 2013, PDL purchased 1,166,666 shares of AXGN at $3.00 per share, totaling $3.5 million. The shares are classified as available for sale and recorded as short term investments on the balance sheet. As of March 31, 2014, the shares were valued at $3.6 million, which results in an unrealized gain of $0.1 million and is recorded in other comprehensive income.

Avinger Note Receivable and Royalty Agreement

On April 18, 2013, PDL entered into a credit agreement with Avinger, under which we made available to Avinger up to $40.0 million to be used by Avinger in connection with the commercialization of its lumivascular catheter devices and the development of Avinger's lumivascular atherectomy device. Of the $40.0 million available to Avinger, we funded an initial $20.0 million, net of fees, at the close of the transaction. Upon the attainment by Avinger of a certain revenue milestone to be accomplished no later than the end of the first half of 2014, the Company will fund Avinger an additional amount between $10.0 million and $20.0 million (net of fees) at Avinger's election. Outstanding borrowings under the initial loan bear interest at a stated rate of 12% per annum, and any future outstanding borrowings as a result of an additional amount funded upon reaching the revenue milestone will bear interest at the rate of 14% per annum.

Avinger is required to make quarterly interest and principal payments. Principal repayment will commence on: (i) the eleventh interest payment date if the revenue milestone is not achieved or (ii) the thirteenth interest payment date if the revenue milestone is achieved. The principal amount outstanding at commencement of repayment, after taking into account any payment-in-kind, will be repaid in equal installments until final maturity of the loans. The loans will mature in April 2018.

In connection with entering into the credit agreement, the Company will receive a low, single-digit royalty on Avinger's net revenues through April 2018. Avinger may prepay the outstanding principal and accrued interest on the notes receivable at any time. If Avinger repays the notes receivable prior to April 2018, the royalty on Avinger's net revenues will be reduced by 50% and will be subject to certain minimum payments from the prepayment date through April 2018.

The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Avinger and any of its subsidiaries (other than controlled foreign corporations, if any). The credit agreement provides for a number of standard events of default, including payment, bankruptcy, covenant, representation and warranty and judgment defaults.

LENSAR Credit Agreement

On October 1, 2013, PDL entered into a credit agreement with LENSAR, under which PDL made available to LENSAR up to $60 million to be used by LENSAR in connection with the commercialization of its currently marketed LENSAR Laser System. Of the $60 million available to LENSAR, an initial $40 million, net of fees, was funded by the Company at the close of the transaction. Upon attainment by LENSAR of a specified sales milestone to be accomplished no later than September 30,

2014, PDL will fund LENSAR an additional $20 million. Outstanding borrowings under the loans bear interest at the rate of 15.5% per annum, payable quarterly in arrears.

Principal repayment will commence on the thirteenth interest payment date or December 31, 2016. The principal amount outstanding at the commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on October 1, 2018. LENSAR may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The loans are secured by all of the assets of LENSAR.

Durata Credit Agreement

On October 31, 2013, PDL entered into a credit agreement with Durata, under which the Company made available to Durata up to $70.0 million. Of the $70.0 million available to Durata, an initial $25.0 million (tranche one), net of fees, was funded by the Company at the close of the transaction. Upon marketing approval of dalbavancin in the United States, to be accomplished no later than December 31, 2014 (the tranche two milestone), the Company will fund Durata an additional $15 million (tranche two). Within 9 months after the occurrence of the tranche two milestone, Durata may request up to a single additional $30 million borrowing. Until the occurrence of the tranche two milestone, outstanding borrowings under tranche one bear interest at the rate of 14.0% per annum, payable quarterly in arrears. Upon occurrence of the tranche two milestone, the interest rate of the loans will decrease to 12.75%.

Principal repayment will commence on the fifth interest payment date, March 31, 2015. The principal amount outstanding will be repaid quarterly over the remainder of the loans in an increasing percentage of the principal outstanding at commencement of repayment. The loans will mature on October 31, 2018. Durata may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The Company is entitled to receive a fee in addition to the prepayment penalty in the event that Durata undergoes a change in control. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Durata.

Direct Flow Credit Agreement

On November 5, 2013, PDL entered into a credit agreement with Direct Flow Medical, under which PDL will 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. Upon the attainment of a specified revenue milestone to be accomplished no later than December 31, 2014 (the tranche two milestone), the Company will fund Direct Flow Medical an additional $15.0 million, net of fees. Until the occurrence of the tranche two milestone, outstanding borrowings under tranche one bear interest at the rate of 15.5% per annum, payable quarterly in arrears. Upon occurrence of the tranche two milestone, the interest rate of the loans will decrease to 13.5%. Principal repayment will commence on the twelfth interest payment date, September 30, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on November 5, 2018. Direct Flow Medical may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Direct Flow Medical and any of its subsidiaries.

Paradigm Spine Credit Agreement

On February 14, 2014, the Company entered into a credit agreement with Paradigm Spine, under which it made available to Paradigm Spine up to $75.0 million to be used by Paradigm Spine to refinance its existing credit facility and expand its domestic commercial operations. Of the $75.0 million available to Paradigm Spine, an initial $50 million, net of fees, was funded by the Company at the close of the transaction. Upon the attainment of specified sales and other milestones before December 31, 2014, the Company will fund Paradigm Spine between an additional $6.25 million and $12.5 million, at Paradigm Spine’s discretion. Upon the attainment of specified sales and other milestones before June 30, 2015, the Company will fund Paradigm Spine up to an additional $12.5 million, also at Paradigm Spine’s discretion. Borrowings under the credit agreement bear interest at the rate of 13.0% per annum, payable quarterly in arrears.

Principal repayment will commence on the twelfth interest payment date, December 31, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on February 14, 2019, or, if Paradigm Spine has achieved the first milestone and the additional loan amount is provided to Paradigm, the loans will mature on August 14, 2019. Paradigm Spine may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Paradigm Spine and its domestic subsidiaries and, initially, certain assets of Paradigm Spine’s German subsidiaries.

For carrying value and fair value information related to our notes receivable and other long-term receivables, see Note 3.

7. Intangible Assets

Depomed Royalty Purchase and Sales Agreement

On October 18, 2013, PDL entered into a royalty purchase and sale agreement with Depomed and Depo DR Sub, LLC, a wholly owned subsidiary of 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 arrangement consideration was $241.3 million, which was comprised of the $240.5 million cash payment to Depomed and $0.8 million in transaction costs.

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

Under the terms of the royalty agreement, the Company will receive 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 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.

This transaction has been accounted for as the acquisition of intangible assets. An income approach was used for the purpose of allocating the purchase price based on the relative fair value of each intangible asset and in the determination of the useful life of each intangible asset. The intangible assets have finite lives ranging from three to nine years and will be amortized to cost of royalty revenues over the related periods. During the fourth quarter of 2013, we began receiving royalty revenues related to Glumetza and commenced amortization of the initial carrying value of the related intangible asset of $164.5 million. During the first quarter of 2014, we began receiving royalty revenues related to Janumet XR and commenced amortization of the initial carrying value of the related intangible asset of $3.7 million. The intangible assets related to the other licensed products with a carrying value of $73.1 million and $76.8 million were not being amortized as of March 31, 2014, and December 31, 2013, as no revenues were recognized related to those intangible assets in 2013 and 2014. We will commence amortization of those intangible assets when the Company receives royalty revenues related to sales of the related products.

The fair value of the intangible assets acquired was determined by using a discounted cash flow analysis related to the expected future cash flows to be generated by each licensed product. The discounted cash flow was based upon expected royalties from sales of licensed products over periods up to nine years. We determined that the intangible assets were Level 3 assets, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future commercialization for products not yet approved by the FDA or other regulatory agencies.

As of March 31, 2014, and December 31, 2013, the carrying value of the intangible assets acquired in our consolidated balance sheet was approximately $223.7 million and $235.7 million, respectively. As of March 31, 2014, the maximum loss exposure was $223.7 million.

The following table summarizes the components of gross and net intangible assets balances as of March 31, 2014, and December 31, 2013:

	March 31, 2014			December 31, 2013		
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite lived intangible assets	$ 241,314	$ (17,568)	$ 223,746	$ 241,314	$ (5,637)	$ 235,677

As of March 31, 2014, the remaining weighted-average amortization period for acquired intangible asset is 7.8 years. The expected annual amortization expense related to the acquired intangible assets is as follows, (in thousands):

2014 (remaining nine months)	$ 25,202
2015	44,235
2016	32,661
2017	18,726
2018	17,798
Thereafter	85,124
Total	$ 223,746

As of March 31, 2014, and December 31, 2013, the Company determined that its royalty purchase interest in Depo DR Sub represented a variable interest in a variable interest entity since the equity in Depo DR Sub was not sufficient to finance its operations without additional financing. However, the Company does not have the power to direct the activities of Depo DR Sub that most significantly impact Depo DR Sub's economic performance and is not the primary beneficiary of Depo DR Sub; therefore, Depo DR Sub is not subject to consolidation by the Company.

PDL is currently engaged in ongoing discussions with the SEC staff after receiving a comment letter to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 that requested additional information about the Company’s accounting for the royalty purchase and sale agreement with Depomed. The Company currently classifies the asset as an intangible asset and is being asked to support its position and explain why it is not a financial asset. If the SEC or its staff do not agree with our conclusions, we may revise our accounting for the Depomed transaction, either prospectively or retrospectively. While we do not believe that any potential revision would result in a material impact on our financial statements we can give no assurance as such until we receive final clearance on our SEC comment letter, which is expected prior to our next 10-Q filing.

8. Accrued Liabilities

(In thousands)	March 31, 2014	December 31, 2013
Compensation	$ 1,314	$ 768
Interest	4,175	2,925
Foreign currency hedge	7,646	7,355
Dividend payable	72,243	59
Legal	814	324
Other	838	426
Total	$ 87,030	$ 11,857

9. Commitments and Contingencies

Legal Proceedings

Resolution of Past Challenges to the Queen et al. Patents in the United States and Europe

Settlement with Novartis

On February 25, 2011, we reached a settlement with Novartis. Under the settlement agreement, PDL agreed to dismiss its claims against Novartis in its action in Nevada state court which also includes Genentech and Roche as defendants. Novartis agreed to withdraw its opposition appeal in the EPO challenging the validity of the ‘216B Patent. Under the settlement agreement with Novartis, we will pay Novartis certain amounts based on net sales of Lucentis made by Novartis during calendar year 2011 and beyond. The settlement does not affect our claims against Genentech and Roche in the Nevada state court action. We do not currently expect such amount to materially impact our total annual revenues.

Genentech / Roche Matter

Settlement Agreement

On January 31, 2014, we entered into a settlement agreement with Genentech and Roche which resolves all outstanding legal disputes between the parties, including our Nevada litigation with Genentech relating to an August 2010 facsimile sent by Genentech on behalf of Roche and Novartis asserting its products do not infringe on PDL’s SPC’s, and our arbitration proceedings with Genentech related to the audit of royalties on sales.

Under the terms of the settlement agreement, effective retroactively to August 15, 2013, Genentech will pay a fixed royalty rate of 2.125 percent on worldwide sales of all its licensed products, as compared to the previous tiered royalty rate in the U.S and the fixed rate on all ex-U.S. based manufactured and sold licensed products. Pursuant to the agreement, Genentech and Roche confirmed that Avastin, Herceptin, Lucentis, Xolair and Perjeta are licensed products as defined in the relevant license agreements between the parties, and further agreed that Kadcyla and Gazyva are licensed products. Genentech will pay these royalties on all worldwide sales of Avastin, Herceptin, Xolair, Perjeta and Kadcyla occurring on or before December 31, 2015. With respect to Lucentis, Genentech owes no royalties on U.S. sales occurring after June 30, 2013, and will pay a royalty of 2.125 percent on all ex-U.S. sales occurring on or before December 28, 2014. The royalty term for Gazyva remains unchanged from the existing license agreement pertaining thereto.

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

Other Legal Proceedings

In addition, from time to time, we are subject to various other legal proceedings and claims that arise in the ordinary course of business and that we do not expect to materially impact our financial statements.

Lease Guarantee

In connection with the Spin-Off, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. Should Facet default under its lease obligations, we could be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of March 31, 2014, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $87.4 million. In April 2010, Abbot Laboratories acquired Facet and later renamed the entity AbbVie Biotherapeutics, Inc. If AbbVie were to default, we could also be responsible for lease related costs including utilities, property taxes and common area maintenance, which may be as much as the actual lease payments.

We have recorded a liability of $10.7 million on our Condensed Consolidated Balance Sheets as of March 31, 2014, and December 31, 2013, related to this guarantee. In future periods, we may adjust this liability for any changes in the ultimate outcome of this matter that are both probable and estimable.

10. Convertible Notes and Term Loans

Description	Maturity Date	Principal Balance Outstanding March 31, 2014	Carrying Value March 31, 2014	Carrying Value December 31, 2013
(In thousands)				
Convertible Notes				
Series 2012 Notes	February 15, 2015	$ 48,311	$ 46,761	$ 172,630
May 2015 Notes	May 1, 2015	$ 155,250	149,514	148,253
February 2018 Notes	February 1, 2018	$ 300,000	270,944	—
Term loan	October 28, 2014	$ 56,250	55,921	74,397
Total			$ 523,140	$ 395,280

As of March 31, 2014, PDL was in compliance with all applicable debt covenants, and embedded features of all debt agreements were evaluated and did not need to be accounted for separately.

Series 2012 Notes

In January 2012, we exchanged $169.0 million aggregate principal of new Series 2012 Notes for an identical principal amount of our February 2015 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered, totaling approximately $845,000. The cash incentive payment was allocated to deferred issue costs of $765,000, additional paid-in capital of $52,000 and deferred tax assets of $28,000. The deferred issue costs will be recognized over the life of the Series 2012 Notes as interest expense. In February 2012, we entered into separate privately negotiated exchange agreements under which we exchanged an additional $10.0 million aggregate principal amount of the new Series 2012 Notes for an identical principal amount of our February 2015 Notes. In August 2013, the Company entered into a separate privately negotiated exchange agreement under which it retired the final $1.0 million aggregate principal amount of the Company's outstanding February 2015 Notes. Pursuant to the exchange agreement, the holder of the February 2015 Notes received $1.0 million aggregate principal amount of the Company's Series 2012 Notes. Immediately following the exchange, no principal amount of the February 2015 Notes remained outstanding and $180.0 million principal amount of the Series 2012 Notes was outstanding. On February 6, 2014, the Company entered into exchange and purchase agreements with certain holders of approximately $131.7 million aggregate principal amount of outstanding Series 2012 Notes. The exchange agreement provided for the issuance by the Company of shares of common stock and a cash payment for the Series 2012 Notes being exchanged, and the purchase agreement provided for a cash payment for the Series 2012 Notes being repurchased. The total consideration given was approximately $191.8 million. The Company issued to the participating holders of the February 2012 Notes, a total of approximately 20.3 million shares of its common stock with a fair value of approximately $157.6 million and made an aggregate cash payment of approximately $34.2 million pursuant to the exchange and purchase agreements. Of the $34.2 million cash payment, $2.5 million is attributable to a inducement fee, $1.8 million is attributable to interest accrued through the date of settlement and $29.9 million is attributable to the repurchase of the Series 2012 Notes. It was determined that the exchange and purchase agreement represented an extinguishment of the related notes. As a result, a loss on extinguishment of $6.1 million was recorded. The $6.1 million loss on extinguishment included the derecognition of original issuance discount of $5.8 million and a $0.3 million charge resulting from the difference of the face value of the notes and the fair value of the notes. Immediately following the exchange, $48.3 million principal amount of the Series 2012 Notes was outstanding with approximately $2.1 million of remaining original issuance discount to be amortized over the remaining life of the Series 2012 Notes.

The terms of the Series 2012 Notes are governed by the indenture dated as of January 5, 2012, and include a net share settlement feature, meaning that if a conversion occurs, the principal amount will be settled in cash and the excess, if any, will be settled in the Company’s common stock. The Series 2012 Notes may not be redeemed by the Company prior to their stated maturity date. Our Series 2012 Notes are due February 15, 2015, and bear interest at a rate of 2.875% per annum, payable semi-annually in arrears on February 15 and August 15 of each year.

Holders may convert their Series 2012 Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the stated maturity date of the Series 2012 Notes under the following circumstances:

- During any fiscal quarter commencing after the fiscal quarter ending December 31, 2011, if the closing price of the Company’s common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last

trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price for the Series 2012 Notes on the last day of such preceding fiscal quarter;

- During the five business-day period immediately after any five consecutive trading-day period in which the trading price per $1,000 principal amount of the Series 2012 Notes for each trading day of that measurement period was less than 98% of the product of the closing price of the Company's common stock and the conversion rate for the Series 2012 Notes for that trading day;
- Upon the occurrence of certain corporate transactions as provided in the indenture; or
- Anytime, at the holder's option, beginning on August 15, 2014.

Holders of our Series 2012 Notes who convert their Series 2012 Notes in connection with a fundamental change resulting in the reclassification, conversion, exchange or cancellation of our common stock may be entitled to a make-whole premium in the form of an increase in the conversion rate. Such fundamental change is generally defined to include a merger involving PDL, an acquisition of a majority of PDL's outstanding common stock and a change of a majority of PDL's board of directors without the approval of the board of directors.

We allocated $2.3 million of the remaining deferred February 2015 Notes original issue discount as of the date of the exchange to the Series 2012 Notes based on the percentage of the February 2015 Notes exchanged. In accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we were required to separately account for the liability component of the instrument in a manner that reflects the market interest rate for a similar nonconvertible instrument at the date of issuance. As a result, we separated the principal balance of the Series 2012 Notes, net of the allocated original issue discount, between the fair value of the debt component and the common stock conversion feature. Using an assumed borrowing rate of 7.3%, which represents the estimated market interest rate for a similar nonconvertible instrument available to us during the period of the exchange transactions, we recorded a total debt discount of $16.8 million, allocated $10.9 million to additional paid-in capital and $5.9 million to deferred tax liability. The discount is being amortized to interest expense over the term of the Series 2012 Notes and increases interest expense during the term of the Series 2012 Notes from the 2.875% cash coupon interest rate to an effective interest rate of 7.3%. The common stock conversion feature is recorded as a component of stockholders' deficit.

The principal amount, carrying value and unamortized discount of our Series 2012 Notes were as follows:

(In thousands)	**March 31, 2014**	**December 31, 2013**
Principal amount of the Series 2012 Notes	$ 48,311	$ 180,000
Unamortized discount of liability component	(1,550)	(7,370)
Total	$ 46,761	$ 172,630

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

	Three Months Ended March 31,	
(In thousands)	**2014**	**2013**
Contractual coupon interest	$ 761	$ 1,287
Amortization of debt issuance costs	870	284
Amortization of debt discount	980	1,487
Total	$ 2,611	$ 3,058

As of March 31, 2014, our Series 2012 Notes are convertible into 185.777 shares of the Company's common stock per $1,000 of principal amount, or approximately $5.38 per common share, subject to further adjustment upon certain events including dividend payments. As of March 31, 2014, the remaining discount amortization period was 0.9 years.

Our common stock exceeded the conversion threshold price of $7.12 per common share for at least 20 days during the 30 consecutive trading days ended December 31, 2013; accordingly, the Series 2012 Notes were convertible at the option of the holder during the quarter ended March 31, 2014. Our common stock price exceeded the conversion threshold price of $7.00 per common share for at least 20 days during the 30 consecutive trading days ended March 31, 2014; accordingly, the Series 2012

Notes are convertible at the option of the holder during the quarter ending June 30, 2014. The Series 2012 Notes have been classified as current as the notes will be due upon demand within one year of the quarter ended March 31, 2014. At March 31, 2014, the if-converted value of our Series 2012 Notes exceeded their principal amount by approximately $26.3 million.

May 2015 Notes

On May 16, 2011, we issued $155.3 million in aggregate principal amount, at par, of our May 2015 Notes in an underwritten public offering, for net proceeds of $149.7 million. Our May 2015 Notes are due May 1, 2015, and we pay interest at 3.75% on our May 2015 Notes semiannually in arrears on May 1 and November 1 of each year, beginning November 1, 2011. Proceeds from our May 2015 Notes, net of amounts used for purchased call option transactions and provided by the warrant transactions described below, were used to redeem our 2012 Notes. Upon the occurrence of a fundamental change, as defined in the indenture, holders have the option to require PDL to repurchase their May 2015 Notes at a purchase price equal to 100% of the principal, plus accrued interest.

Our May 2015 Notes are convertible under any of the following circumstances:

- During any fiscal quarter ending after the quarter ending June 30, 2011, if the last reported sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price for the notes on the last day of such preceding fiscal quarter;
- During the five business-day period immediately after any five consecutive trading-day period, which we refer to as the measurement period, in which the trading price per $1,000 principal amount of notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the notes for each such day;
- Upon the occurrence of specified corporate events as described further in the indenture; or
- At any time on or after November 1, 2014.

In accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we were required to separately account for the liability component of the instrument in a manner that reflects the market interest rate for a similar nonconvertible instrument at the date of issuance. As a result, we separated the principal balance of our May 2015 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 7.5%, which represents the estimated market interest rate for a similar nonconvertible instrument available to us on the date of issuance, we recorded a total debt discount of $18.9 million, allocated $12.3 million to additional paid-in capital and allocated $6.6 million to deferred tax liability. The discount is being amortized to interest expense over the term of our May 2015 Notes and increases interest expense during the term of our May 2015 Notes from the 3.75% cash coupon interest rate to an effective interest rate of 7.5%. As of March 31, 2014, the remaining discount amortization period is 1.1 years.

The carrying value and unamortized discount of our May 2015 Notes were as follows:

(In thousands)	**March 31, 2014**	**December 31, 2013**
Principal amount of the May 2015 Notes	$ 155,250	$ 155,250
Unamortized discount of liability component	(5,736)	(6,997)
Total	$ 149,514	$ 148,253

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

	Three Months Ended March 31,	
(In thousands)	**2014**	**2013**
Contractual coupon interest	$ 1,455	$ 1,455
Amortization of debt issuance costs	315	304
Amortization of debt discount	1,261	1,173
Total	$ 3,031	$ 2,932

As of March 31, 2014, our May 2015 Notes are convertible into 162.7280 shares of the Company's common stock per $1,000 of principal amount, or approximately $6.15 per common share, subject to further adjustment upon certain events including dividend payments.

Our common stock exceeded the conversion threshold price of $8.13 for at least 20 days during the 30 consecutive trading days ended December 31, 2013; accordingly, the May 2015 Notes were not convertible at the option of the holder during the quarter ended March 31, 2014. Our common stock price did not exceed the conversion threshold price of $7.99 per common share for at least 20 days during the 30 consecutive trading days ended March 31, 2014; accordingly, the May 2015 Notes are not convertible at the option of the holder during the quarter ending June 30, 2014. At March 31, 2014, the if-converted value of our May 2015 exceeded their principal amount by approximately $54.7 million.

Purchased Call Options and Warrants

In connection with the issuance of our May 2015 Notes, we entered into purchased call option transactions with two hedge counterparties. We paid an aggregate amount of $20.8 million, plus legal fees, for the purchased call options with terms substantially similar to the embedded conversion options in our May 2015 Notes. The purchased call options cover, subject to anti-dilution and certain other customary adjustments substantially similar to those in our May 2015 Notes, approximately 25.3 million shares of our common stock. We may exercise the purchased call options upon conversion of our May 2015 Notes and require the hedge counterparty to deliver shares to the Company in an amount equal to the shares required to be delivered by the Company to the note holder for the excess conversion value. The purchased call options expire on May 1, 2015, or the last day any of our May 2015 Notes remain outstanding.

In addition, we sold to the hedge counterparties warrants exercisable, on a cashless basis, for the sale of rights to receive up to 27.5 million shares of common stock underlying our May 2015 Notes. We received an aggregate amount of $10.9 million for the sale from the two counterparties. The warrant counterparties may exercise the warrants on their specified expiration dates that occur over a period of time ending on January 20, 2016. If the VWAP of our common stock, as defined in the warrants, exceeds the strike price of the warrants on the date of conversion, we will deliver to the warrant counterparties shares equal to the spread between the VWAP on the date of exercise or expiration and the strike price. If the VWAP is less than the strike price, neither party is obligated to deliver anything to the other.

The purchased call option transactions and warrant sales effectively serve to reduce the potential dilution associated with conversion of our May 2015 Notes. The strike prices are approximately $6.15 and $7.23, subject to further adjustment upon certain events including dividend payments, for the purchased call options and warrants, respectively.

If the share price is above $6.15, but below $7.23, upon conversion of our May 2015 Notes, the purchased call options will offset the share dilution, because the Company will receive shares on exercise of the purchased call options equal to the shares that the Company must deliver to the note holders. If the share price is above $7.23, upon exercise of the warrants, the Company will deliver shares to the counterparties in an amount equal to the excess of the share price over $7.23. For example, a 10% increase in the share price above $7.23 would result in the issuance of 2.0 million incremental shares upon exercise of the warrants. If our share price continues to increase, additional dilution would occur.

While the purchased call options are expected to reduce the potential equity dilution upon conversion of our May 2015 Notes, prior to conversion or exercise, our May 2015 Notes and the warrants could have a dilutive effect on the Company's earnings per share to the extent that the price of the Company's common stock during a given measurement period exceeds the respective exercise prices of those instruments. As of March 31, 2014, and December 31, 2013, the market price condition for convertibility of our May 2015 Notes was not met and there were no related purchased call options or warrants exercised.

The purchased call options and warrants are considered indexed to PDL stock, require net-share settlement, and met all criteria for equity classification at inception and at March 31, 2014, and December 31, 2013. The purchased call options cost, including legal fees, of $20.8 million, less deferred taxes of $7.2 million, and the $10.9 million received for the warrants, was recorded as adjustments to additional paid-in capital. Subsequent changes in fair value will not be recognized as long as the purchased call options and warrants continue to meet the criteria for equity classification.

February 2018 Notes

On February 12, 2014, we issued $300 million in aggregate principal amount, at par, of our February 2018 Notes in an underwritten public offering, for net proceeds of $290.2 million. Our February 2018 Notes are due February 1, 2018, and we pay interest at 4.0% on our 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 our 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 our Series 2012 Notes. Upon the occurrence of a fundamental change, as defined in the indenture, holders have the option to require PDL to repurchase their February 2018 Notes at a purchase price equal to 100% of the principal, plus accrued interest.

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

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

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

In accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we were required to separately account for the liability component of the instrument in a manner that reflects the market interest rate for a similar nonconvertible instrument at the date of issuance. As a result, we separated the principal balance of our February 2018 Notes between the fair value of the debt component and the fair value of the common stock conversion feature. Using an assumed borrowing rate of 7.0% which represents the estimated market interest rate for a similar nonconvertible instrument available to us on the date of issuance, we recorded a total debt discount of $29.7 million, allocated $19.3 million to additional paid-in capital and allocated $10.4 million to deferred tax liability. The discount is being amortized to interest expense over the term of our February 2018 Notes and increases interest expense during the term of our February 2018 Notes from the 4.0% cash coupon interest rate to an effective interest rate of 6.9%. As of March 31, 2014, the remaining discount amortization period is 3.8 years.

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

(In thousands)	**March 31, 2014**
Principal amount of the February 2018 Notes	$ 300,000
Unamortized discount of liability component	(29,056)
Total	$ 270,944

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

(In thousands)	Three Months Ended March 31, 2014
Contractual coupon interest	$ 1,571
Amortization of debt issuance costs	222
Amortization of debt discount	671
Total	$ 2,464

As of March 31, 2014, our February 2018 Notes are not convertible. At March 31, 2014, the if-converted value of our February 2018 Notes was less than the principal amount by approximately $28.0 million.

Purchased Call Options and Warrants

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

In addition, we sold to the hedge counterparties warrants exercisable, on a cashless basis, for the sale of rights to receive shares of common stock that will initially underlie our February 2018 Notes at a strike price of $10.3610 per share, which represents a premium of approximately 30% over the last reported sale price of the Company's common stock of $7.97 on February 6, 2014. The warrant transactions could have a dilutive effect to the extent that the market price of the Company's common stock exceeds the applicable strike price of the warrants on the date of conversion. We received an aggregate amount of $11.4 million for the sale from the two counterparties. The warrant counterparties may exercise the warrants on their specified expiration dates that occur over a period of time. If the VWAP of our common stock, as defined in the warrants, exceeds the strike price of the warrants, we will deliver to the warrant counterparties shares equal to the spread between the VWAP on the date of exercise or expiration and the strike price. If the VWAP is less than the strike price, neither party is obligated to deliver anything to the other.

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

The purchased call options and warrants are considered indexed to PDL stock, require net-share settlement, and met all criteria for equity classification at inception and at March 31, 2014. The purchased call options cost of $31.0 million, less deferred taxes of $10.8 million, and the $11.4 million received for the warrants, was recorded as adjustments to additional paid-in capital. Subsequent changes in fair value will not be recognized as long as the purchased call options and warrants continue to meet the criteria for equity classification.

Term Loan

On October 28, 2013, PDL entered into a credit agreement among the Company, the lenders party thereto and the Royal Bank of Canada, as administrative agent. The initial Term Loan amount was for $75 million, with a term of one year.

The interest rates per annum applicable to amounts outstanding under the Term Loan are, at the Company’s option, either (a) the base rate plus 1.00%, or (b) the Eurodollar rate plus 2.00% per annum. As of March 31, 2014, the interest rate was 2.24%. Interest and the remaining principal payments associated with the Term Loan are due on the interest payment dates of April 30 and July 31 of 2014, with the remaining outstanding balance due on October 28, 2014.

Any future material domestic subsidiaries of the Company are required to guarantee the obligations of the Company under the Term Loan, except as otherwise provided. The Company's obligations under the Term Loan are secured by a lien on a substantial portion of the Company's assets.

The Term Loan contains affirmative and negative covenants that the Company believes are usual and customary for a senior secured credit agreement. The Term loan also requires compliance with certain financial covenants, including a maximum total leverage ratio and a debt service coverage ratio, in each case calculated as set forth in the Term Loan and compliance with which may be necessary to take certain corporate actions. The Term Loan contains events of default that the Company believes are usual and customary for a senior secured credit agreement.

11. Other Long-Term Liabilities

	March 31, 2014	December 31, 2013
(In thousands)		
Accrued lease liability	$ 10,700	$ 10,700
Uncertain tax positions	13,346	10,826
Long-term deferred tax liabilities	10,404	—
Foreign currency hedge	—	1,516
Total	$ 34,450	$ 23,042

12. Stock-Based Compensation

The Company grants stock options and restricted stock awards pursuant to a stockholder approved stock-based incentive plan. This incentive plan is described in further detail in Note 15, Stock-Based Compensation, of Notes to Consolidated Financial Statements in the 2013 Form 10-K.

The following table summarizes the Company's stock option and restricted stock award activity during the three months ended March 31, 2014:

		Stock Options		Restricted Stock Awards	
(In thousands except per share amounts)	Shares Available for Grant	Number of Shares Outstanding	Weighted Average Exercise Price	Number of Shares Outstanding	Weighted Average Grant-date Fair Value Per Share
Balance December 31, 2013	4,478	172	$ 16.52	114	$ 7.45
Granted	(36)	—		36	$ 8.40
Balance at March 31, 2014	4,442	172	$ 16.52	150	$ 7.68

13. Cash Dividends

On January 29, 2014, our board of directors declared that the regular quarterly dividends to be paid to our stockholders in 2014 will be $0.15 per share of common stock, payable on March 12, June 12, September 12 and December 12 of 2014 to stockholders of record on March 5, June 5, September 5 and December 5 of 2014, the record dates for each of the dividend payments, respectively.

In connection with the March 12, 2014, dividend payment, the conversion rates for our convertible notes adjusted as follows:

Convertible Notes	Conversion Rate per $1,000 Principal Amount	Approximate Conversion Price Per Common Share	Effective Date
Series 2012 Notes	185.777	$ 5.38	March 3, 2014
May 2015 Notes	162.7280	$ 6.15	March 3, 2014

14. Income Taxes

For the three months ended March 31, 2014, and 2013, income tax expense was primarily derived by applying the federal statutory rate of 35% to operating income before income taxes.

The uncertain tax position increased during the quarter ended March 31, 2014 by $2.4 million from the estimated state tax liability as a result of increased revenues. We expect to release tax liabilities related to uncertain tax positions related to federal tax credits taken on the 2009 income tax return in the third quarter of 2014 of approximately $6.5 million, and during the fourth quarter of 2014 of approximately $3.9 million, which will result in a reduction to income tax expense.

In general, our income tax returns are subject to examination by tax authorities for tax years 1996 forward. The California Franchise Tax Board is currently examining the Company's 2008, 2009 and 2010 tax returns. Although the timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year, we do not anticipate any material change to the amount of our unrecognized tax benefits over the next 12 months, except as described above.

15. Accumulated Other Comprehensive Income (Loss)

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

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

	Unrealized gains (losses) on available-for-sale securities	Unrealized gains (losses) on cash flow hedges	Total Accumulated Other Comprehensive Income (Loss)
(In thousands)			
Beginning Balance at December 31, 2013	$ 1,129	$ (6,017)	$ (4,888)
Activity for the three months ended March 31, 2014	(1,092)	795	(297)
Ending Balance at March 31, 2014	$ 37	$ (5,222)	$ (5,185)

16. Subsequent Event

On April 1, 2014, PDL entered into a note purchase agreement with Accel 300, a wholly-owned subsidiary of kaléo. (formerly known as Intellijet, Inc.), pursuant to which the Company acquired $150 million of secured notes due 2029. The secured notes were issued pursuant to an indenture between Accel 300 and U.S. Bank, National Association, as trustee, and are secured by 100 percent of the royalties from kaléo's first approved product, Auvi-Q™ (epinephrine auto-injection, USP) (known as Allerject in Canada), 10 percent of net sales of kaléo's second proprietary auto-injector based product, EVZIO (naloxone hydrochloride injection) (collectively, the "Revenue Interests"), and by a pledge of kaléo's equity ownership in Accel 300, LLC.

The secured notes bear interest at 13 percent per annum, paid quarterly in arrears on principal outstanding. The principal balance of the secured notes is repaid to the extent that the Revenue Interests exceed the quarterly interest payment, as limited

by a quarterly payment cap. The final maturity of the secured notes is March 2029. Kaléo may redeem the secured notes at any time, subject to a redemption premium.

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

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

OVERVIEW

PDL BioPharma manages a portfolio of patents and royalty assets, consisting primarily of its Queen et al. antibody humanization patents and license agreements with various biotechnology and pharmaceutical companies. PDL pioneered the humanization of monoclonal antibodies and, by doing so, enabled the discovery of a new generation of targeted treatments for cancer and immunologic diseases for which it receives significant royalty revenue. PDL is currently focused on intellectual property asset management, acquiring new income generating assets and maximizing value for its shareholders.

The company was formerly known as Protein Design Labs, Inc. and changed its name to PDL BioPharma, Inc. in 2006. PDL was founded in 1986 and is headquartered in Incline Village, Nevada.

In 2011, PDL initiated a strategy to bring in new income generating assets from the healthcare sector. To accomplish this goal, PDL seeks to provide non-dilutive growth capital and financing solutions to late stage public and private healthcare companies and offers immediate financial monetization of royalty streams to companies, academic institutions and inventors. PDL continues to pursue this strategic initiative for which it has already committed approximately $700 million to date. PDL is focused on the quality of the income generating assets and potential returns on investment.

We continuously evaluate alternatives to increase return for our stockholders, for example, purchasing income generating assets, buying back or redeeming our convertible notes, repurchasing our common stock, paying dividends or selling the Company. At the beginning of each fiscal year, our board of directors reviews the Company's total annual dividend payment for the prior year and determines whether to increase, maintain or decrease the quarterly dividend payments for that year. The board of directors evaluates the financial condition of the Company and considers the economic outlook, corporate cash flow, the Company's liquidity needs and the health and stability of credit markets when determining whether to maintain or change the dividend.

Recent Developments

Genentech / Roche Settlement Agreement

On January 31, 2014, we entered into a settlement agreement with Genentech and Roche which resolves all outstanding legal disputes between the parties, including our Nevada litigation with Genentech relating to an August 2010 facsimile sent by Genentech on behalf of Roche and Novartis asserting its products do not infringe on PDL's SPCs, and our arbitration proceedings with Genentech related to the audit of royalties on sales.

Under the terms of the Settlement Agreement, effective retroactively to August 15, 2013, Genentech will pay a fixed royalty rate of 2.125 percent on worldwide sales of all its licensed products, as compared to the previous tiered royalty rate in the U.S and the fixed rate on all ex- U.S. based Manufactured and Sales licensed products. Pursuant to the agreement, Genentech and Roche confirmed that Avastin, Herceptin, Lucentis, Xolair and Perjeta are licensed products as defined in the relevant license agreements between the parties, and further agreed that Kadcyla and Gazyva are licensed products. Genentech will pay these

royalties on all worldwide sales of Avastin, Herceptin, Xolair, Perjeta and Kadcyla occurring on or before December 31, 2015. With respect to Lucentis, Genentech will owe no royalties on U.S. sales occurring after June 30, 2013, and will pay a royalty of 2.125 percent on all ex-U.S.-based Sales occurring on or before December 28, 2014. The royalty term for Gazyva remains unchanged from the existing license agreement pertaining thereto.

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

The settlement agreement provides greater certainty for each of the parties in terms of the royalty rate payable under the agreement and the period over which they will be payable. PDL expects to recognize royalty revenue on the licensed products until the first quarter of 2016. Additionally, the settlement terms provide for a better definition of revenues and audit inspection procedures related to the arbitration dispute filed by PDL.

Dividend Payment and Effect on Conversion Rates for the Convertible Notes

On January 29, 2014, our board of directors declared that the regular quarterly dividends to be paid to our stockholders in 2014 will be $0.15 per share of common stock, payable on March 12, June 12, September 12 and December 12 of 2014 to stockholders of record on March 5, June 5, September 5 and December 5 of 2014, the record dates for each of the dividend payments, respectively. On March 12, 2014, we paid the regular quarterly dividend to our stockholders totaling $24.0 million using earnings generated in the three months ended March 31, 2014.

February 2018 Notes

On February 6, 2014, the Company agreed to sell $260.9 million aggregate principal amount of its 4.00% Convertible Senior Notes due February 1, 2018, in an underwritten public offering. The conversion rate of the February 2018 Notes was initially set at 109.1048 shares of common stock per $1,000 principal amount of the February 2018 Notes equivalent to an initial conversion price of approximately $9.17 per share of common stock. The conversion rate, subject to increase under certain circumstances, will not be increased in respect of regular quarterly cash dividends paid by us that do not exceed $0.15 per share.

On February 12, 2014, the Company issued $300 million aggregate principal amount of February 2018 Notes, which included $39.1 million aggregate principal amount of February 2018 Notes issued pursuant to the exercise of the underwriters' overallotment option to purchase additional 2018 Notes. In connection with the offering of the February 2018 Notes, PDL entered into privately negotiated convertible note hedge transactions with affiliates of RBC Capital Markets, LLC and Wells Fargo Securities, LLC (hedge counterparties) and privately negotiated warrant transactions with the hedge counterparties relating to the same number of shares of PDL's common stock.

Series 2012 Notes Exchange

On February 6, 2014, the Company entered into separate, privately negotiated exchange agreements and purchase agreements under which it retired $131.7 million in aggregate principal of the Company's outstanding Series 2012 Notes. The exchange agreements provided for the issuance by the Company of shares of common stock and a cash payment for the Series 2012 Notes being exchanged, and the purchase agreements provided for a cash payment for the Series 2012 Notes being repurchased. The total consideration given was approximately $191.8 million The Company issued a total of 20.3 million shares of its common stock with a fair value of approximately $157.6 million and paid an aggregate cash payment of approximately $34.2 million pursuant to the exchange and repurchase agreements.

Paradigm Spine Credit Agreement

On February 14, 2014, the Company entered into a credit agreement with Paradigm Spine, under which it made available to Paradigm up to $75.0 million to be used by Paradigm Spine to refinance its existing credit facility and expand its domestic commercial operations. Of the $75.0 million available to Paradigm Spine, an initial $50 million, net of fees, was funded by the Company at the close of the transaction. Upon the attainment of specified sales and other milestones before December 31, 2014, the Company will fund Paradigm Spine between an additional $6.25 million and $12.5 million, at Paradigm Spine's discretion. Upon the attainment of specified sales and other milestones before June 30, 2015, the Company will fund Paradigm

Spine up to an additional $12.5 million, also at Paradigm Spine's discretion. Borrowings under the credit agreement bear interest at the rate of 13.0% per annum, payable quarterly in arrears.

Principal repayment will commence on the twelfth interest payment date, December 31, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on February 14, 2019, or, if Paradigm Spine has achieved the first milestone and the additional loan amount is provided to Paradigm Spine, the loans will mature on August 14, 2019. Paradigm Spine may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Paradigm Spine and its domestic subsidiaries and, initially, certain assets of Paradigm Spine's German subsidiaries.

Subsequent Event

On April 1, 2014, PDL entered into a note purchase agreement with Accel 300, a wholly-owned subsidiary of kaléo. (formerly known as Intellijject, Inc.), pursuant to which the Company acquired $150 million of secured notes due 2029. The secured notes were issued pursuant to an indenture between Accel 300, LLC and U.S. Bank, National Association, as trustee, and are secured by 100 percent of royalties from kaléo's first approved product, Auvi-Q™ (epinephrine auto-injection, USP) (known as Allerject in Canada), 10 percent of net sales of kaléo's second proprietary auto-injector based product, EVZIO (naloxone hydrochloride injection) (collectively, the "Revenue Interests"), and by a pledge of kaléo's equity ownership in the Accel 300, LLC.

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

Intellectual Property

Patents

We have been issued patents in the United States and elsewhere, covering the humanization of antibodies, which we refer to as our Queen et al. patents. Our Queen et al. patents, for which final patent expiry is in December 2014, cover, 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 expires on December 2, 2014, covers 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 will typically extend to the use or sale of compositions made with those methods and/or materials.

Our European Patent No. 451 216B (the '216B Patent) expired in Europe in December 2009. We have been granted SPCs for the Avastin®, Herceptin®, Lucentis, Xolair® and Tysabri® products in many of the jurisdictions in the European Union in connection with the '216B Patent. The SPCs effectively extend our patent protection with respect to SPC Products generally until December 2014, except that the SPCs for Herceptin will generally expire in July 2014. Because SPCs are granted on a jurisdiction-by-jurisdiction basis, the duration of the extension varies slightly in certain jurisdictions. We may still be eligible for royalties notwithstanding the unavailability of SPC protection if the relevant royalty-bearing humanized antibody product is also made, used, sold or offered for sale in or imported from a jurisdiction in which we have an unexpired Queen et al. patent such as the United States.

Licensing Agreements

We have entered into licensing agreements under our Queen et al. patents with numerous entities that are independently developing or have developed humanized antibodies. We receive royalties on net sales of products that are made, used and/or sold prior to patent expiry. 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 or tiered royalty rate based upon our licensees' net sales of covered antibodies. Before August 15, 2013, we were entitled to a tiered royalty from one of our licensees, Genentech, based upon the net sales of covered antibodies. After August 15, 2013, all of the royalties received from Genentech have been based upon a flat-rate. We also expect to receive annual maintenance fees from licensees of our Queen et al. patents prior to patent

expiry as well as periodic milestone payments. Total annual milestone payments in each of the last several years have been less than 1% of total revenue and we expect this trend will continue through the expiration of the Queen et al. patents.

Our total revenues from licensees under our Queen et al. patents were $116.0 million and $91.8 million for the three months ended March 31, 2014 and 2013, respectively.

Licensing Agreements for Marketed Products

In the three months ended March 31, 2014, we received royalties on sales of the nine humanized antibody products listed below, all of which are currently approved for use by the FDA and other regulatory agencies outside the United States.

Licensee	**Product Names**
Genentech	Avastin®
	Herceptin®
	Xolair®
	Lucentis®
	Perjeta®
	Kadcyla®
Biogen Idec[1]	Tysabri®
Chugai	Actemra®
Roche	Gazyva™

[1] In April 2013, Biogen Idec completed its purchase of Elan's interest in Tysabri. Prior to this our licensee for Tysabri was identified as Elan.

On February 22, 2013, Genentech/Roche announced that the FDA approved Kadcyla for second line treatment of HER2-positive metastatic breast cancer and first line treatment for those patients who relapse within six months following adjuvant therapy. On November 20, 2013, Genentech/Roche announced EU approval for the treatment of adults with HER2-positive, inoperable locally advanced or metastatic breast cancer who previously received Herceptin and a taxane, separately or in combination. On September 20, 2013, Japan approved it for the same indication. PDL began receiving royalties in the second quarter of 2013 for the sales that occurred in the first quarter of 2013. Because Kadcyla is an antibody drug conjugate, i.e., made up of the antibody, trastuzumab, and the chemotherapy, DM1, joined together using a stable linker, it is a “combination product” under the terms of the license agreement and PDL will not receive royalties on that portion of the sales of the drug
attributable to the DM1.

On November 1, 2013, Genentech/Roche announced that Gazyva became the first therapy approved through the FDA’s breakthrough therapy designation, indicated in combination with chlorambucil to treat previously untreated chronic lymphocytic leukemia (CLL). PDL will begin receiving royalties in the first quarter of 2014 for the sales that occurred in the fourth quarter of 2013.

Genentech

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

On January 31, 2014, we entered into a Settlement Agreement with Genentech and Roche which resolves all outstanding legal disputes between the parties, including our Nevada litigation with Genentech relating to an August 2010 facsimile sent by Genentech on behalf of Roche and Novartis asserting its products do not infringe on PDL’s SPCs, and our arbitration proceedings with Genentech related to the audit of royalties on sales.

Under the terms of the Settlement Agreement, effective retroactively to August 15, 2013, Genentech will pay a fixed royalty rate of 2.125 percent on worldwide sales of all its licensed products, as compared to the previous tiered royalty rate in the U.S

and the fixed rate on all ex-U.S.-based Manufacturing and Sales licensed products. Pursuant to the agreement, Genentech and Roche confirmed that Avastin, Herceptin, Lucentis, Xolair and Perjeta are licensed products as defined in the relevant license agreements between the parties, and further agreed that Kadcyla and Gazyva are licensed products. Genentech will pay these royalties on all worldwide sales of Avastin, Herceptin, Xolair, Perjeta and Kadcyla occurring on or before December 31, 2015. With respect to Lucentis, Genentech will owe no royalties on U.S. sales occurring after June 30, 2013, and will pay a royalty of 2.125 percent on all ex-U.S. sales occurring on or before December 28, 2014. The royalty term for Gazyva remains unchanged from the existing license agreement pertaining thereto.

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

The Settlement Agreement provides greater certainty for each of the parties in terms of the royalty rate payable under the agreement and the period over which they will be payable. PDL expects to recognize royalty revenue on the licensed products until the first quarter of 2016. Additionally, the settlement terms provide for a better definition of revenues and audit inspection procedures related to the arbitration dispute filed by PDL.

Based upon the flat royalty rate of 2.125 percent being retroactive to August 15, 2013, we received a one-time payment of net royalties due under the Settlement Agreement of $5.0 million, which was recognized as royalty revenue in the first quarter of 2014.

Until the August 15, 2013, effective date of the above Settlement Agreement, our license agreement with Genentech entitled 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. Our master patent license agreement with Genentech provided for a tiered royalty structure under which the royalty rate Genentech paid on royalty-bearing products sold in the United States or manufactured in the United States and used or sold anywhere in the world in a given calendar year decreased on incremental U.S.-based Sales above certain sales thresholds based on 95% of the underlying gross U.S.-based Sales. The net sales thresholds and the applicable royalty rates, prior to August 15, 2013, are outlined below:

Genentech Products Made or Sold in the U.S.	**Royalty Rate**
Net sales up to $1.5 billion	3.0%
Net sales between $1.5 billion and up to $2.5 billion	2.5%
Net sales between $2.5 billion and up to $4.0 billion	2.0%
Net sales exceeding $4.0 billion	1.0%
Genentech Products Made and Sold ex-U.S.	
Net sales	3.0%

As a result of the tiered royalty structure, Genentech's average annual royalty rate for a given year declined as Genentech's U.S.-based Sales increased during that year. Because we receive royalties one quarter in arrears, the average royalty rates for the payments we received from Genentech for U.S.-based Sales in the second calendar quarter for Genentech's sales from the first calendar quarter were higher than the average royalty rates for following quarters. The average royalty rates for payments we received from Genentech were generally lowest in the fourth and first calendar quarters for Genentech's sales from the third and fourth calendar quarters when more of Genentech's U.S.-based Sales bore royalties at the 1% royalty rate. As a result of the Settlement Agreement, the royalty rate of 2.125 percent will be consistent across all reporting periods in 2014. In 2013, the blended rate for the full year of royalties from Genentech Products was approximately 1.9%.

With respect to ex-U.S.-based Manufacturing and Sales, before August 15, 2013, the royalty rate that we received from Genentech was a fixed rate of 3.0% based on 95% of the underlying gross sales. The mix of U.S.-based Sales and ex-U.S.-based Manufacturing and Sales fluctuated.

The master patent license agreement continues until the expiration of the last to expire of our Queen et al. patents but may be terminated: (i) by Genentech prior to such expiration upon sixty days written notice, (ii) by either party upon a material breach by the other party or (iii) upon the occurrence of certain bankruptcy-related events.

On June 8, 2012, Genentech announced that the U.S. Food and Drug Administration approved Perjeta (pertuzumab). Perjeta is approved in combination with Herceptin and docetaxel chemotherapy for the treatment of people with HER2-postive metastatic breast cancer who have not received prior anti-HER2 therapy or chemotherapy for metastatic disease. PDL began receiving royalties generated from Perjeta during the quarter ended September 30, 2012.

On March 5, 2013, Genentech announced that Perjeta was approved by the EMA in combination with Herceptin and docetaxel chemotherapy for the treatment of people with HER2-postive metastatic breast cancer who have not received prior anti-HER2 therapy or chemotherapy for metastatic disease.

On September 30, 2013, the FDA granted accelerated approval to Perjeta in combination with Herceptin and other chemotherapy for the treatment of HER2-positive, locally advanced, inflammatory or early stage breast cancer prior to surgery. Perjeta is the first drug approved in this setting.

On February 22, 2013, Genentech announced that the FDA approved Kadcyla for second line treatment of HER2-positive metastatic breast cancer and first line treatment for those patients who relapse within six months following adjuvant therapy.
On September 20, 2013, Japan approved it for the same indication. PDL began receiving royalties in the second quarter of 2013 for the sales that occurred in the first quarter of 2013. Because Kadcyla is an antibody drug conjugate, i.e., made up of the antibody, trastuzumab, and the chemotherapy, DM1, joined together using a stable linker, it is a “combination product” under the terms of the license agreement and PDL will not receive royalties on that portion of the sales of the drug attributable to the DM1. Also on November 20, 2013, Genentech/Roche announced EU approval for the treatment of adults with HER2-positive, inoperable locally advanced or metastatic breast cancer who previously received Herceptin and a taxane, separately or in combination.

On November 1, 2013, Genentech/Roche announced that Gazyva became the first therapy approved through the FDA’s breakthrough therapy designation, indicated in combination with chlorambucil to treat previously untreated chronic lymphocytic leukemia (CLL). PDL will begin receiving royalties in the first quarter of 2014 for the sales that occurred in the fourth quarter of 2013.

Biogen Idec

We entered into a patent license agreement, effective April 24, 1998, under which we granted to Elan a license under our Queen et al. patents to make, use and sell antibodies that bind to the cellular adhesion molecule α4 in patients with multiple sclerosis. Under the agreement, we are entitled to receive a flat royalty rate in the low single digits based on Elan’s net sales of the Tysabri product. Our license agreement with Elan entitles us to royalties following the expiration of our patents with respect to sales of licensed product manufactured prior to patent expiry in jurisdictions providing patent protection. The agreement continues until the expiration of the last to expire of our Queen et al. patents but may be terminated: (i) by Elan prior to such expiration upon sixty days written notice, (ii) by either party upon a material breach by the other party or (iii) upon the occurrence of certain bankruptcy-related events. In April 2013, Biogen Idec completed its purchase of Elan's interest in Tysabri. All obligations under our original patent license agreement with Elan have been assumed by Biogen Idec.

Chugai

We entered into a patent license agreement, effective May 18, 2000, with Chugai, a majority owned subsidiary of Roche, under which we granted to Chugai a license under our Queen et al. patents to make, use and sell antibodies that bind to interleukin-6 receptors to prevent inflammatory cascades involving multiple cell types for the treatment of rheumatoid arthritis. Under the agreement, we are entitled to receive a flat royalty rate in the low single digits based on net sales of the Actemra product manufactured in the U.S. prior to patent expiry. The agreement continues until the expiration of the last to expire of our Queen et al. patents but may be terminated: (i) by Chugai prior to such expiration upon sixty days written notice, (ii) by either party upon a material breach by the other party or (iii) upon the occurrence of certain bankruptcy-related events.

Licensing Agreements for Non-Marketed Products

We have also entered into licensing agreements under which we have licensed certain rights under our Queen et al. patents to make, use and sell certain products that are not currently marketed. Certain of these development-stage products are currently in Phase 3 clinical trials. With respect to these agreements, we may receive payments based on certain development milestones and annual maintenance fees. We may also receive royalty payments if the licensed products receive marketing approval and are manufactured or generate sales before the expiration of our Queen et al. patents. For example, solanezumab is the Lilly licensed antibody for the treatment of Alzheimer's disease. If Lilly’s antibody for Alzheimer’s disease is approved, we would be

entitled to receive a royalty based on a "know-how" license for technology provided in the design of this antibody. Unlike the royalty for the patent license, the two percent royalty payable for "know-how" runs for 12.5 years after the product's initial commercialization.

Depomed

On October 18, 2013, we entered into a royalty purchase and sale agreement with Depomed, Inc. and its subsidiary, whereby we 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. As the licensor of certain patents, Depomed retains various rights, including the contractual right to audit its licensees and to ensure those licensees are complying with the terms of the underlying license agreement. Depomed retains full responsibility to protect and maintain the intellectual property rights underlying the licenses. In respect of the royalty stream relating to the Glumetza diabetes medication that we acquired from Depomed, which is the royalty right producing the highest revenues from the Depomed acquired royalties, U.S. patent protection for this product is expected to begin to expire in September 2016, and under settlement agreements to which Depomed is a party, certain manufacturers of generic products will be permitted to enter the market starting in February and August 2016.

Economic and Industry-wide Factors

Various economic and industry-wide factors are relevant to us and could affect our business, including changes to laws and interpretation of those laws that protect our intellectual property rights, our licensees ability to obtain or retain regulatory approval for products licensed under our patents, fluctuations in foreign currency exchange rates, the ability to attract, retain and integrate qualified personnel, as well as overall global economic conditions. We actively monitor economic, industry and market factors affecting our business; however, we cannot predict the impact such factors may have on our future results of operations, liquidity and cash flows. See also the “Risk Factors” section of this quarterly report for additional factors that may impact our business and results of operations.

Critical Accounting Policies and Uses of Estimates

During the three months ended March 31, 2014, there have been no significant changes to our critical accounting policies since those presented in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2013.

Operating Results

Three months ended March 31, 2014, compared to three months ended March 31, 2013

Revenues

	Three Months Ended March 31,		Change from Prior Year %
	2014	**2013**	
(Dollars in thousands)			
Revenues			
Royalties	$ 139,664	$ 91,847	52%
Total revenues	$ 139,664	$ 91,847	52%

Total royalty revenues were $139.7 million and $91.8 million for the three months ended March 31, 2014, and 2013, respectively. During the three months ended March 31, 2014, and 2013, our royalty revenues consisted of royalties and maintenance fees earned on sales of products under license agreements associated with our Queen et al. patents, and during the three months ended March 31, 2014, royalty revenues also included $23.6 million in royalties associated with the royalties from U.S. sales of Glumetza and Janumet XR from our Depomed royalty purchase agreement. Royalty revenue is net of the payments made under our February 2011 settlement agreement with Novartis, which is based on a portion of the royalties that the company receives from Lucentis sales made by Novartis outside the United States. The amount paid is less than we receive in royalties on such sales.

Royalty revenues increased 52% for the three months ended March 31, 2014, when compared to the same period in 2013. The growth is primarily driven by increased royalties in the first quarter of 2014 related to sales of Avastin, Herceptin, Xolair,

Perjeta, Kadcyla and Actemra by our licensees, along with a higher fixed royalty rate in 2014 over the blended fixed and tiered 2013 rate, the addition of the royalty payments from PDL's purchase of Depomed's diabetes-related royalties, and a $5.0 million retroactive payment from Genentech related to our settlement agreement.

The following table summarizes the percentage of our total revenues earned from our licensees' net product sales that individually accounted for 10% or more of our total revenues for the three months ended March 31, 2014, and 2013:

		Three Months Ended March 31,	
Licensee	**Product Name**	**2014**	**2013**
Genentech	*Avastin*	29%	36%
	Herceptin	27%	33%
	Lucentis	12%	13%
Biogen Idec[1]	*Tysabri*	9%	14%
Depomed	*Glumetza*	17%	—%

[1] In April 2013, Biogen Idec completed its purchase of Elan's interest in Tysabri. Prior to this our licensee for Tysabri was identified as Elan.

Foreign currency exchange rates also impact our reported revenues. More than 50% of our licensees' product sales are in currencies other than U.S. dollars; as such, our revenues may fluctuate due to changes in foreign currency exchange rates and are subject to foreign currency exchange risk. While foreign currency conversion terms vary by license agreement, generally most agreements require that royalties first be calculated in the currency of sale and then converted into U.S. dollars using the average daily exchange rates for that currency for a specified period at the end of the calendar quarter. Accordingly, when the U.S. dollar weakens against other currencies, the converted amount is greater than it would have been had the U.S. dollar not weakened. For example, in a quarter in which we generate $70 million in royalty revenues, and when approximately $35 million is based on sales in currencies other than U.S. dollar, if the U.S. dollar strengthens across all currencies by ten percent during the conversion period for that quarter, when compared to the same amount of local currency royalties for the prior year, U.S. dollar converted royalties will be approximately $3.5 million less in the current quarter than in the prior year quarter.

For the three months ended March 31, 2014 and 2013, we hedged certain Euro-denominated currency exposures related to our licensees' product sales with Euro forward contracts. We designate foreign currency exchange contracts used to hedge royalty revenues based on underlying Euro-denominated sales as cash flow hedges. The aggregate unrealized gain or loss, net of tax, on the effective portion of the hedge is recorded in stockholders' equity as accumulated other comprehensive income (loss). Gains or losses on cash flow hedges are recognized as an adjustment to royalty revenue in the same period that the hedged transaction impacts earnings. For the three months ended March 31, 2014, and 2013, as a result of our Euro forward contracts, we recognized $1.1 million and $1.9 million as reductions in royalty revenues from our Euro contracts, respectively.

Operating Expenses

(In thousands)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Change from Prior Year %
Cost of royalty revenues (amortization of intangible assets)	$ 11,931	$ —	N/M
Percentage of total revenues	9%	0%	
General and administrative	$ 4,582	$ 7,186	(36)%
Percentage of total revenues	3%	8%	
Total operating expenses	$ 16,513	$ 7,186	130%
Percentage of total revenues	12%	8%	

N/M = Not meaningful

The increase in operating expenses was a result of the of cost of royalty revenues of $11.9 million in the first quarter of 2014 related to the amortization of the intangible assets acquired as part of the Royalty Purchase Agreement with Depomed, an increase in general and administrative expenses of $0.3 million for professional services mostly related to the acquisition of other income related assets and $0.3 million for compensation, partially offset by a decrease in general and administrative expenses of $3.2 million related to legal expenses mostly related to litigation.

Non-operating Expense, Net

Non-operating expense, net, increased, in part, by the loss on extinguishment of debt related to the Series 2012 Note partial extinguishment and the interest expense on the new February 2018 Notes, partially offset by increased interest income from our notes receivable. The approximate $5.3 million increase in interest income to $9.1 million is a result of the increase in debt financings to late stage healthcare companies as part of our strategy to acquire income generating assets. The increase in interest expense consisted primarily of non-cash interest expense as we were 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 March 31, 2014 and 2013, was $42.7 million and $29.0 million, respectively, which resulted primarily from applying the federal statutory income tax rate to income before income taxes. The increase in tax expense is primarily attributable to an increase in the Company's income before income taxes.

The uncertain tax position increased during the quarter ended March 31, 2014 by $2.4 million from the estimated state tax liability as a result of increased revenues. We expect to release tax liabilities for uncertain tax positions related to federal tax credits taken on the 2009 income tax return in the third quarter of 2014 of approximately $6.5 million, and during the fourth quarter of 2014 of approximately $3.9 million, which will result in a reduction to income tax expense.

Net Income per Share

Net income per share for the three months ended March 31, 2014, and 2013, is presented below:

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Net income per basic share	$ 0.48	$ 0.38
Net income per diluted share	$ 0.44	$ 0.36

The increase in the net income per diluted share is due to the increase in royalty revenues and the resulting increase in net income.

Liquidity and Capital Resources

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

We had cash, cash equivalents and investments in the aggregate of $337.6 million and $99.5 million at March 31, 2014, and December 31, 2013, respectively. The increase was primarily attributable to net cash provided by the proceeds from the issuance of the February 2018 Notes of $300.0 million, proceeds from the issuance of warrants of $11.4 million, and operating activities of $91.8 million, offset in part by cash advanced on notes receivable of $50.0 million, purchase of call options of $31.0 million, repurchase of a portion of the Series 2012 Notes of $29.9 million, payment of dividends of $24.0 million, repayment of a portion of the term loan of $18.8 million, and payment of debt issuance costs related to the February 2018 Note issuance of $9.8 million. We believe that cash from future royalty revenues, 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. Although the last of our Queen et al. patents expire in December 2014, we expect to receive royalties beyond expiration based on the terms of our licenses. We do not expect to receive any meaningful royalty revenue from our Queen et al. patents beyond the first quarter of 2016.

We continuously evaluate alternatives to increase return for our stockholders by, for example, purchasing income generating assets, buying back our convertible notes, repurchasing our common stock, paying dividends and selling the Company. On January 29, 2014, our board of directors declared regular quarterly dividends of $0.15 per share of common stock, payable on March 12, June 12, September 12 and December 12 of 2014 to stockholders of record on March 5, June 5, September 5 and December 5 of 2014, the record dates for each of the dividend payments, respectively.

Notes and Other Long-term Receivables

Wellstat Diagnostics Note Receivable and Credit Agreement

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

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

In January 2013, the Company was informed that, as of December 31, 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. PDL sent Wellstat Diagnostics a notice of default on January 22, 2013, and accelerated the amounts owed under the credit agreement. In connection with the notice of default, PDL exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to PDL and applied the funds to amounts due under the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby PDL agreed to refrain from exercising additional remedies for 120 days while Wellstat Diagnostics raised funds to capitalize the business and the parties attempted to negotiate a revised credit agreement. PDL agreed to provide up to $7.9 million to Wellstat Diagnostics to fund the business for the 120-day forbearance period under the terms of the forbearance agreement. Following the conclusion of the forbearance period, ending on June 28, 2013, the Company agreed to forbear in its exercise of remedies for additional periods of time to allow the owners and affiliates of Wellstat Diagnostics to complete a pending financing transaction. During such forbearance period, the Company provided approximately $1.3 million to Wellstat Diagnostics to fund ongoing operations of the business. During the year ended December 31, 2013, approximately $8.7 million was advanced pursuant to the forbearance agreement, and no further advances have been provided by the Company to Wellstat Diagnostics during the three months ended March 31, 2014.

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

Except as otherwise described here, the material terms of the amended and restated credit agreement are substantially the same as those of the original credit agreement, including quarterly interest payments at the rate of 5% per annum (payable in cash or in kind). In addition, PDL will 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 are required to contribute additional capital to Wellstat Diagnostics upon the sale of an affiliate entity. The amended and restated credit agreement continues to have an ultimate maturity date of December 31, 2021 (but may mature earlier upon certain specified events).

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

Wellstat Diagnostics may prepay the amended credit agreement at a price that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company. In the event of a change of control, bankruptcy or certain other customary events of defaults, or Wellstat Diagnostics' failure to achieve a specified annual revenue threshold in 2017, Wellstat Diagnostics will be required to prepay the credit agreement at a price that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company. The amended credit agreement is secured by a pledge of all of the assets of Wellstat Diagnostics, a pledge of all of Wellstat Diagnostics' equity interests by the holders thereof, and a second lien on the assets of the affiliates of Wellstat Diagnostics.

At March 31, 2014, and December 31, 2013, the carrying value of the note was included in non-current assets.

As of March 31, 2014, the Company determined that its interest in Wellstat Diagnostics represented a variable interest in a Variable Interest Entity since Wellstat Diagnostics' equity was not sufficient to finance its operations without amounts advanced to it under the Company's note and forbearance agreement. However, the Company does not have the power to direct the activities of Wellstat Diagnostics that most significantly impacts Wellstat Diagnostic's economic performance and is not the primary beneficiary of Wellstat Diagnostics; therefore, Wellstat Diagnostics is not subject to consolidation.

We believe that Wellstat Diagnostics does not currently have sufficient capital to execute its business plan. Wellstat Diagnostics is considering other sources of financing and strategic alternatives, including selling the company. Depending on the outcome of its efforts and PDL's assessment of Wellstat Diagnostics's financial viability, we may recognize an impairment in a future period. The Company completed an impairment analysis for the quarter ended March 31, 2014. The estimated fair value of the collateral was determined to be approximately $52.2 million. The estimated fair value of the collateral was determined by using a discounted cash flow analysis related to the underlying technology included in the collateral. The discounted cash flow was based upon expected income from sales of planned products over a period of 15 years. The terminal value was estimated using selected market multiples based on sales and EBITDA.

Hyperion Agreement

On January 27, 2012, PDL and Hyperion entered into an agreement whereby Hyperion sold to PDL the royalty streams due from SDK related to a certain patent license agreement between Hyperion and SDK dated December 31, 2008. The agreement assigned the patent license agreement royalty stream accruing from January 1, 2012 through December 31, 2013 to PDL in exchange for the lump sum payment to Hyperion of $2.3 million. In exchange for the lump sum payment, PDL was to receive two equal payments of $1.2 million on both March 5, 2013 and March 5, 2014. The first payment of $1.2 million was paid on March 5, 2013. The second and final payment of $1.2 million was due on March 5, 2014. Hyperion did not make its scheduled payment on March 5, 2014. The Company completed an impairment analysis for the quarter ended March 31, 2013. The estimated fair value of the collateral was determined to be in excess of that of the carrying value. Hyperion is considering other

sources of financing and strategic alternatives, including selling the company. Depending on the outcome of its efforts and PDL's assessment of Hyperion's financial viability, we may recognize an impairment in a future period.

Merus Labs Note Receivable and Credit Agreement

In July 2012, PDL loaned $35.0 million to Merus Labs in connection with its acquisition of a commercial-stage pharmaceutical product and related assets. In addition, PDL agreed to provide a $20.0 million letter of credit on behalf of Merus Labs for the seller of the assets to draw upon to satisfy the remaining $20.0 million purchase price obligation. The seller made this draw on the letter of credit in July 2013 and an additional loan to Merus Labs for $20.0 million was recorded for an aggregate of $55.0 million in total borrowings.

Outstanding borrowings under the July 2012 loan bore interest at the rate of 13.5% per annum and outstanding borrowings as a result of the draw on the letter of credit bore interest at the rate of 14.0% per annum. Merus Labs was required to make four periodic principal payments in respect of the July 2012 loan, with repayment of the remaining principal balance of all loans due on March 31, 2015. The borrowings were subject to mandatory prepayments upon certain asset dispositions or debt issuances as set forth in the credit agreement. Merus Labs made the first of these payments in December 2012 in the amount of $5.0 million, and made the second payment in June 2013 in the amount of $7.5 million.

In September 2013, Merus Labs prepaid in full its obligations under the credit agreement, including accrued interest through the payment date and a prepayment fee of 1% of the aggregate principal amount outstanding at the time of repayment. There was no outstanding balance owed as of March 31, 2014.

AxoGen Note Receivable and Royalty Agreement

In October 2012, PDL entered into the Royalty Agreement with AxoGen pursuant to which the Company will receive specified royalties on AxoGen’s net revenues (as defined in the Royalty Agreement) generated by the sale, distribution or other use of AxoGen’s products. The Royalty Agreement has an eight year term and provides PDL with royalties of 9.95% based on AxoGen net revenues, subject to agreed-upon guaranteed quarterly minimum payments of approximately $1.3 to $2.3 million beginning in the fourth quarter of 2014, and the right to require AxoGen to repurchase the Royalty Agreement at the end of the fourth year. AxoGen has been granted certain rights to call the contract in years five through eight. The total consideration PDL paid to AxoGen for the royalty rights was $20.8 million, including an interim funding of $1.8 million in August 2012. AxoGen was required to use a portion of the proceeds from the Royalty Agreement to pay the outstanding balance under its existing credit facility. AxoGen plans to use the remainder of the proceeds to support the business plan for its products. The royalty rights are secured by the cash and accounts receivable of AxoGen.

Under the Royalty Agreement, beginning on October 1, 2016, or in the event of the occurrence of a material adverse event, AxoGen's bankruptcy or material breach of the Royalty Agreement, the Company may require AxoGen to repurchase the royalty rights at a price that, together with payments already made by AxoGen, would generate a specified internal rate of return to the Company. The Company has concluded that the repurchase option is an embedded derivative which should be bifurcated and separately accounted for at fair value.

In the event of a change of control, AxoGen must repurchase the assigned interests from the Company for a repurchase price equal to an amount that, together with payments already made by AxoGen, would generate a 32.5% internal rate of return to the Company. The Company has concluded that the change of control provision is an embedded derivative that should be bifurcated and separately recorded at its estimated fair value. The estimated fair value of the change of control provision was approximately $1.1 million and $1.1 million as of March 31, 2014, and December 31, 2013, respectively. The estimated fair value of this embedded derivative is included in the carrying value of the AxoGen note receivable. The Company recognized approximately $0.1 million and zero related to the change in the estimated fair value of the embedded derivative during the three month periods ended March 31, 2014 and 2013, respectively.

At any time after September 30, 2016, AxoGen, at its option, can repurchase the assigned interests under the Royalty Agreement for a price applicable in a change of control.

During the term of the Royalty Agreement, the Company is entitled to designate an individual to be a member of AxoGen's board of directors. The Company has exercised this right and on October 5, 2012, upon the close of the transaction, the Company's President and Chief Executive Officer was elected to AxoGen's board of directors.

On August 14, 2013, PDL purchased 1,166,666 shares of AXGN at $3.00 per share, totaling $3.5 million. The shares are classified as available for sale and recorded as short term investments on the balance sheet. As of March 31, 2014, the shares were valued at $3.6 million, which results in an unrealized gain of $0.1 million and is recorded in other comprehensive income.

Avinger Note Receivable and Royalty Agreement

On April 18, 2013, PDL entered into a credit agreement with Avinger, under which we made available to Avinger up to $40.0 million to be used by Avinger in connection with the commercialization of its lumivascular catheter devices and the development of Avinger's lumivascular atherectomy device. Of the $40.0 million available to Avinger, $20.0 million, net of fees, was funded by the Company at the close of the transaction. Upon the attainment by Avinger of a certain revenue milestone to be accomplished no later than the end of the first half of 2014, the Company will fund Avinger an additional amount between $10.0 million and $20.0 million (net of fees) at Avinger's election. Outstanding borrowings under the initial loan bear interest at a stated rate of 12% per annum, and any future outstanding borrowings as a result of an additional amount funded upon reaching the revenue milestone will bear interest at the rate of 14% per annum.

Avinger is required to make quarterly interest and principal payments. Principal repayment will commence on: (i) the eleventh interest payment date if the revenue milestone is not achieved or (ii) the thirteenth interest payment date if the revenue milestone is achieved. The principal amount outstanding at commencement of repayment, after taking into account any payment-in-kind, will be repaid in equal installments until final maturity of the loans. The loans will mature in April 2018.

In connection with entering into the credit agreement, the Company will receive a low, single-digit royalty on Avinger's net revenues through April 2018. Avinger may prepay the outstanding principal and accrued interest on the notes receivable at any time. If Avinger repays the notes receivable prior to April 2018, the royalty on Avinger's net revenues will be reduced by 50% and will be subject to certain minimum payments from the prepayment date through April 2018.

The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Avinger and any of its subsidiaries (other than controlled foreign corporations, if any). The credit agreement provides for a number of standard events of default, including payment, bankruptcy, covenant, representation and warranty and judgment defaults.

LENSAR Credit Agreement

On October 1, 2013, PDL entered into a credit agreement with LENSAR, under which PDL made available to LENSAR up to $60 million to be used by LENSAR in connection with the commercialization of its currently marketed LENSAR Laser System. Of the $60 million available to LENSAR, an initial $40 million, net of fees, was funded by the Company at the close of the transaction. Upon attainment by LENSAR of a specified sales milestone to be accomplished no later than September 30, 2014, PDL will fund LENSAR an additional $20 million. Outstanding borrowings under the loans bear interest at the rate of 15.5% per annum, payable quarterly in arrears.

Principal repayment will commence on the thirteenth interest payment date or December 31, 2016. The principal amount outstanding at the commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on October 1, 2018. LENSAR may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The loans are secured by all of the assets of LENSAR.

Durata Credit Agreement

On October 31, 2013, PDL entered into a credit agreement with Durata, under which the Company made available to Durata up to $70.0 million. Of the $70.0 million available to Durata, an initial $25.0 million (tranche one), net of fees, was funded by the Company at the close of the transaction. Upon marketing approval of dalbavancin in the United States, to be accomplished no later than December 31, 2014 (the tranche two milestone), the Company will fund Durata an additional $15 million (tranche two). Within 9 months after the occurrence of the tranche two milestone, Durata may request up to a single additional $30 million borrowing. Until the occurrence of the tranche two milestone, outstanding borrowings under tranche one bear interest at the rate of 14.0% per annum, payable quarterly in arrears. Upon occurrence of the tranche two milestone, the interest rate of the loans will decrease to 12.75%.

Principal repayment will commence on the fifth interest payment date, March 31, 2015. The principal amount outstanding will be repaid quarterly over the remainder of the loans in an increasing percentage of the principal outstanding at commencement of repayment. The loans will mature on October 31, 2018. Durata may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The Company is entitled to receive a fee in addition to the

prepayment penalty in the event that Durata undergoes a change in control. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Durata.

Direct Flow Credit Agreement

On November 5, 2013, PDL entered into a credit agreement with Direct Flow Medical, which PDL will 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. Upon the attainment of a specified revenue milestone to be accomplished no later than December 31, 2014 (the tranche two milestone), the Company will fund Direct Flow Medical an additional $15.0 million, net of fees. Until the occurrence of the tranche two milestone, outstanding borrowings under tranche one bear interest at the rate of 15.5% per annum, payable quarterly in arrears. Upon occurrence of the tranche two milestone, the interest rate of the loans will decrease to 13.5%. Principal repayment will commence on the twelfth interest payment date, September 30, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on November 5, 2018. Direct Flow Medical may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Direct Flow Medical and any of its subsidiaries.

Paradigm Spine Credit Agreement

On February 14, 2014, the Company entered into a credit agreement with Paradigm Spine, under which it made available to Paradigm up to $75.0 million to be used by Paradigm Spine to refinance its existing credit facility and expand its domestic commercial operations. Of the $75.0 million available to Paradigm Spine, an initial $50 million, net of fees, was funded by the Company at the close of the transaction. Upon the attainment of specified sales and other milestones before December 31, 2014, the Company will fund Paradigm Spine between an additional $6.25 million and $12.5 million, at Paradigm Spine’s discretion. Upon the attainment of specified sales and other milestones before June 30, 2015, the Company will fund Paradigm Spine up to an additional $12.5 million, also at Paradigm Spine’s discretion. Borrowings under the credit agreement bear interest at the rate of 13.0% per annum, payable quarterly in arrears.

Principal repayment will commence on the twelfth interest payment date, December 31, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on February 14, 2019, or, if Paradigm Spine has achieved the first milestone and the additional loan amount is provided to Paradigm Spine, the loans will mature on August 14, 2019. Paradigm Spine may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Paradigm Spine and its domestic subsidiaries and, initially, certain assets of Paradigm Spine’s German subsidiaries.

Convertible Notes

Series 2012 Notes

In January 2012, we exchanged $169.0 million aggregate principal of new Series 2012 Notes for an identical principal amount of our February 2015 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered, totaling approximately $845,000. The cash incentive payment was allocated to deferred issue costs of $765,000, additional paid-in capital of $52,000 and deferred tax assets of $28,000. The deferred issue costs will be recognized over the life of the Series 2012 Notes as interest expense. In February 2012, we entered into separate privately negotiated exchange agreements under which we exchanged an additional $10.0 million aggregate principal amount of the new Series 2012 Notes for an identical principal amount of our February 2015 Notes. In August 2013, the Company entered into a separate privately negotiated exchange agreement under which it retired the final $1.0 million aggregate principal amount of the Company's outstanding February 2015 Notes. Pursuant to the exchange agreement, the holder of the February 2015 Notes received $1.0 million aggregate principal amount of the Company's Series 2012 Notes. Immediately following the exchange, no principal amount of the February 2015 Notes remained outstanding and $180.0 million principal amount of the Series 2012 Notes was outstanding. On February 6, 2014, the Company entered into exchange agreements and purchase agreements with certain holders of approximately $131.7 million aggregate principal amount of outstanding Series 2012 Notes. The exchange agreements provided for the issuance by the Company of shares of common stock and a cash payment for the Series 2012 Notes being exchanged, and the purchase agreements provided for a cash payment for the Series 2012 Notes being repurchased. The total consideration given was approximately $191.8 million. The Company issued to the participating holders of the February 2012 Notes, a total of approximately 20.3 million shares of its common stock with a fair value of approximately $157.6 million and made an aggregate cash payment of approximately $34.2 million pursuant to the exchange and purchase agreements. Of the $34.2 million cash payment, $2.5 million is attributable to a inducement fee, $1.8 million is attributable to interest accrued through the date of settlement and

$29.9 million is attributable to the repurchase of the Series 2012 Notes. It was determined that the exchange and purchase agreement represented an extinguishment of the related notes. As a result, a loss on extinguishment of $6.1 million was recorded. The $6.1 million loss on extinguishment included the derecognition of original issuance discount of $5.8 million and a $0.3 million charge resulting from the difference of the face value of the notes and the fair value of the notes. Immediately following the exchange, $48.3 million principal amount of the Series 2012 Notes was outstanding with approximately $2.1 million of remaining original issuance discount to be amortized over the remaining life of the Series 2012 Notes.

The terms of the Series 2012 Notes are governed by the indenture dated as of January 5, 2012, and include a net share settlement feature, meaning that if a conversion occurs, the principal amount will be settled in cash and the excess, if any, will be settled in the Company's common stock. The Series 2012 Notes may not be redeemed by the Company prior to their stated maturity date. Our Series 2012 Notes are due February 15, 2015, and bear interest at a rate of 2.875% per annum, payable semi-annually in arrears on February 15 and August 15 of each year.

Holders may convert their Series 2012 Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the stated maturity date of the Series 2012 Notes under the following circumstances:

- During any fiscal quarter commencing after the fiscal quarter ending December 31, 2011, if the closing price of the Company's common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price for the Series 2012 Notes on the last day of such preceding fiscal quarter;
- During the five business-day period immediately after any five consecutive trading-day period in which the trading price per $1,000 principal amount of the Series 2012 Notes for each trading day of that measurement period was less than 98% of the product of the closing price of the Company's common stock and the conversion rate for the Series 2012 Notes for that trading day;
- Upon the occurrence of certain corporate transactions as provided in the indenture; or
- Anytime, at the holder's option, beginning on August 15, 2014.

Holders of our Series 2012 Notes who convert their Series 2012 Notes in connection with a fundamental change resulting in the reclassification, conversion, exchange or cancellation of our common stock may be entitled to a make-whole premium in the form of an increase in the conversion rate. Such fundamental change is generally defined to include a merger involving PDL, an acquisition of a majority of PDL's outstanding common stock and a change of a majority of PDL's board of directors without the approval of the board of directors.

We allocated $2.3 million of the remaining deferred February 2015 Notes original issue discount as of the date of the exchange to the Series 2012 Notes based on the percentage of the February 2015 Notes exchanged. In accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we were required to separately account for the liability component of the instrument in a manner that reflects the market interest rate for a similar nonconvertible instrument at the date of issuance. As a result, we separated the principal balance of the Series 2012 Notes, net of the allocated original issue discount, between the fair value of the debt component and the common stock conversion feature. Using an assumed borrowing rate of 7.3%, which represents the estimated market interest rate for a similar nonconvertible instrument available to us during the period of the exchange transactions, we recorded a total debt discount of $16.8 million, allocated $10.9 million to additional paid-in capital and $5.9 million to deferred tax liability. The discount is being amortized to interest expense over the term of the Series 2012 Notes and increases interest expense during the term of the Series 2012 Notes from the 2.875% cash coupon interest rate to an effective interest rate of 7.3%. The common stock conversion feature is recorded as a component of stockholders' deficit.

As of May 7, 2014, we have not received notices for the conversion of the Series 2012 Notes. If we do receive any conversion notices they would be net settled in cash and the excess, if any, will be settled in the Company's common stock. We do not expect the current capital market conditions and credit environment to create incentives for note holders to convert their notes, however, there can be no assurance that our holders will not request conversion. If the full $48.3 million in aggregate convertible debt was called for conversion prior to March 31, 2014, given our current cash and cash equivalents balance, we would have sufficient unrestricted cash and cash equivalents on hand to satisfy the conversion without additional liquidity. We may also consider restructuring our obligations under the convertible debt, or raising additional cash through sales of investments, assets or common stock, or from borrowings to fund this conversion.

May 2015 Notes

On May 16, 2011, we issued $155.3 million in aggregate principal amount, at par, of our May 2015 Notes in an underwritten public offering, for net proceeds of $149.7 million. Our May 2015 Notes are due May 1, 2015, and we pay interest at 3.75% on our May 2015 Notes semiannually in arrears on May 1 and November 1 of each year, beginning November 1, 2011. Proceeds from our May 2015 Notes, net of amounts used for purchased call option transactions and provided by the warrant transactions described below, were used to redeem our 2012 Notes. Upon the occurrence of a fundamental change, as defined in the indenture, holders have the option to require PDL to repurchase their May 2015 Notes at a purchase price equal to 100% of the principal, plus accrued interest.

Our May 2015 Notes are convertible under any of the following circumstances:

- During any fiscal quarter ending after the quarter ending June 30, 2011, if the last reported sale price of our common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price for the notes on the last day of such preceding fiscal quarter;
- During the five business-day period immediately after any five consecutive trading-day period, which we refer to as the measurement period, in which the trading price per $1,000 principal amount of notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the notes for each such day;
- Upon the occurrence of specified corporate events as described further in the indenture; or
- At any time on or after November 1, 2014.

In accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we were required to separately account for the liability component of the instrument in a manner that reflects the market interest rate for a similar nonconvertible instrument at the date of issuance. As a result, we separated the principal balance of our May 2015 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 7.5%, which represents the estimated market interest rate for a similar nonconvertible instrument available to us on the date of issuance, we recorded a total debt discount of $18.9 million, allocated $12.3 million to additional paid-in capital and allocated $6.6 million to deferred tax liability. The discount is being amortized to interest expense over the term of our May 2015 Notes and increases interest expense during the term of our May 2015 Notes from the 3.75% cash coupon interest rate to an effective interest rate of 7.5%. As of March 31, 2014, the remaining discount amortization period is 1.1 years.

Purchased Call Options and Warrants

In connection with the issuance of our May 2015 Notes, we entered into purchased call option transactions with two hedge counterparties. We paid an aggregate amount of $20.8 million, plus legal fees, for the purchased call options with terms substantially similar to the embedded conversion options in our May 2015 Notes. The purchased call options cover, subject to anti-dilution and certain other customary adjustments substantially similar to those in our May 2015 Notes, approximately 25.3 million shares of our common stock. We may exercise the purchased call options upon conversion of our May 2015 Notes and require the hedge counterparty to deliver shares to the Company in an amount equal to the shares required to be delivered by the Company to the note holder for the excess conversion value. The purchased call options expire on May 1, 2015, or the last day any of our May 2015 Notes remain outstanding.

In addition, we sold to the hedge counterparties warrants exercisable, on a cashless basis, for the sale of rights to receive up to 27.5 million shares of common stock underlying our May 2015 Notes. We received an aggregate amount of $10.9 million for the sale from the two counterparties. The warrant counterparties may exercise the warrants on their specified expiration dates that occur over a period of time ending on January 20, 2016. If the VWAP of our common stock, as defined in the warrants, exceeds the strike price of the warrants on the date of conversion, we will deliver to the warrant counterparties shares equal to the spread between the VWAP on the date of exercise or expiration and the strike price. If the VWAP is less than the strike price, neither party is obligated to deliver anything to the other.

The purchased call option transactions and warrant sales effectively serve to reduce the potential dilution associated with conversion of our May 2015 Notes. The strike prices are approximately $6.15 and $7.23, subject to further adjustment upon certain events including dividend payments, for the purchased call options and warrants, respectively.

If the share price is above $6.15, but below $7.23, upon conversion of our May 2015 Notes, the purchased call options will offset the share dilution, because the Company will receive shares on exercise of the purchased call options equal to the shares that the Company must deliver to the note holders. If the share price is above $7.23, upon exercise of the warrants, the Company will deliver shares to the counterparties in an amount equal to the excess of the share price over $7.23. For example, a 10% increase in the share price above $7.23 would result in the issuance of 2.0 million incremental shares upon exercise of the warrants. If our share price increases, additional dilution would occur.

While the purchased call options are expected to reduce the potential equity dilution upon conversion of our May 2015 Notes, prior to conversion or exercise, our May 2015 Notes and the warrants could have a dilutive effect on the Company's earnings per share to the extent that the price of the Company's common stock during a given measurement period exceeds the respective exercise prices of those instruments. As of March 31, 2014, and December 31, 2013, the market price condition for convertibility of our May 2015 Notes was not met and there were no related purchased call options or warrants exercised.

The purchased call options and warrants are considered indexed to PDL stock, require net-share settlement and met all criteria for equity classification at inception and at March 31, 2014, and December 31, 2013. The purchased call options cost, including legal fees, of $20.8 million, less deferred taxes of $7.2 million and the $10.9 million received for the warrants, was recorded as adjustments to additional paid-in capital. Subsequent changes in fair value will not be recognized as long as the purchased call options and warrants continue to meet the criteria for equity classification.

February 2018 Notes

On February 12, 2014, we issued $300 million in aggregate principal amount, at par, of our February 2018 Notes in an underwritten public offering, for net proceeds of $290.2 million. Our February 2018 Notes are due February 1, 2018, and we pay interest at 4.0% on our 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 our 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 our Series 2012 Notes. Upon the occurrence of a fundamental change, as defined in the indenture, holders have the option to require PDL to repurchase their February 2018 Notes at a purchase price equal to 100% of the principal, plus accrued interest.

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

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

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

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

2018 Notes from the 4.0% cash coupon interest rate to an effective interest rate of 6.9%. As of March 31, 2014, the remaining discount amortization period is 3.8 years.

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

(In thousands)	March 31, 2014
Principal amount of the February 2018 Notes	$ 300,000
Unamortized discount of liability component	(29,056)
Total	$ 270,944

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

(In thousands)	Three Months Ended March 31, 2014
Contractual coupon interest	$ 1,571
Amortization of debt issuance costs	222
Amortization of debt discount	671
Total	$ 2,464

As of March 31, 2014, our February 2018 Notes are not convertible. At March 31, 2014, the if-converted value of our February 2018 Notes was less than the principal amount by approximately $28.0 million.

Purchased Call Options and Warrants

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

In addition, we sold to the hedge counterparties warrants exercisable, on a cashless basis, for the sale of rights to receive shares of common stock that will initially underlie our February 2018 Notes at a strike price of $10.3610 per share, which represents a premium of approximately 30% over the last reported sale price of the Company's common stock of $7.97 on February 6, 2014. The warrant transactions could have a dilutive effect to the extent that the market price of the Company's common stock exceeds the applicable strike price of the warrants on the date of conversion. We received an aggregate amount of $11.4 million for the sale from the two counterparties. The warrant counterparties may exercise the warrants on their specified expiration dates that occur over a period of time. If the VWAP of our common stock, as defined in the warrants, exceeds the strike price of the warrants, we will deliver to the warrant counterparties shares equal to the spread between the VWAP on the date of exercise or expiration and the strike price. If the VWAP is less than the strike price, neither party is obligated to deliver anything to the other.

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

The purchased call options and warrants are considered indexed to PDL stock, require net-share settlement, and met all criteria for equity classification at inception and at March 31, 2014. The purchased call options cost of $31.0 million, less deferred taxes of $10.8 million, and the $11.4 million received for the warrants, was recorded as adjustments to additional paid-in

capital. Subsequent changes in fair value will not be recognized as long as the purchased call options and warrants continue to meet the criteria for equity classification.

Term Loan

On October 28, 2013, PDL entered into a credit agreement among the Company, the lenders party thereto and the Royal Bank of Canada as administrative agent. The initial Term Loan amount was for $75 million, with a term of one year.

The interest rates per annum applicable to amounts outstanding under the Term Loan are, at the Company's option, either (a) the base rate plus 1.00%, or (b) the Eurodollar rate plus 2.00% per annum. As of March 31, 2014, the interest rate was 2.24%. Interest and the remaining principal payments associated with the Term Loan are due on the interest payment dates of April 30 and July 31 of 2014, with the remaining outstanding balance due on October 28, 2014.

Any future material domestic subsidiaries of the Company are required to guarantee the obligations of the Company under the Term Loan, except as otherwise provided. The Company's obligations under the Term Loan are secured by a lien on a substantial portion of the Company's assets.

The Term Loan contains affirmative and negative covenants that the Company believes are usual and customary for a senior secured credit agreement. The Term loan also requires compliance with certain financial covenants, including a maximum total leverage ratio and a debt service coverage ratio, in each case calculated as set forth in the Term Loan and compliance with which may be necessary to take certain corporate actions. The Term Loan contains events of default that the Company believes are usual and customary for a senior secured credit agreement.

Off-Balance Sheet Arrangements

As of March 31, 2014, 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 and Term Loan

As of March 31, 2014, our convertible notes and term loan contractual obligations consisted primarily of our February 2018 Notes, Term Loan, Series 2012 Notes and May 2015 Notes, which in the aggregate totaled $559.8 million in principal.

We expect that our debt service obligations over the next several years will consist of interest payments and repayment of our February 2018 Notes, Term Loan, Series 2012 Notes and our May 2015 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 are available on favorable terms.

Notes Receivable and Other Long Term Receivables

On April 18, 2013, PDL entered into a credit agreement with Avinger, under which we made available to Avinger up to $40.0 million to be used by Avinger in connection with the commercialization of its currently marketed lumivascular catheter devices and in the development of Avinger's lumivascular atherectomy device. Of the $40.0 million available to Avinger, we funded an initial $20.0 million, net of fees, at the close of the transaction. Upon the attainment of certain revenue milestones to be accomplished no later than the end of the first half of 2014, we will fund Avinger an additional amount between $10.0 million and $20.0 million (net of fees) at Avinger's election.

On October 1, 2013, PDL entered into a credit agreement with LENSAR, under which PDL made available to LENSAR up to $60 million to be used by LENSAR in connection with the commercialization of its currently marketed LENSAR Laser System. Of the $60 million available to LENSAR, an initial $40 million, net of fees, was funded by PDL at the close of the transaction. Upon the attainment by LENSAR of a specified sales milestone to be accomplished no later than September 30, 2014, PDL will fund LENSAR an additional $20 million. Outstanding borrowings under the loans bear interest at the rate of 15.5% per annum, payable quarterly in arrears.

On October 31, 2013, PDL entered into a credit agreement with Durata, whereby the Company made available to Durata up to $70.0 million. Of the $70.0 million available to Durata, an initial $25.0 million (tranche one), net of fees, was funded by the Company at the close of the transaction. Upon marketing approval of dalbavancin in the United States, to be accomplished no later than December 31, 2014 (the tranche two milestone), the Company will fund Durata an additional $15 million (tranche two). Within 9 months after the occurrence of the tranche two milestone, Durata may request up to a single additional $30 million borrowing.

On November 5, 2013, PDL entered into a credit agreement with Direct Flow Medical, in which PDL will 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, net of fees, was provided by the company at the close of the transaction. Upon the attainment of a specified revenue milestone to be accomplished no later than December 31, 2014, the Company will loan to Direct Flow Medical an additional $15.0 million, net of fees.

On February 18, 2014, PDL entered into a credit agreement with Paradigm Spine, in which PDL will provide up to $75.0 million to Paradigm Spine. Of the $75.0 million available to Paradigm Spine, an initial $50.0 million, net of fees, was provided by the company at the close of the transaction. Upon the attainment of specified sales and other milestones to be accomplished no later than December 31, 2014, the Company will loan to Paradigm Spine an additional $12.5 million, net of fees. Upon the attainment of additional specified sales and other milestones to be accomplished no later than December 31, 2015, the Company will loan to Paradigm Spine an additional $12.5 million, net of fees.

Lease Guarantee

In connection with the Spin-Off, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. Should Facet default under its lease obligations, we could be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of March 31, 2014, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $87.4 million. If Facet were to default, we could also be responsible for lease related costs including utilities, property taxes and common area maintenance which may be as much as the actual lease payments. We have recorded a liability of $10.7 million on our Condensed Consolidated Balance Sheets as of March 31, 2014, and December 31, 2013, related to this guarantee.

Indemnification

As permitted under Delaware law and under the terms of our bylaws, the Company has entered into indemnification agreements with its directors and executive officers. Under these agreements, the Company has agreed to indemnify such individuals for certain events or occurrences, subject to certain limits, against liabilities that arise by reason of their status as directors or officers and to advance expense incurred by such individuals in connection with related legal proceedings. While the maximum amount of potential future indemnification is unlimited, we have a director and officer insurance policy that limits our exposure and may enable us to recover a portion of any future amounts paid.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

The underlying sales of our licensees' products are conducted in multiple countries and in multiple currencies throughout the world. While foreign currency conversion terms vary by license agreement, generally most agreements require that royalties first be calculated in the currency of sale and then converted into U.S. dollars using the average daily exchange rates for that currency for a specified period at the end of the calendar quarter. Accordingly, when the U.S. dollar weakens in relation to other currencies, the converted amount is greater than it would have been had the U.S. dollar not weakened. More than 50% of our licensees' product sales are in currencies other than U.S. dollars; as such, our revenues may fluctuate due to changes in foreign currency exchange rates and are subject to foreign currency exchange risk. For example, in a quarter in which we generate $70 million in royalty revenues, and when approximately $35 million is based on sales in currencies other than the U.S. dollar, if the U.S. dollar strengthens across all currencies by 10% during the conversion period for that quarter, when compared to the same amount of local currency royalties for the prior year, U.S. dollar converted royalties will be approximately $3.5 million less in that current quarter sales, assuming that the currency risk in such forecasted sales was not hedged.

We hedge Euro-denominated risk exposures related to our licensees' product sales with Euro forward contracts. In general, these contracts are intended to offset the underlying Euro market risk in our royalty revenues. Our current contracts extend through the fourth quarter of 2014 and are all classified for accounting purposes as cash flow hedges. We continue to monitor the change in the Euro exchange rate and regularly purchase additional forward contracts to achieve hedged rates that approximate the average exchange rate of the Euro over the year, which we anticipate will better offset potential changes in exchange rates than simply entering into larger contracts at a single point in time.

In January 2012, we modified our existing Euro forward and option contracts related to our licensees' sales through December 2012 into forward contracts with more favorable rates than the rate that was ensured by the previous contracts. Additionally, we entered into a series of Euro forward contracts covering the quarters in which our licensees' sales occur through December 2013.

During the third quarter of 2012, we reduced our forecasted exposure to the Euro for 2013 royalties. In August 2012, we de-designated and terminated certain forward contracts, recording a gain of approximately $391,000 in interest and other income, net. The termination of these contracts was effected through a reduction in the notional amount of the original hedge contracts that was then exchanged for new hedges of 2014 Euro-denominated royalties. These 2014 hedges were entered into at a rate more favorable than the market rate as of the date of the exchange.

Gains or losses on our cash flow hedges are recognized in the same period that the hedged transaction impacts earnings as an adjustment to royalty revenue. Ineffectiveness, if any, resulting from the change in fair value of the modified 2012 hedge or lower than forecasted Euro-based royalties will be reclassified from other comprehensive income (loss) and recorded as interest and other income, net, in the period it occurs. The following table summarizes the notional amounts, Euro exchange rates and fair values of our outstanding Euro contracts designated as hedges at March 31, 2014, and December 31, 2013:

Euro Forward Contracts			**March 31, 2014**		**December 31, 2013**	
			(In thousands)		***(In thousands)***	
Currency	**Settlement Price ($ per Euro)**	**Type**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Euro	1.240	Sell Euro	$ 10,850	$ (1,197)	$ 10,850	$ (1,207)
Euro	1.270	Sell Euro	44,450	(3,710)	44,450	(3,760)
Euro	1.281	Sell Euro	36,814	(2,739)	36,814	(2,785)
Euro	1.300	Sell Euro	—	—	19,500	(1,119)
Total			$ 92,114	$ (7,646)	$ 111,614	$ (8,871)

Interest Rate Risk

Our investment portfolio was approximately $168.6 million at March 31, 2014, and $91.2 million at December 31, 2013, and consisted of investments in Rule 2a-7 money market funds and a corporate security. If market interest rates were to have increased by 1% in either of these years, there would have been no material impact on the fair value of our portfolio.

The aggregate fair value of our convertible notes was estimated to be $605.4 million at March 31, 2014, and $490.0 million at December 31, 2013, based on available pricing information. At March 31, 2014, and December 31, 2013, our convertible notes consisted of our Series 2012 Notes, with a fixed interest rate of 2.875%, and our May 2015 Notes, with a fixed interest rate of 3.75%. At March 31, 2014, our convertible notes also consisted of our February 2018 Notes, with a fixed interest rate of 4.0%. These obligations are subject to interest rate risk because the fixed interest rates under these obligations may exceed current market interest rates.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2014, our disclosure controls and procedures were effective to ensure the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Controls

There were no changes in our internal controls over financial reporting during the quarter ended March 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Resolution of Past Challenges to the Queen et al. Patents in the United States and Europe

Settlement with Novartis

On February 25, 2011, we reached a settlement with Novartis. Under the settlement agreement, PDL agreed to dismiss its claims against Novartis in its action in Nevada state court which also includes Genentech and Roche as defendants. Novartis agreed to withdraw its opposition appeal in the EPO challenging the validity of the ‘216B Patent. Under the settlement agreement with Novartis, we will pay Novartis certain amounts based on net sales of Lucentis made by Novartis during calendar year 2011 and beyond. We do not currently expect such amount to materially impact our total annual revenues.

Genentech / Roche Matter

Settlement Agreement

On January 31, 2014, we entered into a settlement agreement with Genentech and Roche which resolves all outstanding legal disputes between the parties, including our Nevada litigation with Genentech relating to an August 2010 facsimile sent by Genentech on behalf of Roche and Novartis asserting its products do not infringe on PDL’s SPCs, and our arbitration proceedings with Genentech related to the audit of royalties on sales.

Under the terms of the settlement agreement, effective retroactively to August 15, 2013, Genentech will pay a fixed royalty rate of 2.125 percent on worldwide sales of all its licensed products, as compared to the previous tiered royalty rate in the U.S and the fixed rate on all ex-U.S. based manufactured and sold licensed products. Pursuant to the agreement, Genentech and Roche confirmed that Avastin, Herceptin, Lucentis, Xolair and Perjeta are licensed products as defined in the relevant license agreements between the parties, and further agreed that Kadcyla and Gazyva are licensed products. Genentech will pay these royalties on all worldwide sales of Avastin, Herceptin, Xolair, Perjeta and Kadcyla occurring on or before December 31, 2015. With respect to Lucentis, Genentech owes no royalties on U.S. sales occurring after June 30, 2013, and will pay a royalty of 2.125 percent on all ex-U.S. sales occurring on or before December 28, 2014. The royalty term for Gazyva remains unchanged from the existing license agreement pertaining thereto.

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

Other Legal Proceedings

In addition, from time to time, we are subject to various other legal proceedings and claims that arise in the ordinary course of business and which we do not expect to materially impact our financial statements.

ITEM 1A. RISK FACTORS

Except as set forth below, during the three months ended March 31, 2014, there were no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. Please carefully consider the information set forth in this Quarterly Report on Form 10-Q and the risk factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K, as well as other risks and uncertainties, could materially and adversely affect our business, results of operations and financial condition, which in turn could materially and adversely affect the trading price of shares of our common stock. Additional risks not currently known or currently material to us may also harm our business.

As we continue to develop our business, our mix of assets and our sources of income may require that we register with the SEC as an “investment company” in accordance with the Investment Company Act of 1940.

We have not been and have no current intention to register as an "investment company" under the Investment Company Act of 1940, or the 40 Act, because we believe the nature of our assets and the sources of our income currently exclude us from the definition of an investment company pursuant to Sections (3)(a)(1)(A), (3)(a)(1)(C) under the 40 Act and Rule 270.3a-1 of Title 17 of the Code of Federal Regulations. Accordingly, we are not currently subject to the provisions of the 40 Act, such as compliance with the 40 Act’s registration and reporting requirements, capital structure requirements, affiliate transaction restrictions, conflict of interest rules, requirements for disinterested directors, and other substantive provisions. Generally, to avoid being a company that is an "investment company" under the 40 Act, it must both: (a) not be or hold itself out as being engaged primarily in the business of investing, reinvesting or trading in securities, and (b) either (i) not be engaged or propose to engage in the business of investing in securities or own or propose to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis or (ii) not have more than 45% of the value of its total assets (exclusive of Government securities and cash items) consist of or more than 45% of its net income after taxes (for the last four fiscal quarters combined) be derived from securities. In addition, we would not be an “investment company” if an exception, exemption, or safe harbor under the 40 Act applies.

We monitor our assets and income for compliance with the tests under the 40 Act and seek to conduct our business activities to ensure that we do not fall within its definitions of “investment company.” If we were to become an “investment company” and be subject to the strictures of the 40 Act, the restrictions imposed by the 40 Act would likely require changes in the way we do business and add significant administrative burdens to our operations. In order to ensure that we do not fall within the 40 Act, we may need to take various actions which we might otherwise not pursue. These actions may include restructuring the Company and/or modifying our mixture of assets and income.

Specifically, our mixture of debt vs. royalty assets is important to our classification as an “investment company” or not. In this regard, while we currently believe that none of the definitions of “investment company” apply to us, we may in the future rely on an exception under the 40 Act provided by Section 3(c)(5)(A). To qualify for Section 3(c)(5)(A), as interpreted by the staff of the SEC, we would be required to have at least 55% of our total assets in "notes, drafts, acceptances, open accounts receivable, and other obligations representing part or all of the sales price of merchandise, insurance, and services" (or Qualifying Assets). In a no-action letter issued to Royalty Pharma on August 13, 2010, the staff stated that royalty interests are Qualifying Assets under this exception. If the SEC or its staff in the future adopts a contrary interpretation or otherwise restricts the conclusions in the staff's no-action letter such that our royalty interests are no longer Qualifying Assets for purposes of Section 3(c)(5)(A), we could be required to register under the 40 Act.

The rules and interpretations of the SEC and the courts, relating to the definition of "investment company" are highly complex in numerous respects. While, we currently intend to conduct our operations so that we will not be deemed an investment company, we can give no assurances that we will not determine it to be in the Company’s and our stockholders’ interest to register as an “investment company”, not be deemed an "investment company" and not be required to register under the 40 Act.

ITEM 6. EXHIBITS

4.1	Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., dated February 12, 2014 (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed February 12, 2014)
4.2	Supplemental Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., dated February 12, 2014 (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed February 12, 2014)
10.1*#	2014 Annual Bonus Plan
10.2#	Settlement Agreement among Genentech, Inc., F. Hoffman-la Roche Ltd. and the Company, dated January 31, 2014†
10.3	Form of Exchange Agreement between the Company and certain holders of the Company's 2.875% Convertible Senior Notes due 2015 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed February 7, 2014)
10.4	Form of Purchase Agreement between the Company and a certain holder of the Company's 2.875% Convertible Senior Notes due 2015 (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed February 7, 2014)
10.5#	Summary of omitted Credit Agreement between PDL BioPharma, Inc. and Paradigm Spine, LLC, dated February 14, 2014
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 compensatory plan or arrangement.
**	This certification accompanies the 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 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 Form 10-Q), irrespective of any general incorporation language contained in such filing.
†	Certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request under 17 C.F.R. Sections 200.80(b)(4) and 24b-2.

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: May 12, 2014

PDL BIOPHARMA, INC. (REGISTRANT)

/s/ John P. McLaughlin

John P. McLaughlin

President and Chief Executive Officer (Principal Executive Officer)

/s/ Peter S. Garcia

Peter S. Garcia

Vice President and Chief Financial Officer (Principal Financial Officer)

/s/ David Montez

David Montez

Controller and Chief Accounting Officer (Principal Accounting Officer)

PDL BIOPHARMA, INC.

2014 Annual Bonus Plan

This 2014 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.

1. All employees of the Company working 30 hours per week or more (each, a "**Participant**") are eligible to receive annual bonuses for 2014 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 and to control its operation and may delegate responsibilities to Company officers as it deems appropriate. Participants are eligible to receive bonuses based on their individual performance and/or the Company's performance during 2014. 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. Company performance shall be determined by the Committee based on the Company's ability to meet or exceed corporate goals ("**2014 Corporate Goals**") as approved by the Board of Directors and set forth in **Exhibit A**. For clarification, the Committee may determine in its sole discretion that the Company did not satisfactorily complete enough goals and in that case, the Committee may determine that no bonus shall be paid to Participants, regardless of individual performance achievement. Additionally, the Committee may adjust or modify the 2014 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 **2014 Individual Goals** that have been approved by the Chief Executive Officer and set forth as **Exhibit B**.

3. To be eligible for a bonus, a Participant must be on payroll prior to October 1, 2014, and must be employed by the Company as of the date of payment of the bonus. A Participant hired after April 1, 2014, 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 2014 shall receive a pro-rated bonus, at the Compensation Committee's discretion.

5. The amount of a Participant's bonus is based on a target percentage of such Participant's annual average base salary throughout the 2014 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 attainment of 2014 Corporate Goals and 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 2014 Corporate Goals and 2014 Individual Goals is set forth as **Exhibit C.**

6. 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%. For example, assuming the Company has met 100% of its 2014 Corporate Goals, a Participant, who has met 150% of his or her 2014 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.

7. This Plan is effective for the Company's 2014 calendar year beginning January 1, 2014, through December 31, 2014 (the "**Plan Year**"), and will expire automatically on December 31, 2014. Bonus payments will be made no later than February 15th, 2015.

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

9. 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.

10. 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.

11. 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.

Exhibit 10.2

Pursuant to 17 CFR 240.24b-2, confidential information has been omitted in places marked

"* * *" and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

CONFIDENTIAL SETTLEMENT AGREEMENT

This Confidential Settlement Agreement (**"Confidential Settlement Agreement"**) is entered into as of the Effective Date by and between PDL BioPharma, Inc. (**"PDL"**), on the one hand, and Genentech, Inc. (**"Genentech"**) and F. Hoffmann-La Roche Ltd (**"Roche"**), on the other hand (each, a **"Party**,**"** and collectively, the **"Parties"**).

This Confidential Settlement Agreement is made with respect to the following recitals:

WHEREAS, PDL, as the assignee of the PDL Licensed Patents, solely owns all right, title and interest in, to, and under the PDL Licensed Patents and has extensively licensed the PDL Licensed Patents for the development of humanized antibodies intended for pharmaceutical purposes;

WHEREAS, Genentech and/or Roche develops, produces, and/or sells antibody products, including Herceptin, Avastin, Xolair, Raptiva, Lucentis, Perjeta, and Kadcyla, among others;

WHEREAS, PDL and Genentech are parties to multiple agreements, including without limitation a Patent Licensing Master Agreement, dated September 25, 1998, as amended by Amendment No. 1 dated September 18, 2003, by Amendment No. 2 dated December 18, 2003, and by the Amended and Restated Patent Licensing Master Agreement dated July 27, 2009 (collectively, the **"PLMA"**); a Settlement Agreement dated December 18, 2003 (the **"2003 Settlement Agreement"**); and PDL License Agreements providing certain rights to Genentech under the PDL Licensed Patents with respect to antigens HER-2 (agreement dated November 3, 1998, as amended by Amendment No. 1 dated December 18, 2003), IgE (agreement dated December 18, 2003), and VEGF (agreement dated March 5, 2004) (collectively, and as amended on the Effective Date of this Agreement, referred to as the **"PDL License Agreements"**);

WHEREAS, on August 27, 2010, PDL filed a civil action entitled *PDL BioPharma, Inc. v. Genentech, Inc.* in the Second Judicial District of the State of Nevada in and for the County of Washoe (the **"Nevada Court"**), Case No. CV10-02578 (the **"Nevada Litigation"**), alleging (among other things) that Genentech breached the 2003 Settlement Agreement by challenging the validity and enforceability of supplementary protection certificates issued with respect to European Patent No. 0 451 216, and that Roche tortiously interfered with PDL's rights under the 2003 Settlement Agreement;

WHEREAS, Genentech and Roche deny those allegations and all claims of liability made by PDL in the Nevada Litigation;

WHEREAS, on June 7, 2013, PDL filed a Notice of Arbitration against Genentech with the American Arbitration Association (the "**AAA Arbitration**") concerning certain issues arising out of an audit of Genentech conducted by KPMG regarding royalties owed to PDL for the period commencing on January 1, 2007, and concluding on December 31, 2009 (the "**KPMG Audit**");

WHEREAS, on July 3, 2013, Genentech filed a response and counterclaims in the AAA Arbitration contending (among other things) that Genentech owed no additional royalties to PDL on certain sales of Herceptin, Avastin, and Xolair between January 1, 2007 and December 28, 2009, because those products were not **GNE Licensed Products** (as defined in the PLMA) or **Licensed**

Products (as defined in the applicable PDL License Agreement), and seeking to offset certain royalties that allegedly had been overpaid during that same time period against any additional royalties found to be owing;

WHEREAS, the Parties dispute whether the manufacture and/or sale of Lucentis in the United States infringes PDL's U.S. Patent No. 5,693,761;

WHEREAS, the Parties deem it to be in their best interests and to their mutual advantage to settle their disputes on the terms and conditions set forth in this Confidential Settlement Agreement in order to achieve certainty in their business dealings and avoid the expense of litigation, arbitration and/or other legal proceedings.

NOW, THEREFORE, in consideration of all of the terms and conditions of this Confidential Settlement Agreement, and the accompanying Exhibits, the Parties agree as follows:

1. Definitions.

All capitalized terms used in this Confidential Settlement Agreement shall have the meanings assigned to them in this Section 1 or as defined elsewhere in this Confidential Settlement Agreement and shall include the singular as well as the plural.

1.1 "2014 Amended PLMA" shall mean the PLMA as amended by Amendment No. 1 to the Amended and Restated Patent Licensing Master Agreement.

1.2 "Avastin" shall mean the antibody product with the generic name bevacizumab, whether sold under the name Avastin or any other name.

1.3 "Affiliate" shall mean any Entity that, on or after the Effective Date, controls, is controlled by, or is under common control with, another Entity; and "control" for purposes of this definition shall mean the possession of the power to direct or cause the direction of substantially all of the management and policies of an Entity, whether through the ownership of voting stock, by contract or otherwise. In the case of a corporation, "control" shall include the direct or indirect ownership of fifty percent (50%) or more of the outstanding voting stock. An Entity shall be an Affiliate only during such period of time that such Entity meets the definition set forth in this Section 1.3. The Parties acknowledge and agree, for the avoidance of doubt, that Roche shall be considered an Affiliate of Genentech for purposes of the 2014 Amended PLMA, and the PDL License Agreements (as amended). With respect to Genentech and Roche, the term "Affiliate" shall not include Chugai Pharmaceutical Co., Ltd. ("Chugai") unless and until Genentech or Roche provides written notice to PDL specifying Chugai as an Affiliate.

1.4 "Claims" shall mean any and all claims, actions, causes of action, demands, costs, offsets, and charges of whatever nature, whether asserted or unasserted and whether known or unknown.

1.5 "Defendant Released Parties" shall mean Genentech, Roche, and their respective Affiliates and Designees, and each of their respective current and former officers, directors, employees, agents, attorneys, and representatives in their capacity as such.

1.6 "Designee" shall mean an Affiliate, sublicensee, co-promoting party, or other Person employed by or under contract with Genentech or Roche to sell, or otherwise authorized by Genentech or Roche to sell, a particular Licensed Product or GNE Licensed Product (or Licensed Products or GNE Licensed Products) for or on behalf of Genentech or Roche. A Person shall be a Designee only during such period of time that such Person meets the definition set forth in this Section 1.6. The Parties acknowledge and agree, for the avoidance of doubt, that each of Roche and Novartis Pharma AG shall be considered a Designee of Genentech (each with respect to certain Licensed Product(s) or GNE Licensed Product(s)) for purposes of this Confidential Settlement Agreement, the 2014 Amended PLMA, and the PDL License Agreements (as amended).

1.7 "**Discovery Order**" shall mean the order entered by the Nevada Court on March 29, 2013, affirming a Recommendation for Order issued by a discovery commissioner on December 24, 2012, regarding certain discovery matters in the Nevada Litigation.

1.8 "**Effective Date**" shall mean January 31, 2014.

1.9 "Entity" shall mean a trust, corporation, partnership, joint venture, limited liability company, association, unincorporated organization or other legally recognized form of organization.

1.10 "GNE Licensed Product" shall have the meaning set forth in Section 1.7 of the 2014 Amended PLMA.

1.11 "Genentech Products" shall mean Herceptin, Avastin, Xolair, Lucentis, Perjeta, and Kadcyla. The antibody onartuzumab shall be considered a Genentech Product if it is determined that onartuzumab is a GNE Licensed Product and a Licensed Product pursuant to Section 4.1(e) of the 2014 Amended PLMA.

1.12 "**Herceptin**" shall mean the antibody product with the generic name trastuzumab, whether sold under the name Herceptin or any other name.

1.13 "**Kadcyla**" shall mean the antibody product with the generic name ado-trastuzumab emtansine, whether sold under the name Kadcyla or any other name.

1.14 "Legal Proceeding" shall mean any lawsuit or any other civil or administrative proceeding, or the making of any claim or counterclaim, of any kind in any court, tribunal, agency or governmental entity.

1.15 "**Lucentis**" shall mean the antibody product with the generic name ranibizumab, whether sold under the name Lucentis or any other name.

1.16 "Net Sales" shall have the meaning set forth in Section 1.09 of the PDL License Agreements.

1.17 "PDL Licensed Patents" shall have the meaning set forth in Section 1.13 of the 2014 Amended PLMA.

1.18 "PDL Released Parties" shall mean PDL and its Affiliates, and each of their respective current and former officers, directors, employees, agents, attorneys, and representatives in their capacity as such.

1.19 "**Perjeta**" shall mean the antibody product with the generic name pertuzumab, whether sold under the name Perjeta or any other name.

1.20 "**Person**" shall mean any natural person or Entity.

1.21 "Licensed Product" shall mean a product as defined in Section 1.08 of any of the PDL License Agreements (as amended pursuant to Exhibits C, D, E, and F).

1.22 "**Third Party**" shall mean a Person other than a Party to this Confidential Settlement Agreement or any of such Party's Affiliates.

1.23 "**Xolair**" shall mean the antibody product with the generic name omalizumab, whether sold under the name Xolair or any other name.

2. Amendments.

2.1 On or before the Effective Date, the Parties shall execute the following agreements in the forms attached hereto as Exhibits A-F, respectively (the **"Amendments"**):

A. Amendment No. 1 to the Amended and Restated Patent Licensing Master Agreement;

B. Amendment No. 1 to the 2003 Settlement Agreement;

C. Amendment No. 2 to the HER-2 PDL License Agreement;

D. Amendment No. 1 to the VEGF PDL License Agreement;

E. Amendment No. 1 to the IgE PDL License Agreement; and

F. Amendment No. 1 to the Form PDL License Agreement.

3. Payments to PDL; No Patent Coverage Challenges.

3.1 Commencing as of August 15, 2013, Genentech agrees and covenants to pay royalties to PDL on all worldwide sales of Herceptin, Avastin, Xolair, Perjeta, and Kadcyla, on all sales of Lucentis outside of the United States, and on all worldwide sales of any other GNE Licensed Product or Licensed Product, under the terms set forth in Section 4.1 of the 2014 Amended PLMA.

3.2 Following execution of this Agreement and the Amendments, Genentech shall determine whether, as a result of the change in royalty terms specified in the Amendments, any additional royalties are owed to PDL with respect to Net Sales of GNE Licensed Products or Licensed Products that occurred during the period from and including August 15, 2013 to and including September 30, 2013

(*i.e.*, additional to the royalties previously paid to PDL on such Net Sales). Genentech also shall determine the amount of royalties it paid to PDL for sales or other transfers of

Lucentis in the United States for the period from and including July 1, 2013 to and including September 30, 2013, and deduct such amount from any additional royalties owed to PDL. Genentech shall remit a lump-sum payment for the net amount of additional royalties owed to PDL by wire transfer of immediately available funds no later than twenty (20) days after the Effective Date.

3.3 Genentech and Roche each, on their own and on behalf of their Affiliates, agree, covenant, represent, warrant, and stipulate that each of the Genentech Products is a GNE Licensed Product and a Licensed Product.

3.4 Commencing on the Effective Date, and at all times thereafter, Genentech, Roche, and their Affiliates shall not directly or indirectly initiate or prosecute any Legal Proceeding anywhere in the world, and none of their in-house attorneys or officers shall make any assertion to PDL, challenging or contesting (i) the stipulation contained in Section 3.3 of this Agreement, (ii) that the Genentech Products (including the antibody onartuzumab, if it becomes a Genentech Product pursuant to Section 4.1(e) of the 2014 Amended PLMA) would infringe, if not licensed, one or more components of the PDL Licensed Patents, or (iii) that royalties are owed to PDL on sales of those products pursuant to Section 4.1 of the 2014 Amended PLMA on the express ground that one or more of such products is not a GNE Licensed Product or a Licensed Product.

3.5 Commencing on the Effective Date and at all times thereafter, Genentech, Roche and their Affiliates shall not refuse to pay royalties to PDL pursuant to Section 4.1 of the 2014 Amended PLMA on the express ground that the manufacture, import, use, offer to sell or sale of any Genentech Product, any other GNE Licensed Product, or any Licensed Product does not require a license under any component of the PDL Licensed Patents.

3.6 Commencing on the Effective Date and at all times thereafter, Genentech, Roche and their Affiliates shall not terminate or seek to modify a PDL License Agreement on the express ground that the manufacture, use, offer to sell or sale of any Genentech Product, any other GNE Licensed Product, or any Licensed Product does not require a license under any component of the PDL Licensed Patents.

4. Fixed Royalty Term and Fully Paid Up License.

4.1 The Parties acknowledge and agree that in no event shall Genentech owe any royalties to PDL under the 2014 Amended PLMA or the PDL License Agreements on Net Sales of (i) Lucentis occurring in the United States after June 30, 2013, (ii) Lucentis occurring outside the United States after December 28, 2014, and (iii) Avastin, Herceptin, Xolair, Perjeta, Kadcyla and any other GNE Licensed Product or Licensed Product occurring anywhere in the world after December 31, 2015, in each case of (i), (ii), and (iii) regardless of the expiry date or technical scope of any component of the PDL Licensed Patents.

4.2 Upon the satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Lucentis occurring in the United States on or prior to June 30, 2013, Genentech shall have a fully paid up license under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Net Sales of Lucentis occurring in the United States.

4.3 Upon the satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Lucentis occurring outside the United States on or prior to December 28, 2014, Genentech shall have a fully paid up license under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Lucentis.

4.4 Upon the satisfaction, on a product by product basis, of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Avastin, Herceptin, Xolair, Perjeta, Kadcyla, or any other GNE Licensed Product or Licensed Product (other than Lucentis) occurring anywhere in the world on or prior to December 31, 2015, Genentech shall have a fully paid up license, on a product by product basis, under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Avastin, Herceptin, Xolair, Perjeta, Kadcyla and any other GNE Licensed Product or Licensed Product.

5. No Disclosure of Attorney Work Product to Third Parties.

5.1 For the period commencing on the Effective Date and terminating on Genentech's payment of all royalties owed to PDL for Net Sales of GNE Licensed Products or Licensed Products for all quarters through and including the fourth quarter of 2015 (notwithstanding any disputes concerning the amount of royalties paid, irrespective of whether such disputes are based on an audit pursuant to Section 3.09 of any PDL License Agreement (as amended)), Genentech and Roche shall not disclose to any Third Party any materials protected by the attorney work product doctrine specifically relating to the validity, enforceability, patentability, or allowability of any component of the PDL Licensed Patents and/or the interpretation or construction of any claims therein and/or the validity or enforceability of the PDL License Agreements (collectively, "AWP Materials"). Nothing contained herein precludes Genentech, Roche, or their Affiliates from: (i) characterizing any aspect of any component of the PDL Licensed Patents (including without limitation one or more claims) in prosecuting their own patent applications or in litigation with a Third Party concerning a patent owned by a Third Party or by Genentech, Roche, or their Affiliates, or (ii) producing AWP Materials to a Third Party in connection with a Legal Proceeding involving such Third Party if (a) any of Genentech, Roche, or their Affiliates is served with a subpoena or other discovery request calling for the production of AWP Materials in a Legal Proceeding and (b) whichever of Genentech, Roche, or their Affiliates is served with such subpoena or other discovery request reasonably and in good faith believes such production to be required by law based upon the advice of outside counsel and provides at least ten (10) days' prior written notice to PDL before producing any AWP Materials to the Third Party (or as promptly as possible, if production is required less than fourteen (14) days after service of the subpoena or discovery request) and uses reasonable efforts to prevent such disclosure, including when appropriate, seeking a protective order as permitted by applicable law. For the avoidance of doubt, it shall not be a breach of this Section 5 for Genentech, Roche or their Affiliates to engage in the activities specified in subsections (i) and/or (ii) above.

5.2 Not later than ten (10) days after the Effective Date, Genentech and Roche shall instruct in writing their outside counsel (*i.e*., one attorney at each law firm) engaged for any matter specifically relating to the PDL Licensed Patents during the period commencing from and including January 1, 2009 through and including the Effective Date ("Outside Counsel") not to make any disclosure to any Third Party of AWP Materials generated or obtained in connection with such Outside Counsel's representation of Genentech, Roche, and/or their Affiliates (including any AWP Materials in the possession of experts or consultants retained or instructed by such Outside Counsel). PDL shall

have the right, but not the obligation, not later than five (5) days after the Effective Date, to provide to Genentech a list of all Outside Counsel which PDL believes should be notified under this Section 5.2 (provided, however, that PDL's failure to provide such a list to Genentech shall not relieve Genentech and Roche from their obligations under this Section 5.2). Neither Genentech nor Roche, nor any of their Affiliates, nor any of their Outside Counsel, shall have any liability to PDL in the event Outside Counsel does not follow the instructions provided for in this Section 5.2 and the failure of Outside Counsel to follow the instructions shall not be a breach of this Confidential Settlement Agreement. Nothing herein shall relieve any Party or its counsel from complying with the obligations set forth in the Protective Order entered in the Nevada Litigation. Nothing contained in this Section 5 shall affect any damages recoverable for a breach of Section 2.4(d) of the 2003 Settlement Agreement (as amended).

6. Releases and Dismissals.

6.1 Release by PDL. Except as set forth in Section 6.3, PDL, on behalf of itself and its predecessors, successors, assigns, and Affiliates, does hereby now and forever release and discharge the Defendant Released Parties from any and all Claims arising out of, related to, or connected with the PLMA, the 2003 Settlement Agreement, the PDL License Agreements, and the KPMG Audit based on any act or omission occurring before the Effective Date, including but not limited to any and all Claims asserted by PDL in the Nevada Litigation or the AAA Arbitration. PDL, on behalf of itself and its predecessors, successors, assigns, and Affiliates, also hereby now and forever waives the exercise of any rights provided to it under section 3.09 in each of the PDL License Agreements for Net Sales occurring prior to August 15, 2013.

6.2 Release by Genentech and Roche. Except as set forth in Section 6.3, Genentech and Roche, on behalf of themselves and their predecessors, successors, assigns, and Affiliates, do hereby now and forever release and discharge the PDL Released Parties from any and all Claims arising out of, related to, or connected with the PLMA, the 2003 Settlement Agreement, the PDL License Agreements, and the KPMG Audit based on any act or omission occurring before the Effective Date, including but not limited to any and all Claims asserted by Genentech and/or Roche in the Nevada Litigation or the AAA Arbitration.

6.3 Exceptions to Released Claims. Except as expressly stated in Sections 6.1 and 6.2 above, nothing contained in Section 6 or elsewhere in this Confidential Settlement Agreement shall be deemed to (i) release or discharge Genentech from its continuing obligation to pay royalties to PDL pursuant to the 2014 Amended PLMA, the 2003 Settlement Agreement (as amended pursuant to Exhibit B), and the PDL License Agreements (as amended pursuant to Exhibits C, D, E, and F); or (ii) prohibit PDL from conducting an inspection of Genentech pursuant to Section 3.09 of the PDL License Agreements (as amended pursuant to Exhibits C, D, E, and F), for any period of Net Sales subsequent to and including August 15, 2013, or to release or discharge Genentech from its obligation to pay any amount found to be owing but unpaid for any such period.

6.4 Waiver of Right to Assert Unknown Claims. The Parties acknowledge and agree that it is their intent to release and discharge the Claims set forth in Sections 6.1 and 6.2, irrespective of whether such Claims are known or unknown to any or all Parties, and irrespective of whether such Claims, if actually unknown to a Party, could or could not have been discovered by that Party through the exercise of reasonable diligence. The Parties knowingly, voluntarily, intentionally, and expressly waive any and all rights and benefits under any and all laws (including but not limited to

statutes, ordinances, administrative regulations, and principles of common law) of any state, province, territory, county, city, municipality, or any other political subdivision of the United States or any foreign country, that would restrict in any fashion the full scope of enforceability of the releases set forth in Sections 6.1 and 6.2. Without in any way limiting the generality of the foregoing, the Parties knowingly, voluntarily, intentionally and expressly waive any and all rights and benefits conferred by California Civil Code Section 1542, which provides:

> A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

6.5 **Covenant Not to Sue**. The Parties and their Affiliates shall not now or at any time in the future initiate any Legal Proceeding anywhere in the world asserting any Claim released pursuant to this Confidential Settlement Agreement or barred by the provisions of Section 2 to the 2003 Settlement Agreement (as amended pursuant to Exhibit B). Any Party that breaches (or whose Affiliate breaches) the obligations under this Section 6.5: (i) consents to the dismissal of such Legal Proceeding and to the entry of a permanent injunction restraining the breaching Party (or Affiliate) from initiating any future Legal Proceedings asserting any such released or barred Claim; and (ii) shall be liable to all other Parties and their Affiliates for their reasonable attorneys' fees and costs incurred in securing the dismissal of such Legal Proceeding and the entry of such permanent injunction.

6.6 **Dismissal of the Nevada Litigation and Writ Proceeding**. Not later than three (3) business days after the Effective Date, the Parties shall cause their counsel to execute and promptly file a stipulated order of dismissal (substantially in the form of Exhibit H attached hereto) dismissing with prejudice all claims in the Nevada Litigation pursuant to Nevada Rule of Civil Procedure 41(a)(1)(ii). In addition, not later than three (3) business days after the Effective Date, the Parties shall cause their counsel to execute and promptly file a stipulated order of dismissal (substantially in the form of Exhibit I attached hereto) dismissing with prejudice the special writ proceeding initiated by Genentech and Roche and pending as of the Effective Date in the Supreme Court of Nevada, Case No. 63283 (the **"Writ Proceeding"**). Each Party shall bear its own attorneys' fees and costs in connection with the Nevada Litigation and the Writ Proceeding.

6.7 **Motion to Vacate the Discovery Order**. Not later than three (3) business days after the Effective Date, the Parties shall cause their counsel to execute and promptly file a joint motion (substantially in the form of Exhibit J attached hereto) to vacate the Discovery Order. Upon the filing of the joint motion referenced in this Section 6.7, PDL shall have no further obligation to seek or advocate for an order vacating the Discovery Order, but PDL shall reasonably cooperate with Genentech, at Genentech's request and with advance notice, to provide information necessary or appropriate for any further action taken by Genentech to vacate the Discovery Order and shall do nothing to oppose any effort by Genentech to vacate the Discovery Order.

6.8 **Dismissal of the AAA Arbitration**. Not later than three (3) business days after the Effective Date, the Parties shall cause their counsel to execute and promptly file a stipulated order of dismissal (substantially in the form of Exhibit K attached hereto) dismissing with prejudice all claims and counterclaims in the AAA Arbitration. Each Party shall bear its own attorneys' fees and costs in

connection with the AAA Arbitration and the KPMG Audit.

6.9 Destruction of Confidential Materials. Each Party shall be deemed to have requested on the Effective Date that all other Parties destroy such Party's Confidential or Highly Confidential Material pursuant to Paragraph 15 of the Protective Order entered in the Nevada Litigation. Except as otherwise barred by Court Order or other legal requirement, each Party shall complete destruction of such materials and provide the certification required by said Paragraph 15 not later than fifteen (15) business days after receiving confirmation from the Nevada Court, the Supreme Court of Nevada, and the American Arbitration Association that the Nevada Litigation, the Writ Proceeding, and the AAA Arbitration have been dismissed pursuant to the stipulations referenced in Sections 6.6 and 6.8.

7. Confidentiality.

7.1 Limitations on Disclosure. The Parties acknowledge and agree that the terms of this Confidential Settlement Agreement and the Amendments executed in connection herewith are strictly confidential. Accordingly, the Parties and their Affiliates shall take all commercially diligent efforts to ensure that the terms of this Confidential Settlement Agreement and the Amendments remain strictly confidential and are not disclosed to any Third Party, except as specifically set forth in this Section 7.

7.1.1 Pursuant to Order. The terms of this Confidential Settlement Agreement and the Amendments may be disclosed pursuant to any court order, discovery request, or subpoena requiring disclosure in any Legal Proceeding, so long as (i) the Party that has the disclosure requirement provides all other Parties with written notice of such requirement reasonably promptly after first learning of such court order, discovery request or subpoena and with as much advance time as reasonably possible before making such disclosure (preferably not less than ten (10) days) and (ii) uses its best efforts to prevent the disclosure by, for example, seeking a protective order as permitted by applicable law.

7.1.2 Professional Advisers and Potential Acquirers. The terms of this Confidential Settlement Agreement and the Amendments may be disclosed to (i) any Party's attorney, accountant, auditor, financial adviser, or insurer; and (ii) any Third Party involved in bona fide negotiations to acquire "control" of a Party or an Affiliate of a Party (so long as such Affiliate includes the business unit to which this Agreement relates), or to enter into a merger or consolidation with a Party or such an Affiliate, or to purchase or otherwise acquire substantially all of the assets of a Party's business unit to which this Agreement relates, but only so long as any such Third Party referenced in clauses (i) and (ii) is informed of this confidentiality provision and agrees in writing to take all commercially diligent efforts to ensure that the terms of the disclosed agreement remain strictly confidential and are not disclosed to any other Third Party. As used in this Section 7.1.2, the term "control" shall have the meaning set forth in Section 1.3.

7.1.3 Designees. Nothing contained in this Section 7 shall be construed to prevent Genentech from disclosing to a Designee (i) the relevant patent numbers, GNE Licensed Products and Licensed Products, term, Net Sales definition, royalty rate, and territory of any PDL License Agreement (as amended) or the 2014 Amended PLMA; (ii) that (where appropriate) Genentech has the right and license to grant a sublicense to that Designee and/or to otherwise sell, or allow sale of,

the relevant products under a PDL License Agreement; (iii) that Genentech is obligated to pay royalties to PDL on sales of GNE Licensed Products and Licensed Products at the royalty rates and for the time periods set forth in Section 4.1 of the 2014 Amended PLMA; and (iv) that the royalty rates and the time periods set forth in Section 4.1 of the 2014 Amended PLMA were the result of a negotiated compromise and settlement between the Parties. Except as set forth in the preceding sentence, or otherwise expressly permitted under this Confidential Settlement Agreement, Genentech and Roche shall not disclose any terms of, or information concerning, this Confidential Settlement Agreement to any Third Party without PDL's consent, which shall not be unreasonably withheld.

7.1.4 **Required by Law**. The terms of this Confidential Settlement Agreement and the Amendments may be disclosed based upon good-faith reliance on legal advice that such disclosure is required by any law, rule or regulation, including disclosure pursuant to the reporting obligations of the United States Securities Exchange Commission or any other United States or foreign regulatory authorities. In the event that a disclosure is required under this Section 7.1.4, the Party with the disclosure requirement shall provide all other Parties reasonable advance written notice of such requirement and the proposed disclosure, if and only to the extent that such advance written notice is not prohibited by governing law.

7.2 **Financial Reporting**. Nothing contained in this Section 7 shall prevent Genentech from disclosing the royalty payments made to PDL (including an identification of the product for which the payments were made) to a Designee of Genentech for the purpose of obtaining reimbursement or other compensation from that Designee that the Designee is contractually obligated to pay to Genentech; provided, however, that Genentech may only disclose the amount of the royalty payments made to PDL, the rate paid, the products to which such payments relate, and the terms and information specified in Section 7.1.3, and shall not disclose any other terms or conditions of this Confidential Settlement Agreement or the Amendments to such Third Party.

7.3 **Inquiries**. On or after the Effective Date, (i) PDL may issue a press release concerning the Parties' entry into this Confidential Settlement Agreement substantially in the form of Exhibit L attached hereto, and Genentech or Roche may issue a press release containing substantially the same information, and (ii) each Party may respond to any inquiries from the print or electronic media regarding the settlement of the Nevada Litigation and the AAA Arbitration with substantially the same information contained in such press release. Except as set forth in such press release (if any), the Parties shall not otherwise make any public statements about the settlement of the Nevada Litigation and the AAA Arbitration except as they may consent (which consent may be withheld for any reason or no reason), or as necessary to comply with the Parties' reporting and disclosure requirements under applicable law. The Parties agree that PDL is responsible for the text of Exhibit L, which is for reference in connection with this Section 7.3 only and shall not control or affect in any way the meaning or construction of any other provisions of this Confidential Settlement Agreement, the 2003 Settlement Agreement, the 2014 Amended PLMA, and/or the PDL License Agreements.

8. Acknowledgement of Final Agreement.

8.1 **Final and Binding Agreement**. Each Party agrees that it has made such investigation of all matters pertaining to this Confidential Settlement Agreement and the Amendments that such Party deems necessary. Each Party agrees that it is not relying in any manner on any statement, promise, representation or omission, whether oral or written, express or implied, made by any Person,

not specifically set forth in this Confidential Settlement Agreement or the Amendments. Each Party acknowledges that, after execution of this Confidential Settlement Agreement and the Amendments, such Party may discover facts different from or in addition to those which it now knows or believes to be true. Nevertheless, each Party agrees that this Confidential Settlement Agreement and the Amendments shall be and remain in full force and effect in all respects, notwithstanding such different or additional facts. This Confidential Settlement Agreement and the Amendments are intended to be, and are, final and binding on all Parties, regardless of any allegation of misrepresentation, fraud, mistake of law or fact, or any other circumstances whatsoever.

8.2 **No Assignment of Agreement**. This Confidential Settlement Agreement may not be assigned by any Party without the prior written consent of all other Parties.

8.3 **Compromise Agreement**. This Confidential Settlement Agreement and the Amendments are a compromise and settlement of disputed Claims and are not intended to be, nor shall be construed as, any admission of liability or wrongdoing by any Party. The Parties acknowledge and agree, for the avoidance of doubt, that the royalties provided for in Section 3 of this Confidential Settlement Agreement include amounts payable on account of the releases granted by PDL pursuant to Section 6 of this Confidential Settlement Agreement.

8.4 **Effective Date**. This Confidential Settlement Agreement shall become effective on the Effective Date. The Parties' rights and obligations set forth herein shall not commence or become binding upon the Parties until the Effective Date.

9. Warranties and Representations.

9.1 **No Assignment of Claims**. Each Party warrants and represents that such Party has not sold, assigned, conveyed, pledged, encumbered, or otherwise in any way transferred to any Person any Claim released by such Party pursuant to this Confidential Settlement Agreement.

9.2 **No Other Asserted Claims**. Each Party warrants and represents that there is no Legal Proceeding pending on the Effective Date that was commenced by such Party or any of its Affiliates against any other Party or any of its Affiliates involving any of the PDL Licensed Patents, except for the Nevada Litigation and the AAA Arbitration.

9.3 **Independent Advice**. Each Party warrants and represents that it has received or had the opportunity to obtain independent legal advice from such Party's attorney with respect to the rights and obligations arising from, and the advisability of executing, this Confidential Settlement Agreement and the Amendments.

9.4 **Due Authorization; No Conflict**. Each Party warrants and represents that such Party is fully entitled and duly authorized to enter into and deliver this Confidential Settlement Agreement and the Amendments. In particular, and without limiting the generality of the foregoing, each Party warrants and represents that it is fully entitled to grant the releases, enter into the covenants, and undertake the obligations set forth herein. Each Party also warrants and represents that: (i) neither the execution, nor the delivery, nor the performance of this Confidential Settlement Agreement and the Amendments by such Party will conflict with or result in a breach or violation of, or constitute a default under, or result in the imposition of a lien, charge, or encumbrance upon any of such Party's properties, or an acceleration of any of its indebtedness, pursuant to any of the terms of any agreement or instrument

by which such Party or its properties are bound, or any law, order, judgment, decree, rule or regulation applicable to it of any court, regulatory body, administrative agency, governmental body, stock exchange or arbitrator having jurisdiction over it; and (ii) no consent, approval, authorization or order of, or declaration or filing with, any court or governmental agency or body, or any Third Party, is required to be obtained or filed by such Party in connection with the transactions contemplated in this Confidential Settlement Agreement and the Amendments, except for those that have been obtained or made on or prior to the Effective Date.

9.5 Corporate Power. PDL warrants and represents that it is a corporation duly organized and validly existing under the laws of the state of Delaware. Genentech warrants and represents that it is a corporation duly organized and validly existing under the laws of the state of Delaware. Roche warrants and represents that it is a corporation duly organized and validly existing under the laws of the country of Switzerland. PDL, Genentech, and Roche further warrant and represent that they have full power and authority to enter into this Confidential Settlement Agreement and the Amendments and carry out the provisions thereof.

9.6 Survival of Warranties. All warranties and representations set forth in this Confidential Settlement Agreement shall survive the execution and delivery of this Confidential Settlement Agreement.

10. General Provisions.

10.1 Choice of Law. This Confidential Settlement Agreement shall be governed by and construed in accordance with the internal substantive laws (including statutes of limitation and principles of repose) of the state of California as applied to contracts made and wholly performed within the state of California without regard to its principles of choice of law. Each Party agrees that it will not argue to any court or other tribunal that the substantive laws of the state of California do not govern the construction or enforcement of this Confidential Settlement Agreement.

10.2 Dispute Resolution. Any dispute arising out of, related to, or connected with this Confidential Settlement Agreement, the 2014 Amended PLMA, the PDL License Agreements (as amended pursuant to Exhibits C, D, E, and F), or the 2003 Settlement Agreement (as amended pursuant to Exhibit B) shall be subject to the dispute resolution and arbitration provisions of Section 8.6 of the 2014 Amended PLMA.

10.3 Term. This Confidential Settlement Agreement shall become effective on the Effective Date, and unless otherwise specified herein, shall remain in effect until the later of December 31, 2015 or the performance and satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA, except that the provisions of Sections 6, 7, 9, and 10 shall survive the expiration of this Confidential Settlement Agreement.

10.4 No Oral Modification. No provision of this Confidential Settlement Agreement can be waived, modified, amended, or supplemented except in a writing that expressly references this Confidential Settlement Agreement and is signed by an authorized representative of each Party to be bound.

10.5 No Construction Against Drafter. Because all Parties have participated in drafting, reviewing, and editing the language of this Confidential Settlement Agreement and the

Amendments, no presumption for or against any Party arising out of drafting all or any part of this Confidential Settlement Agreement or the Amendments shall be applied in any action whatsoever.

10.6 No Third-Party Beneficiaries. Except as expressly set forth herein, the Parties agree that there are no third-party beneficiaries of any kind to this Confidential Settlement Agreement or to the Amendments.

10.7 Integrated Agreement. This Confidential Settlement Agreement, the 2014 Amended PLMA, the PDL License Agreements (as amended pursuant to Exhibits C, D, E, and F), and the 2003 Settlement Agreement (as amended pursuant to Exhibit B) constitute the entire understanding and contract between the Parties with respect to the subject matter referred to therein. Any and all other representations, understandings, or agreements, whether oral, written, or implied, are merged into and superseded by the terms of the foregoing agreements.

10.8 Headings. The subject headings used in this Confidential Settlement Agreement are included for purposes of convenience only, and shall not affect the construction or interpretation of any provisions of this document.

10.9 Severability. If any portion, provision or part of this Confidential Settlement Agreement is held, determined or adjudicated to be invalid, unenforceable or void for any reason, each such portion, provision or part shall be severed from the remaining portions, provisions or parts of this Confidential Settlement Agreement and shall not affect the validity or enforceability of such remaining portions, provisions or parts. This provision shall not apply to Sections 2, 3, and 6, those Sections being integral and non-severable parts of this Confidential Settlement Agreement, without which it would not have been entered into by the Parties.

10.10 No Waiver or Partial Waiver. The delay or failure of a Party to exercise any right, power, remedy, or privilege hereunder or failure to strictly enforce any breach, violation, default, provision or condition will not impair any such right, power, remedy or privilege nor will it constitute a waiver thereof or acquiescence thereto unless explicit written notice is provided. Any waiver, permit, consent, or approval of any kind regarding any breach, violation, default, provision or condition of this Confidential Settlement Agreement must be made in writing and signed by each Party and will be effective only to the extent specifically set forth in such writing.

10.11 Execution in Counterparts. This Confidential Settlement Agreement and the Amendments may be executed and delivered in any number of counterparts. When each Party has signed and delivered at least one counterpart to all other Parties, each counterpart shall be deemed an original and all counterparts, taken together, shall constitute one and the same agreement, which shall be binding and effective on the Parties hereto. This Confidential Settlement Agreement shall not become binding on the Parties hereto unless it has been executed by authorized representatives of all Parties.

10.12 Notice. Any notice required or desired to be given hereunder shall be in writing and shall be served as provided herein either by an air courier service (such as FedEx, DHL or UPS) or by personal delivery. Service of any notice shall be deemed complete upon actual receipt before 5:00 p.m. at the location of delivery (and shall be deemed complete on the following day if actually received after 5:00 p.m. at the location of delivery). In order to be effective, any notice must be served upon and received by both the Party or Parties and the persons designated to receive a copy thereof at the addresses

set forth below:

If to Genentech:

Genentech, Inc.
1 DNA Way
South San Francisco, CA 94080
Tel: (650) 225-1000
Fax: (650) 952-9881
Attn: General Counsel

With a copy to:

Williams & Connolly LLP
725 12th Street, N.W.
Washington, D.C. 20005
Attention: Paul Gaffney, Esq.

If to Roche:

F. Hoffmann-La Roche Ltd
Grenzacherstrasse 124
CH-4070
Basel, Switzerland
Attn: Legal Department
Fax: +41-61-688-1396

Attn: Head, Legal Department

With a copy to:

Williams & Connolly LLP
725 12th Street, N.W.
Washington, D.C. 20005
Attention: Paul Gaffney, Esq.

If to PDL:

PDL BioPharma, Inc.
932 Southwood Boulevard
Incline Village, NV 89451
Tel: 775-832-8500
Fax: 775-832-8501
Attn: General Counsel

With a copy to:

Irell & Manella LLP
1800 Avenue of the Stars, Suite 900
Los Angeles, California 90067
Attention: David I. Gindler, Esq.

The aforementioned addresses may be changed at any time by giving ten (10) days advance notice to the other Parties in accordance with the foregoing.

IN WITNESS WHEREOF, the Parties have approved and executed this Confidential Settlement Agreement as of the Effective Date.

PDL BioPharma, Inc.

By: _____

Name: _____

Title: _____

Genentech, Inc.

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

F. Hoffmann-La Roche Ltd

By: _____

Name: _____

Title: _____

By: _____

Name: _____

Title: _____

EXHIBIT A

Amendment No. 1 to the Amended and Restated Patent Licensing Master Agreement

AMENDMENT NO. 1 TO THE AMENDED AND RESTATED PATENT LICENSING MASTER AGREEMENT

This Amendment No. 1 to the Amended and Restated Patent Licensing Master Agreement ("**Amendment No. 1**") is entered into as of the Effective Date by and between PDL BioPharma, Inc. ("**PDL**") and Genentech, Inc. ("**Genentech**" or "**GNE**") (each, a "**Party**" and collectively, the "**Parties**"), and amends that certain Amended and Restated Patent Licensing Master Agreement dated July 27, 2009 (the **"PLMA"**).

Except as expressly provided herein, capitalized terms shall have the meanings set forth in the PLMA and references to Sections shall be deemed references to the PLMA.

WHEREAS, PDL and Genentech are Parties to the PLMA; and

WHEREAS, in connection with the Parties' execution of that certain Confidential Settlement Agreement by and between PDL, Genentech, and F. Hoffmann-La Roche Ltd executed concurrently herewith (the **"2014 Settlement Agreement"**), the Parties deem it to be in their best interests and to their mutual advantage to amend the PLMA as set forth herein.

NOW THEREFORE, in exchange for good and valuable consideration, the receipt of which is hereby acknowledged, the Parties agree as follows:

1. The Effective Date of this Amendment No. 1 shall be August 15, 2013.

2. Section 1.1 of the PLMA is deleted in its entirety and is replaced with the following new Section 1.1:

1.1 "Affiliate" shall mean any Entity that, on or after the Effective Date of Amendment No. 1 to this Agreement, controls, is controlled by, or is under common control with, another Entity; and "control" for purposes of this definition shall mean the possession of the power to direct or cause the direction of substantially all of the management and policies of an Entity, whether through the ownership of voting stock, by contract or otherwise. In the case of a corporation, "control" shall include the direct or indirect ownership of fifty percent (50%) or more of the outstanding voting stock. An Entity shall be an Affiliate only during such period of time that such Entity meets the definition set forth in this Section 1.1. With respect to Genentech and Roche, the term "Affiliate" shall not include Chugai Pharmaceutical Co., Ltd. ("Chugai") unless and until Genentech or Roche provides written notice to PDL specifying Chugai as an Affiliate.

3. The following Section 1.1.1 is added to the PLMA:

1.1.1 "Entity" means a trust, corporation, partnership, joint venture, limited liability company, association, unincorporated organization or other legally recognized form of organization. **"Person"** shall mean any natural person or Entity.

4. The following Section 1.1.2 is added to the PLMA:

1.1.2 "Designee" shall mean an Affiliate, sublicensee, co-promoting party, or other Person employed by or under contract with Genentech to sell, or otherwise authorized by Genentech to sell a particular Licensed Product or GNE Licensed Product (or Licensed Products or GNE Licensed Products) for or on behalf of Genentech. A Person shall be a Designee only during such period of time that such Person meets the definition set forth in this Section 1.1.2. The Parties acknowledge and agree, for the avoidance of doubt, that each of Roche and Novartis Pharma AG shall be considered a Designee of Genentech (each with respect to certain Licensed Product(s) or GNE Licensed Product(s)) for purposes of this Agreement and the PDL License Agreements (as amended).

5. Section 1.7 of the PLMA is deleted in its entirety and is replaced with the following new Section 1.7:

1.7 "GNE Licensed Product" means an Antibody with respect to which GNE has either significant marketing rights or has done significant development (*e.g.*, created, humanized or conducted preclinical or clinical development), the manufacture, import, use, offer to sell or sale of which would, if not licensed under this Agreement, infringe one or more claims in any PDL Licensed Patent, or infringe any component of the PDL Licensed Patents (including supplementary protection certificates or applications therefor), which have neither expired nor been disclaimed. GNE agrees and stipulates, for the avoidance of doubt, that trastuzumab (Herceptin), bevacizumab (Avastin), omalizumab (Xolair), ranibizumab (Lucentis), pertuzumab (Perjeta), and ado-trastuzumab emtansine (Kadcyla) are GNE Licensed Products.

6. The following Section 1.7.1 is added to the PLMA:

1.7.1 "Licensed Product" shall mean a product as defined in Section 1.08 of any of the PDL License Agreements (as amended).

7. Sections 1.9, 1.10, and 1.11 of the PLMA are deleted in their entirety.

8. "Exhibit A" referenced in Section 1.12 shall be deemed to refer to Exhibit A attached hereto.

9. Section 1.13 of the PLMA is deleted in its entirety and is replaced with the following new Section 1.13:

1.13 "PDL Licensed Patents" means the patents and patent applications identified on **Exhibit B** and including any applications filed as of the Original Effective Date in the United States or any foreign jurisdiction. PDL Licensed Patents shall include U.S. and foreign patents and patent applications which claim priority to any application to which a listed U.S. patent also claims priority. PDL Licensed Patents shall also include any foreign equivalents, addition, continuation, continuation-in-part or division of such patents or patent applications or any substitute applications therefor, any patent issued with respect to any such patent application, any reissue, extension or patent term

extension of any such patent (including supplementary protection certificates and any other similar foreign equivalent and any applications therefor), and any confirmation patent or registration patent or patent of addition based on any such patent. Attached hereto as **Exhibit B** is a list of patents, patent applications, and supplementary protection certificates (including applications therefor) that PDL in good faith believes (i) represents PDL Licensed Patents as of the Effective Date and (ii) represents all of the patents, patent applications, and supplementary protection certificates (including applications therefor) owned by PDL as of the Effective Date that relate generally to the humanization of antibodies.

10. "Exhibit B" in the foregoing new Section 1.13 shall be deemed to refer to Exhibit B attached hereto.

11. The following Section 1.15 is added to the PLMA:

1.15 "Avastin" shall mean the antibody product with the generic name bevacizumab, whether sold under the name Avastin or any other name.

12. The following Section 1.16 is added to the PLMA:

1.16 "**Herceptin**" shall mean the antibody product with the generic name trastuzumab, whether sold under the name Herceptin or any other name.

13. The following Section 1.17 is added to the PLMA:

1.17 "**Kadcyla**" shall mean the antibody product with the generic name ado-trastuzumab emtansine, whether sold under the name Kadcyla or any other name.

14. The following Section 1.18 is added to the PLMA:
1.18 "**Lucentis**" shall mean the antibody product with the generic name ranibizumab, whether sold under the name Lucentis or any other name.

15. The following Section 1.19 is added to the PLMA:

1.19 "**Perjeta**" shall mean the antibody product with the generic name pertuzumab, whether sold under the name Perjeta or any other name.

16. The following Section 1.20 is added to the PLMA:

1.20 "**Xolair**" shall mean the antibody product with the generic name omalizumab, whether sold under the name Xolair or any other name.

17. The following Section 1.21 is added to the PLMA:

1.21 "Roche" shall mean Roche Holding, Inc. and its Affiliates, including without limitation F. Hoffmann-La Roche Ltd.

18. The following Section 1.22 is added to the PLMA:

1.22 "Net Sales" shall have the meaning set forth in Section 1.09 of the PDL License Agreements (as amended).

19. The following Section 1.23 is added to the PLMA:

1.23 "Third Party." Solely for purposes of this Agreement, as amended by Amendment No. 1 hereto, the term "Third Party" shall mean a Person that is not Genentech or Roche, or an Affiliate or Designee of Genentech or Roche.

20. Sections 2.2(a), 2.2(b), and 2.2(c) of the PLMA are deleted in their entirety and are replaced with the following new Section 2.2:

2.2 Number of Licensed Antigens. GNE's right to obtain licenses pursuant to Section 2.1 may be exercised for Antibodies directed against a maximum total of eight (8) Antigens. As of the Effective Date, GNE has already exercised licenses with respect to the following Antigens: HER-2, CD11a, VEGF, and IgE. GNE's right to elect to obtain any additional licenses shall expire on December 31, 2014.

21. Sections 3.2(a) and 3.2(b) of the PLMA are deleted in their entirety and are replaced with the following new Section 3.2:

3.2 License Exercise Fees. Within fifteen (15) business days after the delivery of a written notice to PDL for a nonexclusive license for Antibodies for one (1) Antigen under Section 2.1, GNE shall pay to PDL an exercise fee ("GNE License Exercise Fee") of * * *.

22. Section 3.3 of the PLMA is deleted in its entirety and is replaced with the following new Section 3.3:

3.3 Annual Maintenance Fees. Each PDL License Agreement shall provide for the payment to PDL of an annual maintenance fee beginning on the third (3rd) anniversary of each PDL License Agreement of * * *. The PDL License Agreement shall further provide that annual maintenance fees shall be fully creditable against royalties payable in the year with respect to which such annual maintenance fee is paid.

23. Section 4.1 of the PLMA is deleted in its entirety and is replaced with the following new Section 4.1:

4.1 Royalty Rates.

(a) Genentech agrees and covenants to pay royalties to PDL, notwithstanding any provision of any PDL License Agreement to the contrary, at the rate of two and one eighth percent (2.125%) of Net Sales of Herceptin, Avastin, Xolair, Perjeta, Kadcyla, and

any other GNE Licensed Product or Licensed Product (with the exception of Lucentis as discussed in Sections 4.1(b)-(d) below) by Genentech and/or its Affiliates and/or Designees to Third Parties occurring in any country in the world, occurring any time from (and including) August 15, 2013 until (and including) December 31, 2015.

(b) Genentech agrees and covenants to pay royalties to PDL, notwithstanding any provision of any PDL License Agreement to the contrary, at the rate of two and one eighth percent (2.125%) of Net Sales of Lucentis by Genentech and/or its Affiliates and/or Designees to Third Parties occurring outside of the United States, occurring any time from (and including) August 15, 2013 until (and including) December 28, 2014.

(c) Genentech shall owe no royalties to PDL on Net Sales of Lucentis in the United States occurring after June 30, 2013.

(d) Fixed Royalty Term and Fully Paid Up License

1. The Parties acknowledge and agree that in no event shall Genentech owe any royalties to PDL under this Agreement or the PDL License Agreements on Net Sales of (i) Lucentis occurring in the United States after June 30, 2013, (ii) Lucentis occurring outside the United States after December 28, 2014, and (iii) Avastin, Herceptin, Xolair, Perjeta, Kadcyla and any other GNE Licensed Product or Licensed Product occurring anywhere in the world after December 31, 2015, in each case of (i), (ii), and (iii) regardless of the expiry date or technical scope of any component of the PDL Licensed Patents.

2. Upon the satisfaction of all payment obligations provided for in this Section 4 and the PDL License Agreements on Net Sales of Lucentis occurring in the United States on or prior to June 30, 2013, Genentech shall have a fully paid up license under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Net Sales of Lucentis occurring in the United States.

3. Upon the satisfaction of all payment obligations provided for in this Section 4 and the PDL License Agreements on Net Sales of Lucentis occurring outside the United States on or prior to December 28, 2014, Genentech shall have a fully paid up license under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Lucentis.

4. Upon the satisfaction, on a product by product basis, of all payment obligations provided for in this Section 4 and the PDL License Agreements on Net Sales of Avastin, Herceptin, Xolair, Perjeta, Kadcyla, or any other GNE Licensed Product or Licensed Product (other than Lucentis) occurring anywhere in the world on or prior to December 31, 2015, Genentech shall have a fully paid up license, on a product by product basis, under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Avastin, Herceptin, Xolair, Perjeta, Kadcyla and any other GNE Licensed Product or Licensed Product.

(e) Genentech and PDL agree that if regulatory approval for onartuzumab is obtained prior to the expiration of U.S. Patent No. 5,693,761 ("'761 patent"), * * *. In the event that Genentech and PDL disagree whether onartuzumab meets that limitation, they jointly will engage a mutually agreeable independent laboratory or expert experienced in performing protein affinity analyses, and will cause to be submitted to that laboratory or expert a sample of onartuzumab * * *. Genentech and PDL will share equally the cost of the testing. The determination of the independent laboratory or expert will be final and binding on Genentech and PDL. If Genentech agrees, or if the independent laboratory or expert determines, that onartuzumab * * * then onartuzumab will be deemed to be a GNE Licensed Product and Licensed Product and will become royalty bearing under the terms of Section 4.1(a) above.

(f) In the case of a GNE Licensed Product that is a bispecific antibody, to the extent a license is required under the PDL Licensed Patents, each arm of such bispecific antibody shall require a separate license, provided that even if two licenses are required, the bispecific antibody shall be considered one GNE Licensed Product and bear the royalty applicable to one GNE Licensed Product. For example, if two licenses are required for a GNE Licensed Product that is a bispecific antibody, the royalty due on sales of such GNE Licensed Product, even if two licenses are required, shall be two and one eighth percent (2.125%) of Net Sales by Genentech, its Affiliates, and/or Designees, to one or more Third Parties. Genentech shall owe no royalties to PDL on Net Sales of any such antibody occurring after December 31, 2015.

(g) Royalties owed on Net Sales of any GNE Licensed Product occurring prior to the effective date of the PDL License Agreement under which that product is licensed shall be paid in the first royalty payment under such PDL License Agreement.

24. The following Section 4.3 is added to the PLMA:

4.3 Inventory Products. The Parties acknowledge and agree that (i) Genentech is obligated to pay royalties to PDL on sales of GNE Licensed Products and Licensed Products manufactured prior to the expiry of the PDL Licensed Patents, but sold after the expiry of the PDL Licensed Patents ("**Inventory Products**"); (ii) in an effort to address the difficulties involved in tracking and reconciling the dates of manufacture and sale of Inventory Products, the Parties have amended this Agreement (by way of this Amendment No. 1) to specify the exact dates during which Genentech's sales of GNE Licensed Products and Licensed Products are royalty bearing and not royalty bearing; and (iii) those dates reflect reasonable and good faith efforts by the Parties to estimate the period required for Genentech to exhaust its stocks of Inventory Products on which a royalty would be owed.

25. Section 5.1(c) of the PLMA is deleted in its entirety.

26. Section 7.1 of the PLMA is deleted in its entirety and is replaced with the following new Section 7.1:

7.1 Term. This Agreement shall remain in effect until the later of December 31, 2015 or the performance and satisfaction of all payment obligations provided for in Section 4 hereof.

27. Section 8.2 of the PLMA is deleted in its entirety and is replaced with the following new Section 8.2:

8.2 Entire Agreement; Amendment. This Agreement (as amended by Amendment No. 1), the 2014 Settlement Agreement, the PDL License Agreements (as amended), and the 2003 Settlement Agreement (as defined in and amended pursuant to the 2014 Settlement Agreement) constitute the entire understanding and contract between the Parties with respect to the subject matter referred to therein. Any and all other representations, understandings, or agreements, whether oral, written, or implied, are merged into and superseded by the terms of the foregoing agreements. No provision of this Agreement can be waived, modified, amended, or supplemented except in a writing that expressly references this Agreement and is signed by an authorized representative of each Party to be bound.

28. Section 8.4 of the PLMA is deleted in its entirety and is replaced with the following new Section 8.4:

8.4 Notice. Any notice required or desired to be given hereunder shall be in writing and shall be served as provided herein either by an air courier service (such as FedEx, DHL or UPS) or by personal delivery. Service of any notice shall be deemed complete upon actual receipt before 5:00 p.m. at the location of delivery (and shall be deemed complete on the following day if actually received after 5:00 p.m. at the location of delivery). In order to be effective, any notice must be served upon and received by both the Party or Parties and the persons designated to receive a copy thereof at the addresses set forth below:

If to Genentech:

Genentech, Inc.
1 DNA Way
South San Francisco, CA 94080
Tel: (650) 225-1000
Fax: (650) 952-9881
Attn: General Counsel

With a copy to:
Williams & Connolly LLP
725 12th Street, N.W.
Washington, D.C. 20005
Attention: Paul Gaffney, Esq.

If to PDL:

PDL BioPharma, Inc.
932 Southwood Boulevard
Incline Village, NV 89451
Tel: 775-832-8500
Fax: 775-832-8501
Attn: General Counsel

With a copy to:

Irell & Manella LLP
1800 Avenue of the Stars, Suite 900
Los Angeles, California 90067
Attention: David I. Gindler, Esq.

29. In Section 8.6, the term "GNE License Agreement" is stricken and replaced by the term "PDL License Agreement."

30. This Amendment No. 1 may be executed and delivered in any number of counterparts. When each Party has signed and delivered at least one counterpart to all other Parties, each counterpart shall be deemed an original and all counterparts, taken together, shall constitute one and the same agreement, which shall be binding and effective on the Parties hereto. This Amendment No. 1 shall not become binding on the Parties hereto unless it has been executed by authorized representatives of all Parties.

31. On and after the Effective Date, each reference in the PLMA to "this Agreement," "Master Agreement," "hereunder," "hereof," or words of like import referring to the PLMA, as well as references to the PLMA in other agreements between PDL and Genentech, shall mean and be a reference to the PLMA as amended by this Amendment No. 1.

32. Except as specifically amended above, the PLMA is and shall continue to be in full force and effect. In the event of any conflict between the terms of this Amendment No. 1, on the one hand, and the terms of the PLMA, the PDL License Agreements, or the 2014 Settlement Agreement, on the other hand, the terms of this Amendment No. 1 shall govern.

IN WITNESS WHEREOF, the Parties have executed this Amendment through their duly authorized representatives as of the Effective Date.

PDL BioPharma, Inc. **Genentech, Inc.**

By _____ By _____

Title _____ Title _____

Exhibit A

Form of PDL License Agreement

PDL LICENSE AGREEMENT

between

PDL BIOPHARMA, INC.

and

GENENTECH, INC.

This PDL License Agreement ("***Agreement***"), effective as of _____ ("Effective Date"), is made by and between and PDL BIOPHARMA, INC., a Delaware corporation, having a principal place of business at 932 Southwood Blvd., Incline Village, NV 89451 (hereinafter "***PDL***") and GENENTECH, INC., a Delaware corporation, having a principal place of business at 1 DNA Way, South San Francisco, CA 94080 (hereinafter "***GNE***").

RECITALS

A. GNE and PDL have entered into an Amended and Restated Patent Licensing Master Agreement (Queen Patents) effective July 27, 2009 (the "Master Agreement"), pursuant to which GNE may enter into this Agreement with respect to a license under the "Queen Patents" for GNE's antibody products.

B. The Master Agreement provides GNE with right to obtain a nonexclusive, worldwide, royalty-bearing license under the PDL Licensed Patents under the terms and conditions of this Agreement.

AGREEMENT

NOW THEREFORE, in consideration of the mutual covenants herein contained and intending to be legally bound, the parties agree as follows:

1. DEFINITIONS

All references to Exhibits, Articles and Sections shall be references to Exhibits, Articles and Sections of this Agreement. In addition, except as otherwise expressly provided herein, the following terms in this Agreement shall have the following meanings:

1.01. "***Affiliate***" means any corporation or other business entity controlled by, controlling, or under common control with another entity, with "control" meaning direct or indirect beneficial ownership of more than fifty percent (50%) of the voting stock of such corporation, or more than a fifty percent (50%) interest in the decision-making authority of such other unincorporated business entity; and a corporation in which the maximum amount of stock permitted by law to be held by another entity is beneficially owned by such other entity. Notwithstanding the foregoing, for purposes of this Agreement, Roche Holdings, Inc. and its affiliates (other than GNE and its subsidiaries) shall not be deemed Affiliates of GNE unless GNE opts to include Roche Holdings, Inc. or such an affiliate as an Affiliate of GNE by giving written notice to PDL. For purposes of this Agreement, "Roche"

shall mean Roche Holdings, Inc. together with its affiliated companies (other than GNE and its subsidiaries).

1.02. "***Antibody***" means any antibody directed against an Antigen and shall include, without limitation, monospecific and bispecific antibodies (but only with respect to the Antigen for a bispecific antibody); less than full-length antibody forms such as Fv, Fab, and $F(ab')_2$, ingle-chain antibodies and antibody conjugates bound to a toxin, label or other moiety, as well as any and all such constructs directed against the Antigen.

1.03. "***Antigen***" means the target molecule: _____.

1.04. "***Bulk Product***" means Licensed Product supplied in a form other than Finished Product which can be converted into Finished Product.

1.05. "***Combination Product(s)***" means any product containing both a pharmaceutically active agent or ingredient which constitutes a Licensed Product and one or more other pharmaceutically active agents or ingredients which do not constitute Licensed Products.

1.06. "***Europe***" means the European Patent Convention Member Countries, including any successor organization and any additional countries that may join such organization from time to time during the term of this Agreement.

1.07. "***Finished Product(s)***" means any and all Licensed Products in form for use by an end user and not intended for further chemical or genetic manipulation or transformation.

1.08. "***Licensed Product(s)***" means an Antibody with respect to which GNE has either significant marketing rights or has done significant development (e.g., created, humanized or conducted preclinical or clinical development), the manufacture, import, use, offer to sell or sale of which would infringe, if not licensed under this Agreement, a Valid Claim.

1.09. "***Net Sales***" means the aggregate gross revenues, whether in cash or in kind, derived by or payable from or on account of the sale or other transfer of Finished Products by GNE, Affiliates of GNE, GNE's sublicensees, Roche or Affiliates of GNE's sublicensees to an independent third party not an Affiliate of GNE, a sublicensee of GNE, Roche, or an Affiliate of a sublicensee of GNE, less Five Percent (5%) to cover the following: (a) credits or allowances, if any, actually granted on account of price adjustments, recalls, rejection or return of items previously sold, (b) excise and sales taxes, duties or other taxes imposed on and paid with respect to such sales (excluding income or franchise taxes of any kind, and (c) outer packing, freight and freight costs. For all Finished Product(s) used or consumed by others than GNE, GNE shall be entitled to deduct Five Percent (5%) from Net Sales in lieu of all other deductions such as taxes, shipping charges, packing, allowances and the like prior to calculating royalties due. If GNE or any of its Affiliates or sublicensees receive non-cash consideration for any Finished Product sold or otherwise transferred to an independent third party not Roche or an Affiliate of the seller or transferor, the fair market value of such non-cash consideration on the date of such transfer as known to GNE, or as reasonably estimated by GNE if unknown, shall be included in the definition of Net Sales. Net Sales shall not include Finished Products provided for bona fide clinical trial, evaluation, research or development purposes.

Net Sales for Bulk Products shall be calculated by multiplying the units of Finished Product to which such Bulk Product is reasonably anticipated to be converted by the established market price of the Finished Product on the date of sale of the Bulk Product. By way of example and without limitation, units of Finished Product may be measured in grams or doses, as appropriate.

The method of calculating Net Sales of materials in form other than Finished Product or Bulk Product that can be converted into Finished Product shall be established by good faith discussion between PDL and GNE prior to the first sale or transfer of any such material by GNE to a non-Affiliate.

1.10. "***Opposition Proceedings***" means the legal proceedings at the European Patent Office ("EPO") initiated against EP patent 451,216B1 and terminating at the decision (oral and/or written) rendered by the Opposition Division ("OD") of the EPO, but excluding any proceedings resulting from the filing of an appeal to the OD's decision.

1.11. "***PDL Licensed Patents***" means the patents and patent applications identified on Exhibit A, and including any applications filed as of the Effective Date in the United States or any foreign jurisdiction. PDL Licensed Patents shall include U.S. or foreign patents or patent applications which claim priority to any application to which a listed U.S. Patent also claims priority. PDL Licensed Patents shall also include any foreign equivalents, addition, continuation, continuation-in-part or division of such patents or patent applications or any substitute applications therefor, any parent issued with respect to any such patent application, any reissue, extension or patent term extension of any such patent, and any confirmation patent or registration patent or patent of addition based on any such patent. **[Drafting note: Update by PDL prior to delivery.]**

1.12. "***Territory***" means either (a) worldwide, or (b) if GNE elects to exclude a license under the PDL Licensed Patents in Europe pursuant to Section 2.05 hereof, worldwide except for Europe.

1.13. "***Valid Claim***" means any claim in any PDL Licensed Patents which claim has neither expired or been disclaimed nor been held invalid or unenforceable by a court or other body of competent jurisdiction from which no appeal has been or may be taken.

2. LICENSE

2.01. License Grant. Subject to the fulfillment by GNE of all of the terms and conditions of this Agreement, PDL hereby grants to GNE and GNE hereby accepts a nonexclusive license in the Territory under the PDL Licensed Patents, including the right to grant sublicenses in accordance with Section 2.02, to make, have made, import, use, offer to sell and sell Licensed. Products in the Territory. PDL shall be free at its discretion to enter into additional agreements with additional licensees at any time and on terms solely of its choosing.

2.02. Limitation on Sublicenses; Notification. GNE shall have the right to grant sublicenses of its rights under Section 2.01 with respect to Licensed Products, provided that GNE shall grant such sublicenses only in connection with the assignment or license by GNE to such sublicensee of the right to use, make, have made, sell or otherwise transfer the Licensed Products. GNE shall notify PDL of the identity of the sublicensee and scope of such sublicense promptly following the grant of a sublicense hereunder. Notwithstanding the assignment or grant of a sublicense by GNE hereunder, GNE shall remain obligated to pay all royalties due to PDL with respect to the sale of Licensed

Products by its assignee or sublicensee. In addition, the grant of any sublicenses under Section 2.01 shall be on terms and conditions which are subject to and subordinate to the terms of this Agreement and GNE shall remain fully responsible to PDL for the performance of any and all such terms by its sublicensees.

2.03. Updates to List of PDL Licensed Patents. Upon written request of GNE (which request shall not be made more than once per calendar year), PDL agrees to provide a written update listing the PDL Licensed Patents, and such update shall constitute an amendment to **Exhibit A**. PDL may, at its option, furnish such update to GNE from time to time during the term of this Agreement as part of an update to the Master Agreement.

2.04. No Other Rights. GNE acknowledges and agrees that, except for the license expressly granted under Section 2.01, no rights to any other PDL patents or patent applications, or to any know-how, trade secrets or licenses are included in this Agreement or granted by implication, estoppel or otherwise.

2.05. Election to Terminate License in Europe. GNE may elect, upon written notice to PDL, to terminate a license under any claims of the PDL Licensed Patents in Europe if such claims have been determined to be invalid or modified pursuant to the Opposition Proceedings such that the Licensed Product would no longer constitute a Licensed Product in Europe. GNE shall notify PDL in writing of its intent to terminate a license under this Agreement in Europe within fifteen (15) business days after the conclusion of the Opposition Proceedings, and the Agreement shall be amended such that the Territory shall not include Europe effective as of the date of such written note. **[Drafting note: This Section, will be included in the PDL License Agreement if GNE takes a license under the PDL Licensed Patents before the Opposition Proceedings are concluded.]**

3. PAYMENTS, ROYALTIES, REPORTS

3.01. Signing Fee, In consideration for the license granted by PDL under Article 2 of this Agreement, GNE shall pay to PDL, within fifteen (15) business days of the Effective Date of this Agreement, a nonrefundable signing and licensing fee in the sum of * * * GNE shall be entitled to deduct from the signing and licensing fee under this Agreement any amounts not previously credited and subject to credit under Section 3.03(a). All such deductions shall be documented with any payments hereunder. **[Drafting note: Amount will depend on whether GNE takes a license under the PDL Licensed Patents before the Opposition Proceedings are concluded.]**

3.02. Annual Maintenance Fee. In further consideration of the license granted under Article 2, within fifteen (15) business days of the third (3rd) anniversary of the Effective Date and each anniversary thereafter, GNE shall pay PDL a nonrefundable annual maintenance fee in the amount of * * *. Such annual maintenance shall be fully creditable against royalties payable by GNE for the year with respect to which such annual maintenance fee is paid. **[Drafting note: Amount will depend on whether GNE takes a license under the PDL Licensed Patents before the Opposition Proceedings are concluded.]**

3.03. Credits; Reductions. If, after the Effective Date of this Agreement, GNE elects to terminate its rights to the PDL Licensed Patents in Europe pursuant to Section 2.05, the following credits and reductions shall apply:

(a) after notification by GNE pursuant to Section 2.05, * * * shall be creditable against the annual maintenance fees or royalties payable to PDL under this Agreement until such credit is exhausted, provided that such credit shall not reduce the amount payable to PDL to less than Fifty Percent (50%) of what would otherwise have been paid to PDL; and

(b) after notification by GNE pursuant to Section 2.05, the annual maintenance fees paid by GNE pursuant to Section 3.02 shall be reduced to * * *.

[Drafting note: This Section will be included in the PDL License Agreement if GNE takes a license under the PDL Licensed Patents before the Opposition Proceedings are concluded.]

3.04. Royalties to PDL. The royalties payable to PDL under this PDL License Agreement shall be as set forth in Section 4.1 of the Master Agreement, except that in the event that GNE: (i) breaches its obligations under Sections 2.3 or 2.4 of the Settlement Agreement by and between PDL and GNE dated December 18, 2003 ("Settlement Agreement"); and (ii) fails to cure such breaches as provided under Section 4.2 of the Settlement Agreement, then PDL, at its sole discretion, may invoke its rights under Article 4 of the Settlement Agreement.

3.05. Sales Among Affiliates. Sales or other transfers of Licensed Products between and among GNE and any of its Affiliates, its sublicensees or Roche which are subsequently resold or to be resold by such Affiliates, sublicensees or Roche shall not be subject to royalty, but in such cases royalties shall accrue and be calculated on any subsequent sale or other transfer of such Licensed Products to a non-Affiliate. GNE is obligated to pay royalties to PDL only once with respect to each unit of a Licensed Product,

3.06. Combination Products. Net Sales in a particular country in the Territory, in the case of Combination Products for which the pharmaceutically active agent or ingredient constituting a Licensed Product and each of the other pharmaceutically active agents or ingredients not constituting Licensed Products have established market prices in that country in the Territory when sold separately, shall be determined by multiplying the Net Sales for each such Combination Product by a fraction, the numerator of which shall be the established market price for the Finished Product(s) contained in the Combination Product and the denominator of which shall be the sum of the established market prices for the Finished Product(s) plus the established market prices for the other pharmaceutically active agents or ingredients contained in the Combination Product. When such separate market prices are not established in that country in the Territory, then the parties shall negotiate in good faith to determine a fair and equitable method of calculating Net Sales in that country for the Combination Product in question.

3.07. Currency Conversion. All amounts payable to PDL under this Agreement shall be payable in U.S. Dollars by wire transfer to a bank account designated by PDL. In the case of royalties on Net Sales, all amounts payable shall first be calculated in the currency of sale and then converted into U.S. Dollars using the average of the daily exchange rates for such currency quoted by Citibank, N.A. for each of the last five (5) banking days of each calendar quarter.

3.08. Reports.

(a) **Current Reports**. GNE agrees to make written reports and royalty payments to PDL within sixty (60) days after the close of each calendar quarter during the term of this Agreement,

beginning with the calendar quarter in which the date of first commercial sale or other transfer of a Licensed Product by GNE, its Affiliates, Sublicensees or Roche, provided that reports with respect to sales by sublicensees or Roche shall include only those sales as to which royalty reports were received by GNE during such calendar quarter. Sales of a Licensed Product occurring prior to the Effective Date shall be reported, and royalties on such sales shall be paid, in the first written report and royalty payment under this Agreement. These reports shall be certified by an officer of GNE and shall state for the calendar quarter in question: (1) identification of Net Sales of the Licensed Product on a country-by-country basis, (2) Net Sales in the Territory, (3) the quantities of Licensed Products sold or manufactured in such quarter in the Territory, (4) applicable offsets and (5) the net royalty due to PDL thereon pursuant to this Article 3. No later than at the time of the making of each such report, GNE shall make any payment due to PDL of royalties for the period covered by such report.

(b) **Termination Report**. For each Licensed Product, GNE also agrees to make a written report to PDL within ninety (90) days after the date on which GNE, its Affiliates or sublicensees last sell or otherwise transfer that Licensed Product in the Territory stating in such report the same information required by quarterly reports for all such Licensed Products made, sold or otherwise disposed of which were not previously reported to PDL.

(c) **Notification of Marketing Approval**. GNE agrees to notify PDL it writing within sixty (60) days after the date on which GNE, its Affiliates or sublicensees or Roche obtain marketing approval of a Licensed Product in any country in the Territory. Such notice shall specify the country in which marketing approval was obtained and the date of such approval.

3.09. Inspection. GNE agrees to keep, and to require any of its Affiliates or sublicensees to keep, clear, accurate and complete records for a period of at least three (3) years for each reporting period in which Net Sales occur showing the sales of Licensed Products in the Territory in sufficient detail to enable the royalties payable hereunder to be determined, and further agrees to permit its books and records, and to require any of its Affiliates or sublicensees to permit their books and records, to be examined by an independent accounting firm selected by PDL and reasonably satisfactory to GNE from time to time, but not more than once a year. Such examination is to be made at the expense of PDL, except in the event that the results of the audit reveal that GNE underpaid PDL by three percent (3%) or more, then GNE shall pay any deficiency plus interest for such overdue royalties in accordance with Section 3.11 hereof, and the audit fees shall be paid by GNE. Any such discrepancies will be promptly corrected by a payment or refund, as appropriate.

3.10. Withholding.

(a) **Fees**. The amounts payable under Sections 3.01 and 3.02 shall represent the actual proceeds to be received by PDL, net of any withholding or other taxes or levies that may be applicable to such payments. PDL agrees to reasonably cooperate with GNE in obtaining a refund of any withholding taxes or levies paid by GNE, if any, with respect to any payments to PDL hereunder. In the event that PDL is successful in obtaining any refund of tax withholding amounts paid by GNE under this Agreement, PDL agrees to promptly remit such refund amount to ONE.

(b) **Royalty Payments**. GNE may withhold from royalties due to PDL amounts for payment of any income or withholding tax that GNE has actually paid to any taxing authority with respect to royalty amounts due to PDL hereunder in the Territory. GNE shall promptly provide PDL

with official tax receipts or other documentation sufficient to enable PDL to satisfy U.S. tax authorities with respect to PDL's application for a for-tax credit. GNE agrees to reasonably cooperate with PDL in obtaining a foreign tax credit in the U.S. with respect to royalties due to PDL on the sale or manufacture of Licensed Products.

3.11. Interest on Overdue Royalties. GNE shall be liable for interest on any overdue royalties, at the rate of ten percent (10%) per annum, or the highest rate allowed by law, whichever is less, commencing on the date such royalties are due until paid.

3.12. Royalties to Third Parties. GNE acknowledges and agrees that other licenses may be required from third parties with respect to the development, manufacture, importation, use, and sale of any Licensed Product under this Agreement, and that GNE shall be responsible for any royalties and other payments with respect to those license rights. In no event shall GNE have a right to credit against, reduce or otherwise offset any royalty or payment obligations to such third parties against royalty amounts payable to PDL under the this Agreement.

4. INFRINGEMENT OF PDL LICENSED PATENTS

4.01. Suits. PDL shall have no obligation hereunder to institute any action, suit or other proceeding against third parties for infringement of any PDL Licensed Patents or to defend any action, suit or proceeding brought by a third party which challenges or concerns the validity or enforceability of any PDL Licensed Patents in the Territory. Any monies recovered from alleged infringers shall be retained by PDL.

4.02. Notification of Third Party Infringements. GNE shall promptly notify PDL in writing of any actual or suspected infringement by third parties of any PDL Licensed Patent, which notification shall specify in reasonable detail the nature of such actual or suspected infringement of which GNE is aware and shall provide PDL with the available evidence, if any of such infringement.

5. REPRESENTATIONS AND WARRANTIES; DISCLAIMERS; INDEMNIFICATION

5.01. Representations of GNE. GNE represents and warrants to PDL that:

(a) The execution, delivery and performance of this Agreement by GNE will not, with or without notice, the passage of time or both, result in any violation of, be in conflict with, or constitute a default under any material contract, obligation or commitment to which GNE is a party or by which it is bound, or to GNE's knowledge, violate any statute, rule or governmental regulation applicable to GNE.

(b) GNE has all requisite legal and corporate power and authority to enter into this Agreement on behalf of itself and its Affiliates and to carry out and perform its obligations under the terms of this Agreement.

5.02. Representations of PDL. PDL represents and warrants to GNE that:

(a) The execution, delivery and performance of this Agreement by PDL will not, with or without notice, the passage of time or both, result in any violation of be in conflict with, or constitute a default under any material contract, obligation or commitment to which PDL is a party or

by which it is bound, or to PDL's knowledge, violate any statute, rule or governmental regulation applicable to PDL.

(b) PDL has all requisite legal and corporate power and authority to enter into this Agreement and to carry out and perform its obligations under the terms of this Agreement.

5.03. Disclaimers. Nothing in this Agreement shall be construed as (a) a warranty or representation by PDL as to the validity, enforceability or scope of any PDL Licensed Patents; (b) a requirement that PDL file any patent application, or to secure any patent or patent rights, or maintain any patent in force, or to provide copies of patent applications to GNE or its Affiliates or sublicensees, or to disclose any inventions described or claimed in such patent applications; or (c) a warranty or representation by PDL that any Licensed Product made, used, imported, sold or otherwise disposed of under the license granted in this Agreement is or will be free from infringement of patents, copyrights, trademarks, trade secrets or other rights of third parties. GNE acknowledges and agrees that any royalties or payments that may be due to third parties in order for GNE to make, have made, import, use, sell or otherwise dispose of Licensed Products shall be the sole responsibility of GNE.

5.04. No Other Warranties. EXCEPT AS SPECIFICALLY SET FORTH IN ARTICLE 5, PDL MAKES NO REPRESENTATIONS OR WARRANTIES OF ANY KIND, EITHER EXPRESS OR IMPLIED, WITH RESPECT TO PDL LICENSED PATENTS OR ANY CELL LINES, ANTIBODIES OR LICENSED PRODUCTS DEVELOPED BY GNE UNDER THE LICENSE SET FORTH IN THIS AGREEMENT AND PDL FURTHER MAKES NO EXPRESS OR IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, OR THAT THE USE OF OR PRACTICE UNDER PDL LICENSED PATENTS OR ANY CELL LINES, ANTIBODIES, LICENSED PRODUCTS OR OTHER MATERIALS DEVELOPED BY ONE UNDER THE LICENSE SET FORTH IN THIS AGREEMENT WILL NOT INFRINGE ANY THIRD PARTY RIGHTS.

5.05. Indemnification. GNE shall at all times, during the term of this Agreement and thereafter, indemnify and hold harmless PDL and its Affiliates, sublicensees, directors, officers, agents and employees from any claim, proceeding, loss, expense, and liability of any kind whatsoever (including but not limited to those resulting from death, personal injury, illness or property damage and including legal expenses and reasonable attorneys' fees) arising out of or resulting from (a) any claim of patent infringement (direct or contributory) or inducing patent infringement with respect to the activities of GNE or its Affiliates or sublicensees, and (b) the development, manufacture, holding, use, testing, advertisement, sale or other disposition by GNE, its Affiliates or sublicensees, or any distributor, customer or representative thereof or any one in privity therewith, of any Licensed Product; provided, however, that PDL shall promptly notify GNE of such claim, proceeding, loss, expense or liability and GNE, at GNE's cost, shall have sole control over the defense, including settlement of any claim or action, with full cooperation from PDL.

6. CONFIDENTIALITY

The provisions of Article 6 of the Master Agreement are incorporated by reference as if set forth in their entirety herein.

7. TERM AND TERMINATION

7.01. Term. Unless earlier terminated as provided in this Article 7, this Agreement shall come into force on the Effective Date and shall continue until the last to expire of the PDL Licensed Patents. Thereafter, this Agreement shall terminate and all licenses or sublicenses granted hereunder shall become fully-paid licenses.

7.02. Termination.

(a) This Agreement may be terminated on sixty (60) days prior written notice by GNE.

(b) If GNE shall at any time default in the payment of any royalty, or the making of any report hereunder, or shall commit any material breach of any covenant or agreement herein contained or shall make any false report, and shall fail to have initiated and actively pursued remedy of any such default or breach within thirty (30) days after receipt of written notice thereof by the other party, PDL may, at its option, cancel this Agreement and revoke any rights and licenses herein granted and directly affected by the default or breach by notice in writing to such effect, but such act shall not prejudice PDL's rights to recover any royalty or other sums due at the time of such cancellation, it being understood, however, that if within thirty (30) days after receipt of any such notice GNE shall have initiated and actively pursued remedy of its default, then the rights and licenses herein granted shall remain in force as if no breach or default had occurred on the part of GNE, unless such breach or default is net in fact remedied within a reasonable period of time. If GNE disputes the existence of a default or material breach or making a false report or the failure to pursue a remedy or to remedy the default or breach, the provisions for resolution of a default shall be limited to those set forth in Section 8.6 of the Master Agreement.

(c) This Agreement may be terminated by either party upon the occurrence of any of the following which is not stayed or vacated within sixty (60) days of such occurrence: (i) petition in bankruptcy filed by or against the other party; (ii) adjudication of the other party as bankrupt or insolvent; (iii) appointment of a liquidator, receiver or trustee for all or a substantial part of the other party's property; or (iv) an assignment for the benefit of creditors of the other party.

(d) In the event that GNE: (i) breaches its obligations under Sections 2.3 or 2.4 of the Settlement Agreement and (ii) fails to cure such breach(es) as provided under Section 4.2 of the Settlement Agreement, then PDL, at its sole discretion, may invoke its rights under Article 4 of the Settlement Agreement.

7.03. No Waiver. The tight of either party to terminate this Agreement as provided herein shall not be affected in any way by its waiver of any previous failure to perform hereunder or by its failure to take action with respect thereto.

7.04. Survival. Termination for any reason hereunder shall not affect any accrued rights or obligations of the parties arising in any manner under this Agreement as of the date of termination. In any event, the rights and obligations, including without limitation any accrued payment obligations, under Articles 3, 5 and 6 shall survive any termination of this Agreement.

8. MISCELLANEOUS

8.01. Assignment. This Agreement may not be assigned by either party without the prior written consent of the other, except that either may assign this Agreement without consent to a party which acquires all or substantially all of that portion of the business to which this Agreement pertains, whether by merger, sale of assets or otherwise. A merger or consolidation shall be deemed to constitute an assignment.

8.02. Disputes. The provisions of Section 8.6 of the Master Agreement are incorporated by reference as if set forth in their entirety herein.

8.03. Severability. If any provision of this Agreement is declared invalid by a court of law resort or by any court, the decision of which an appeal is not taken within the time provided by law, then and in such event, this Agreement will be deemed to have been terminated only as to the portion thereof which relates to the provision invalidated by that decision and only in the relevant jurisdiction, but this Agreement, in all other respects and all other jurisdictions, will remain in force; provided, however, that if the provision so invalidated is essential to the Agreement as a whole, then the parties shall negotiate in good faith to amend the terms hereof as nearly as practical to carry out the original interest of the parties, and, failing such amendment, either party may submit the matter to a court of competent jurisdiction for resolution.

8.04. Notices. Any notice or report required or permitted to be given under this Agreement shall be in writing and shall be sent by expedited delivery or telecopied and confirmed by mailing as follows (or to such other address as may be specified in writing) and shall be effective three (3) days after such delivery:

If to PDL: PDL BioPharma, Inc.
932 Southwood Blvd.
Incline Village, NV 89451
Attn: General Counsel

Facsimile number: (775) 832-8501

If to GNE: Genentech, Inc.
1 DNA Way
South San Francisco, California USA 94080
Attn: Corporate Secretary

Facsimile number: (650) 225-8654

8.05. Choice of Law. The validity, performance, construction, and effect of this Agreement shall be governed by the laws of the State of California which are applicable to contracts between California residents to be performed wholly within California.

8.06. Waiver. None of the terms, covenants and conditions of this Agreement can be waived except by the written consent of the party waiving compliance.

8.07. Force Majeure. Neither party shall be responsible to the other for failure or delay in performing any of its obligations under this Agreement or for other non-performance hereof provided that such delay or non-performance is occasioned by a cause beyond the reasonable control and without fault or negligence of such party, including, but not limited to earthquake, fire, flood, explosion, discontinuity in the supply of power, court order or governmental interference, act of God, strike or other labor trouble and provided that such party will inform the other party as soon as is reasonably practicable and that it will entirely perform its obligations immediately after the relevant cause has ceased its effect.

8.08. Headings. The captions used herein are inserted for convenience of reference only and shall not be construed to create obligations, benefits, or limitations.

8.09. Entire Agreement. This Agreement and the Master Agreement constitute the entire Agreement between the parties hereto with respect to the Antigen and supersede all previous Agreements, whether written or oral. In the event of any conflict between the terms of this Agreement and the Master Agreement with respect to the subject matter herein, the terms of this Agreement shall govern. This Agreement shell not be changed or modified orally, but only by an instrument in writing signed by both parties.

8.10. Counterparts. This Agreement may be executed in counterparts, all of which taken together shall be regarded as one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first above written.

PDL BIOPHARMA, INC. GENENTECH, INC.

By: By:

Name: Name:

Title: Title:

Exhibit A

Amendment No. 1 to the Form of PDL License Agreement

AMENDMENT NO. 1 TO THE FORM OF PDL LICENSE AGREEMENT

This Amendment No. 1 to Exhibit A of the Amended and Restated Patent Licensing Master Agreement (Queen Patents) ("**Amendment No. 1**") is entered into as of the Effective Date by and between PDL BioPharma, Inc. ("**PDL**") and Genentech, Inc. ("**Genentech**" or "**GNE**") (each, a "**Party**" and collectively, the "**Parties**"), and amends that Form of PDL License Agreement (the "**Form of License Agreement**").

Except as expressly provided herein, capitalized terms shall have the meanings set forth in the Form of License Agreement and references to Sections shall be deemed references to the Form of License Agreement.

WHEREAS, PDL and Genentech are Parties to the 2014 Amended PLMA (as defined below); and

WHEREAS, in connection with the Parties' execution of that certain Confidential Settlement Agreement by and between PDL, Genentech, and F. Hoffmann La-Roche Ltd executed concurrently herewith (the **"2014 Settlement Agreement"**), the Parties deem it to be in their best interests and to their mutual advantage to amend the Form of License Agreement as set forth herein.

NOW THEREFORE, in exchange for good and valuable consideration, the receipt of which is hereby acknowledged, the Parties agree as follows:

1. The Effective Date of this Amendment No. 1 shall be the effective date of the 2014 Settlement Agreement.

2. Section 1.01 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 1.01:

> **1.01 "Affiliate"** shall mean any Entity that, on or after the Effective Date of Amendment No. 1 to this Agreement, controls, is controlled by, or is under common control with, another Entity; and "control" for purposes of this definition shall mean the possession of the power to direct or cause the direction of substantially all of the management and policies of an Entity, whether through the ownership of voting stock, by contract or otherwise. In the case of a corporation, "control" shall include the direct or indirect ownership of fifty percent (50%) or more of the outstanding voting stock. An Entity shall be an Affiliate only during such period of time that such Entity meets the definition set forth in this Section 1.01. With respect to Genentech and Roche, the term "Affiliate" shall not include Chugai Pharmaceutical Co., Ltd. ("Chugai") unless and until Genentech or Roche provides written notice to PDL specifying Chugai as an Affiliate.

3. The following Section 1.01.1 is added to the Form of License Agreement:

1.01.1 "Entity" shall mean a trust, corporation, partnership, joint venture, limited liability company, association, unincorporated organization or other legally recognized form of organization. **"Person"** shall mean any natural person or Entity.

4. The following Section 1.01.2 is added to the Form of License Agreement:

1.01.2 "Designee" shall mean an Affiliate, sublicensee, co-promoting party, or other Person employed by or under contract with Genentech to sell, or otherwise authorized by Genentech to sell a particular Licensed Product or GNE Licensed Product (or Licensed Products or GNE Licensed Products) for or on behalf of Genentech. A Person shall be a Designee only during such period of time that such Person meets the definition set forth in this Section 1.01.2. The Parties acknowledge and agree, for the avoidance of doubt, that each of Roche and Novartis Pharma AG shall be considered a Designee of Genentech (each with respect to certain Licensed Product(s) or GNE Licensed Product(s)) for purposes of this Agreement.

5. Section 1.08 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 1.08:

1.08 "Licensed Product" means an Antibody with respect to which GNE has either significant marketing rights or has done significant development (e.g., created, humanized or conducted preclinical or clinical development), the manufacture, import, use, offer to sell or sale of which would infringe, if not licensed under this Agreement, a Valid Claim. GNE agrees and stipulates, for the avoidance of doubt, that _____ is a Licensed Product.

6. Section 1.09 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 1.09:

1.09 **"Net Sales"** means the aggregate gross revenues, whether in cash or in kind, corresponding to the price actually invoiced for the sale or other transfer of Finished Products by GNE, and/or by an Affiliate and/or by a Designee of GNE to one or more Third Parties, less Five Percent (5%) to cover the following: (a) credits or allowances, if any, actually granted on account of price adjustments, recalls, rejection, or return of items previously sold, (b) excise and sales taxes, or duties, imposed on and paid by GNE or by an Affiliate or Designee of GNE with respect to such sales (excluding income or franchise taxes of any kind), and (c) outer packing, freight and freight insurance costs. If GNE or any of its Affiliates or Designees receive non-cash consideration for any Finished Product sold or otherwise transferred to a Third Party, the fair market value of such non-cash consideration on the date of such transfer as known to GNE, or as reasonably estimated by GNE if unknown, shall be included in the definition of Net Sales. Net Sales shall not include Finished Products provided for bona fide clinical trial, evaluation, research or development purposes.

Notwithstanding any other provision in this Agreement, the 2014 Settlement Agreement or any other agreement between the Parties, for purposes of calculating Net Sales, the term "aggregate gross revenues" in this Section 1.09 (i) specifically excludes Value Added Tax (VAT); and (ii) shall be calculated based on the price actually invoiced for the sale of Finished Products by GNE, its Affiliates, and its Designees; provided, however, in the event GNE or any of its Affiliates or Designees receive,

in part or whole, non-cash consideration for such sale, the fair market value of such non-cash consideration on the date of such transfer as known to GNE, or as reasonably estimated by GNE if unknown, shall also be included in the calculation of aggregate gross revenues.

Net Sales for Bulk Products shall be calculated by multiplying the units of Finished Product to which such Bulk Product is reasonably anticipated to be converted by the established market price in the country of sale of the Finished Product on the date of sale of the Bulk Product. By way of example and without limitation, units of Finished Product may be measured in grams or doses, as appropriate.

The method of calculating Net Sales of materials in a form other than Finished Product or Bulk Product that can be converted into Finished Product shall be established by good faith discussion between PDL and GNE.

For the sake of clarity, no sale or transfer of Finished Product or Bulk Product by GNE or Roche to any of their Affiliates or Designees shall be included within Net Sales because such a sale or transfer is not a sale or transfer to a Third Party.

7. Section 1.10 of the Form of License Agreement is deleted in its entirety.

8. Section 1.11 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 1.11:

1.11 "PDL Licensed Patents" shall have the meaning set forth in Section 1.13 of the Amended and Restated Patent Licensing Master Agreement between PDL and Genentech, as amended by Amendment No. 1 thereto (the "**2014 Amended PLMA**").

9. Section 1.12 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 1.12:

1.12 "Territory" means worldwide.

10. Section 1.13 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 1.13:

1.13 "Valid Claim" means (i) any claim in any PDL Licensed Patent, or (ii) any component of the PDL Licensed Patents (including supplementary protection certificates or applications therefor), which has neither expired nor been disclaimed.

11. The following Section 1.14 is added to the Form of License Agreement:

1.14 "Third Party" means any natural person or entity that is not Genentech or any of its Affiliates or Designees.

12. Section 2.05 of the Form of License Agreement is deleted in its entirety.

13. Section 3.01 of the Form of License Agreement is deleted in its entirety and is replaced

with the following new Section 3.01:

3.01 Exercise Fee. The exercise fee provided by Genentech to PDL in consideration for execution of this License Agreement shall be as set forth in Section 3.2 of the 2014 Amended PLMA.

14. Section 3.03 of the Form of License Agreement is deleted in its entirety.

15. Section 3.04 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 3.04:

3.04 Royalties to PDL. The royalties payable to PDL under this PDL License Agreement shall be as set forth in Section 4.1 of the 2014 Amended PLMA, except that in the event that GNE (i) breaches its obligations under Sections 2.3 or 2.4 of the Settlement Agreement by and between PDL and GNE dated December 18, 2003 (as amended) ("2003 Settlement Agreement"); and (ii) fails to cure such breaches as provided under Section 4.2 of the 2003 Settlement Agreement, then PDL, at its sole discretion, may invoke its rights under Article 4 of the 2003 Settlement Agreement.

3.04.1 Fixed Royalty Term and Fully Paid Up License.

(a) The Parties acknowledge and agree that in no event shall Genentech owe any royalties to PDL under the 2014 Amended PLMA or the PDL License Agreements on Net Sales of (i) Lucentis occurring in the United States after June 30, 2013, (ii) Lucentis occurring outside the United States after December 28, 2014, and (iii) Avastin, Herceptin, Xolair, Perjeta, Kadcyla, ____ and any other GNE Licensed Product or Licensed Product occurring anywhere in the world after December 31, 2015, in each case of (i), (ii), and (iii) regardless of the expiry date or technical scope of any component of the PDL Licensed Patents.

(b) Upon the satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Lucentis occurring in the United States on or prior to June 30, 2013, Genentech shall have a fully paid up license under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Net Sales of Lucentis occurring in the United States.

(c) Upon the satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Lucentis occurring outside the United States on or prior to December 28, 2014, Genentech shall have a fully paid up license under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Lucentis.

(d) Upon the satisfaction, on a product by product basis, of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Avastin, Herceptin, Xolair, Perjeta, Kadcyla, ____ or any other GNE Licensed Product or Licensed Product (other than Lucentis)

occurring anywhere in the world on or prior to December 31, 2015, Genentech shall have a fully paid up license, on a product by product basis, under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Avastin, Herceptin, Xolair, Perjeta, Kadcyla, ____ and any other GNE Licensed Product or Licensed Product.

16. Section 3.07 is deleted in its entirety and is replaced with the following new Section 3.07:

3.07 Currency Conversion. All amounts payable to PDL under this Agreement shall be payable in U.S. Dollars by wire transfer to a bank account designated by PDL. When calculating Net Sales in currencies other than U.S. dollars, Genentech, its Affiliates and Designees shall convert the amount of such sales into U.S. dollars using the foreign currency translation method actually used on a consistent basis in preparing its audited financial statements. (As of the Effective Date, Genentech uses the average year to date exchange rate as reported by Reuters.)

17. Section 3.08(a) of the Form of License Agreement is amended to delete the second-to-last sentence of the provision and replace it with the following:

These reports shall be certified by an officer of Genentech to the best of his or her knowledge after reasonable inquiry and shall state for each calendar quarter: (1) Net Sales of the Licensed Product in such quarter, (2) the amounts deducted pursuant to Section 1.09 of this Agreement in such quarter, and (3) the net royalty due to PDL thereon pursuant to this Article 3.

18. The following Section 3.09.1 is added to the Form of License Agreement:

3.09.1 Any inspection conducted pursuant to Section 3.09 shall be conducted according to the procedures set forth on Exhibit 1 hereto.

19. Section 7.01 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 7.01:

7.01 Term. Unless earlier terminated as provided in this Article 7, this Agreement shall come into force on _____ and shall remain in effect until the later of December 31, 2015 or the performance and satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA. Thereafter, all licenses or sublicenses granted hereunder shall become fully paid up and royalty free.

20. Section 8.02 of the Form of License Agreement is amended to delete the phrase “Section 11.6 of the Master Agreement” and replace it with “Section 8.6 of the 2014 Amended PLMA.”

21. Section 8.04 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 8.04:

8.04 **Notices**. Any notice required or desired to be given hereunder shall be in writing and shall be served as provided herein either by an air courier service (such as FedEx, DHL or UPS) or by personal delivery. Service of any notice shall be deemed complete upon actual receipt before 5:00 p.m. at the location of delivery (and shall be deemed complete on the following day if actually received after 5:00 p.m. at the location of delivery). In order to be effective, any notice must be served upon and received by both the Party or Parties and the persons designated to receive a copy thereof at the addresses set forth below:

If to Genentech:

Genentech, Inc.
1 DNA Way
South San Francisco, CA 94080
Tel: (650) 225-1000
Fax: (650) 952-9881
Attn: General Counsel

With a copy to:
Williams & Connolly LLP
725 12th Street, N.W.
Washington, D.C. 20005
Attention: Paul Gaffney, Esq.

If to PDL:

PDL BioPharma, Inc.
932 Southwood Boulevard
Incline Village, NV 89451
Tel: 775-832-8500
Fax: 775-832-8501
Attn: General Counsel

With a copy to:

Irell & Manella LLP
1800 Avenue of the Stars, Suite 900
Los Angeles, California 90067
Attention: David I. Gindler, Esq.

22. Section 8.09 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 8.09:

8.09 This Agreement (as amended by this Amendment No. 1), the 2014 Settlement Agreement, the 2014 Amended PLMA, and the 2003 Settlement Agreement (as amended) constitute the entire understanding and contract between the Parties with respect to the subject matter referred to therein. Any and all other representations,

understandings, or agreements, whether oral, written, or implied, are merged into and superseded by the terms of the foregoing agreements. No provision of this Agreement can be waived, modified, amended, or supplemented except in a writing that expressly references this Agreement and is signed by an authorized representative of each Party to be bound.

23. This Amendment No. 1 may be executed and delivered in any number of counterparts. When each Party has signed and delivered at least one counterpart to all other Parties, each counterpart shall be deemed an original and all counterparts, taken together, shall constitute one and the same agreement, which shall be binding and effective on the Parties hereto. This Amendment No. 1 shall not become binding on the Parties hereto unless it has been executed by authorized representatives of all Parties.

24. On and after the Effective Date, each reference in the Form of License Agreement to "this Agreement," "hereunder," "hereof," or words of like import referring to the Form of License Agreement, as well as references to the Form of License Agreement in other agreements between PDL and Genentech, shall mean and be a reference to the Form of License Agreement as amended by this Amendment No. 1.

25. Except as specifically amended above, the Form of License Agreement is and shall continue to be in full force and effect. In the event of any conflict between the terms of this Amendment No. 1, on the one hand, and the terms of the Form of License Agreement or the 2014 Settlement Agreement, on the other hand, the terms of this Amendment No. 1 shall govern.

IN WITNESS WHEREOF, the Parties have executed this Amendment through their duly authorized representatives as of the Effective Date.

PDL BioPharma, Inc. **Genentech, Inc.**

By _____ By _____

Title _____ Title _____

EXHIBIT 1 to Amendment No. 1 to the Form PDL License Agreement

Audit Protocol

Exhibit 1

Inspection Procedures

Any inspection of books and records conducted pursuant to Section 3.09 of the PDL License Agreements ("Audit") shall be conducted in accordance with the procedures set forth below. To the extent Section 3.09 of any of the PDL License Agreements ("Section 3.09") and the procedures specified in this Exhibit 1 are in conflict, this Exhibit 1 shall control.

1. **Time Period Subject to Audit; Time to Initiate Audit.**
Net Sales subject to an Audit shall be limited to Net Sales occurring during the period from and including August 15, 2013 to and including December 31, 2015. Any Audit shall be initiated on or before June 30, 2016.

2. **Selection of Auditor.**
PDL shall provide written notice to Genentech of its intention to conduct an Audit, including in such notice (i) a statement of what time period of Net Sales will be the subject of the Audit, and (ii) the name of an independent U.S. accounting firm (the "Auditor") selected by PDL, subject to Genentech's consent, which consent shall not be unreasonably withheld or delayed. The Auditor shall have substantial experience conducting royalty audits and knowledge of customary practices in conducting royalty audits.

3. **Scope of Audit.**
Upon the commencement of the Audit, the Auditor shall propose in writing to Genentech all of the information that the Auditor believes at that time, in good faith and consistent with customary practice, to be reasonably required to conduct the Audit (the "Proposed Audit Plan"), i.e., information "showing the sales of Licensed Products in the Territory in sufficient detail to enable the royalties payable hereunder to be determined." (Section 3.09). The Proposed Audit Plan shall also include a listing of all proposed interviews of Genentech personnel that the Auditor believes at that time, in good faith to be consistent with customary practice, to be reasonably required to conduct the Audit.

Within fourteen (14) days following Genentech's receipt of the Proposed Audit Plan, or as soon thereafter as practicable, Genentech shall meet in person with the Auditor to discuss the Proposed Audit Plan. In the event Genentech and the Auditor cannot agree on whether one or more items of information or interview(s) included in the Proposed Audit Plan are sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, Genentech and PDL shall attempt to resolve between themselves whether such information or interview(s) is sought in good faith, consistent with customary practice, and reasonably required. In the event Genentech and PDL cannot agree, either Genentech or PDL may invoke Paragraph 6 below. Upon resolution of all disputes concerning the Proposed Audit Plan (by Genentech and the Auditor, Genentech and PDL, and/or pursuant to Paragraph 6 below), the Proposed Audit Plan, amended as

necessary to be consistent with the resolution of those disputes, shall be deemed the "Final Audit Plan".

During the course of the Audit, the Auditor may request additional information and/or interviews that are sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, even if not part of the Final Audit Plan. In the event Genentech and the Auditor cannot agree on whether one or more items of additional information or interview(s) are sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, Genentech and PDL shall attempt to resolve between themselves whether such information or interview(s) is sought in good faith, consistent with customary practice, and reasonably required. In the event Genentech and PDL cannot agree, either Genentech or PDL may invoke Paragraph 6 below.

4. Production of Information.

The Auditor shall then provide written notice to Genentech of the "Final Audit Plan." Genentech shall take commercially diligent efforts to provide the information and interview(s) specified in the Final Audit Plan to the Auditor within six (6) months of receipt of such written notice except in the event of (i) exceptional circumstances or (ii) requests for additional information or interview(s) made after adoption of the Final Audit Plan, in which of cases (i) or (ii) the parties, in consultation with the Auditor, shall agree upon a reasonable extension of time for Genentech to provide all of the information and interview(s). Genentech shall take commercially reasonable efforts to secure the cooperation of its Affiliates and Designees if required to obtain any items of information specified in the Final Audit Plan; provided, however, any such efforts are subject to Genentech's contractual rights and obligations in relation to such Affiliates and Designees. Any Affiliate's or Designee's failure to provide information within the prescribed six (6) month period shall not constitute a breach of this paragraph 4.

5. Limitations on Genentech's Obligations.

For the sake of clarity, but without limitation, Genentech's provision of information and/or interview(s) of personnel for purposes of the Audit is subject to Genentech's records preservation obligations as set forth in Section 3.09 of the PDL License Agreements, Genentech's contractual rights and obligations with regard to its Affiliates and Designees, and any and all applicable legal privileges.

6. Resolution of Disputes Concerning Audit Data.

To facilitate the rapid resolution of disputes concerning whether certain information or interview(s) of personnel is sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, within fourteen (14) days of Genentech's receipt of the Proposed Audit Plan, Genentech and PDL shall agree upon and jointly engage a neutral third party who shall be a mutually-agreed upon expert in royalty accounting from a "Big Four" accounting firm ("the Neutral Auditor").

The role of the Neutral Auditor shall be limited to resolving whether certain information or interview(s) of personnel sought by the Auditor is sought in good faith, consistent with customary

practice, and reasonably required to conduct the Audit (including how to interpret the language "sought in good faith, consistent with customary practice, and reasonably required to conduct the Audit"). The Neutral Auditor's resolution of such a dispute shall be binding, final and unappealable. The Neutral Auditor shall have authority only to resolve disputes concerning the scope of information and interviews of personnel to be provided to the Auditor. The Neutral Auditor shall have no authority to resolve any other issue or dispute, including but not limited to any dispute between Genentech and PDL relating to or involving (i) the interpretation of any provision, or portion thereof, of any PDL License Agreement, the 2014 Amended PLMA, the 2003 Settlement Agreement (as amended) or the 2014 Settlement Agreement; (ii) an alleged underpayment or overpayment of royalties; or (iii) any matter whatsoever other than the scope of information and interviews of personnel to be provided to the Auditor. In the event the Parties disagree regarding whether a particular issue or dispute is subject to resolution by the Neutral Auditor, such issue or dispute shall not be subject to resolution by the Neutral Auditor and instead shall be exclusively subject to the dispute resolution procedures set forth in Section 8.6 of the 2014 Amended PLMA. By way of example (but not limitation), if the Auditor requests information that may be reasonably required for the Audit based on PDL's interpretation of a particular contract provision but that may not be reasonably required for the Audit based on Genentech's interpretation of such contract provision, such dispute (regardless of whether it is characterized as a dispute about whether the information is reasonably required for the Audit and/or a dispute about the interpretation of the contract provision) shall not be subject to resolution by the Neutral Auditor, and must be resolved, if at all, pursuant to Section 8.6 of the 2014 Amended PLMA.

The procedure for resolution of disputes by the Neutral Auditor shall be determined in conjunction with the Neutral Auditor upon his/her engagement, but PDL and Genentech agree that (i) written submissions shall be permitted and shared between the Auditor, PDL and Genentech; (ii) each dispute referred to the Neutral Auditor shall be resolved no later than fourteen (14) days after such referral; and (iii) the standard to be applied by the Neutral Auditor is whether the information or interview(s) of personnel sought by the Auditor is sought in good faith, consistent with customary practice, and reasonably required for the Audit.

PDL and Genentech agree that any and all materials and information and communications generated during and in relation to the resolution of any dispute by the Neutral Auditor, (including but not limited to, Party submissions to the Neutral Auditor, statements, findings, or determinations by the Neutral Auditor, correspondence between the Parties, correspondence between PDL or Genentech and the Auditor) in any form whatsoever, shall be inadmissible in any arbitration proceeding pursuant to Section 8.6 of the 2014 Amended PLMA or any other legal proceeding between PDL and Genentech. All fees and costs incurred by the Neutral Auditor shall be shared equally by PDL and Genentech.

Exhibit B

Queen Patents and Applications

Country	Application Number	Filing Date	Patent Number	Issue Date	Expiration Date
United States of America	08/474,040	06/07/1995	5,693,761	12/02/1997	12/02/2014
Argentina	315679	12/14/1989	AR 254487 V1	09/29/2000	09/29/2015
Brazil	PI1101125-4	05/14/1997	PI1101125-4	01/14/2003	12/17/2013
Chile	983-89	12/15/1989	40279	10/07/1999	10/07/2014
Australia	51532/90	12/28/1989	647,383	07/12/1994	09/16/2014
South Korea	90-701939	12/28/1989	P178385	11/23/1998	11/23/2013
European Patent Convention	98204240.0	12/28/1989		pending	12/28/2009
European Patent Convention	04 076439.1	12/28/1989		pending	12/28/2009
European Patent Convention	04 076438.3	12/28/1989		pending	12/28/2009
European Patent Convention	10 185689.6	12/28/1989		pending	12/28/2009

Queen SPCs and Applications

Foreign

TTC ID	Country	Drug	SPC Status	Underlying Patent No.	Underlying Patent Exp Date	SPC App. No.	SPC App Filing Date	SPC No.	SPC Grant Date	SPC Exp Date
011823-010400AT	Austria	ZENAPAX® (Daclizumab)	Granted	E133452	12/28/09	SZ32/99	8/24/99	SZ32/99	8/31/01	3/3/13
011823-010400AU	Australia	ZENAPAX® (Daclizumab)	Granted	647383	12/28/09	51532/90	12/3/99	647383	5/24/00	9/16/14
011823-010400BE	Belgium	ZENAPAX® (Daclizumab)	Granted	EP0451216	12/28/09	099C0028	7/19/99	099C0028	10/5/99	3/3/13
011823-010400DE	Germany	ZENAPAX® (Daclizumab)	Granted	68925536.5	12/29/09	19975047.5	6/30/99	19975047.00	1/8/08	3/3/13

011823-010400DK	Denmark	ZENAPAX® (Daclizumab)	Granted	PR174317	12/28/09	CA 2003 00004	2/21/03	CR 2003 00004	12/11/06	3/3/13
011823-010400ES	Spain	ZENAPAX® (Daclizumab)	Granted	2081974T3	12/28/09	C9900028	8/19/99	C9900028	7/30/03	3/3/13
011823-010400FI	Finland	ZENAPAX® (Daclizumab)	Granted	FI108797	12/28/09	L 2002 0009	9/25/02	209	3/5/08	3/3/13
011823-010400FR	France	ZENAPAX® (Daclizumab)	Granted	EP0451216	12/28/09	99C0023	7/2/99	99C0023	5/15/00	3/3/13
011823-010400GB	Great Britain	ZENAPAX® (Daclizumab)	Granted	GB0451216	12/28/09	SPC/GB99/029	7/26/99	SPC/GB99/029	6/20/05	3/2/13
011823-010400IE	Ireland	ZENAPAX® (Daclizumab)	Granted	82755	12/28/09	2003/007	4/25/03	2003/007	2/13/06	3/2/13
011823-010400IT	Italy	ZENAPAX® (Daclizumab)	Granted	EP0451216	12/28/09	TOF0702	8/5/99	C-UB99CCP667	10/19/99	3/6/13
011823-010400LU	Luxembourg	ZENAPAX® (Daclizumab)	Granted	EP0451216	12/28/09	90411	7/2/99	CCP90411	9/2/99	3/3/13
011823-010400NL	Netherlands	ZENAPAX® (Daclizumab)	Granted	EP0451216	12/28/09	990020	7/14/99	990020	9/2/99	3/2/13
011823-010400NO	Norway	ZENAPAX® (Daclizumab)	Granted	310473	12/28/09	SPC/NO2001026	12/27/01	SPC/NO 2001 026	11/8/06	3/3/13
011823-010400PT	Portugal	ZENAPAX® (Daclizumab)	Granted	PT 92758	10/20/10	47	7/21/99	47	8/7/00	12/25/13
011823-010400SE	Sweden	ZENAPAX® (Daclizumab)	Granted	SE0451216	12/28/09	9990022-7	7/1/99	9990022-7	12/20/99	3/3/13
011823-010500ES	Spain	SYNAGIS® (Palivizumab)	Granted	2081974T3	12/28/09	C200000004	2/11/00	C200000004	3/27/08	8/13/14
011823-010500GB	Great Britain	SYNAGIS® (Palivizumab)	Granted	GB0451216	12/28/09	SPC/GB00/007	2/11/00	SPC/GB00/007	3/12/02	8/12/14
011823-010600AT	Austria	HERCEPTIN® (Trastuzumab)	Granted	E133452	12/28/09	SZ36/2000	11/23/00	SZ 36/2000	9/1/08	7/29/14
011823-010600BE	Belgium	HERCEPTIN® (Trastuzumab)	Granted	EP0451216	12/28/09	2000C/026	10/31/00	2000C/026	2/6/01	7/29/14
011823-010600DE	Germany	HERCEPTIN® (Trastuzumab)	Granted	68925536.5	12/29/09	10075038.9	12/20/00	10075038.9-43	2/10/04	7/29/14
011823-010600DK	Denmark	HERCEPTIN® (Trastuzumab)	Granted	PR174317	12/28/09	CA 2003 00007	2/24/03	CR 2003 00007	12/10/07	7/29/14
011823-010600ES	Spain	HERCEPTIN® (Trastuzumab)	Granted	2081974T3	12/28/09	C200000026	10/26/00	C200000026	8/14/03	7/29/14
011823-010600FI	Finland	HERCEPTIN® (Trastuzumab)	Granted	FI108797	12/28/09	L2002 0008	9/25/02	205	10/16/07	7/28/14
011823-010600FR	France	HERCEPTIN® (Trastuzumab)	Granted	EP0451216	12/28/09	00C0035	11/8/00	00C0035	4/12/02	7/29/14
011823-010600GB	Great Britain	HERCEPTIN® (Trastuzumab)	Granted	GB0451216	12/28/09	SPC/GB00/032	11/29/00	SPC/GB00/032	9/30/05	7/28/14
011823-010600GR	Greece	HERCEPTIN® (Trastuzumab)	Granted	1001050	1/9/10	20000800025	11/23/00	8000079	5/28/03	1/10/15

011823-010600IE	Ireland	HERCEPTIN® (Trastuzumab)	Granted	82755	12/28/09	2003/006	4/25/03	2003/006	2/13/06	7/28/14
011823-010600IT	Italy	HERCEPTIN® (Trastuzumab)	Granted	EP0451216	12/28/09	UB2000CCP708	10/27/00	UB2000CCP708	12/28/01	7/29/14
011823-010600LU	Luxembourg	HERCEPTIN® (Trastuzumab)	Granted	EP0451216	12/28/09	90676	11/9/00	CCP90676	2/5/01	7/29/14
011823-010600NL	Netherlands	HERCEPTIN® (Trastuzumab)	Granted	EP0451216	12/28/09	300023	11/3/00	300023	7/16/01	7/28/14
011823-010600NO	Norway	HERCEPTIN® (Trastuzumab)	Granted	310473	12/28/09	SPC/NO2001024	12/17/01	SPC/NO 2001 024	12/16/03	7/29/14
011823-010600PT	Portugal	HERCEPTIN® (Trastuzumab)	Granted	PT 92758	10/20/10	79	12/7/00	79	2/25/02	5/21/15
011823-010600SE	Sweden	HERCEPTIN® (Trastuzumab)	Granted	SE0451216	12/28/09	0090024-1	10/26/00	0090024-1	9/10/02	7/29/14
011823-010800AT	Austria	XOLAIR® (Omalizumab)	Granted	E133452	12/28/09	SZ42/2005	12/9/05	SZ 42/2005	9/1/08	12/28/14
011823-010800BE	Belgium	XOLAIR® (Omalizumab)	Granted	EP0451216	12/28/09	2005C/038	12/2/05	2005C/038	10/2/07	12/28/14
011823-010800CH	Switzerland	XOLAIR® (Omalizumab)	Granted	EP0451216	12/28/09	C00451216/04	11/22/06	C00451216/04	3/31/08	12/27/14
011823-010800DE	Germany	XOLAIR® (Omalizumab)	Granted	68925536.5	12/29/09	122005000057.40	12/9/05	12 2005 000 057.4-43	7/18/08	12/28/14
011823-010800DK	Denmark	XOLAIR® (Omalizumab)	Granted	PR174317	12/28/09	CA 2005 00051	12/8/05	CR 2005 00051	12/11/06	12/28/14
011823-010800ES	Spain	XOLAIR® (Omalizumab)	Granted	2081974T3	12/28/09	C200500046	12/7/05	C200500046	9/3/08	12/28/14
011823-010800FI	Finland	XOLAIR® (Omalizumab)	Granted	FI108797	12/28/09	L20050028	12/16/05	216	5/15/08	12/28/14
011823-010800FR	France	XOLAIR® (Omalizumab)	Granted	EP0451216	12/28/09	05C0046	12/8/05	05C0046	1/23/08	12/27/14
011823-010800GB	Great Britain	XOLAIR® (Omalizumab)	Granted	GB0451216	12/28/09	SPC/GB05/052	12/8/05	SPC/GB05/052	8/14/08	12/27/14
011823-010800HU	Hungary	XOLAIR® (Omalizumab)	Granted	211174	12/28/09	S0500022	12/9/05	S000064	7/23/08	12/28/14
011823-010800IE	Ireland	XOLAIR® (Omalizumab)	Granted	82755	12/28/09	2005/031	12/8/05	2005/031	10/23/06	12/27/14
011823-010800IT	Italy	XOLAIR® (Omalizumab)	Granted	EP0451216	12/28/09	UB2006CCP903	12/29/05	CUB2006CCP903	5/31/06	12/28/14
011823-010800LU	Luxembourg	XOLAIR® (Omalizumab)	Granted	EP0451216	12/28/09	91208	12/2/05	91208	2/28/06	12/28/14
011823-010800NL	Netherlands	XOLAIR® (Omalizumab)	Granted	EP0451216	12/28/09	300213	12/12/05	300213	4/20/06	12/27/14
011823-010800NO	Norway	XOLAIR® (Omalizumab)	Granted	310473	12/28/09	SPC/NO2005026	12/7/05	SPC/NO 2005 026	12/23/08	12/28/14
011823-010800PT	Portugal	XOLAIR® (Omalizumab)	Granted	PT 92758	10/20/10	212	12/14/05	212	3/21/06	10/21/15

011823-010800SE	Sweden	XOLAIR® (Omalizumab)	Granted	SE0451216	12/28/09	0590038-6	12/13/05	0590038-6	7/11/06	12/28/14
011823-010800SI	Slovenia	XOLAIR® (Omalizumab)	Granted	SI 8912489	12/28/09	C-200640004	6/1/05	200640004	4/3/06	12/28/14
011823-011000AT	Austria	AVASTIN® (Bevacizumab)	Granted	E133452	12/28/09	SZ 6/2005	2/14/05	SZ 6/2005	9/1/08	12/28/14
011823-011000BE	Belgium	AVASTIN® (Bevacizumab)	Granted	EP0451216	12/28/09	2005C/004	2/11/05	2005C/004	6/6/06	12/28/14
011823-011000CH	Switzerland	AVASTIN® (Bevacizumab)	Granted	EP0451216	12/28/09	C00451216/03	3/14/05	C00451216/03	1/31/07	12/27/14
011823-011000DE	Germany	AVASTIN® (Bevacizumab)	Granted	68925536.5	12/29/09	12 2005 000 007.8	2/8/05	12 2005 000 007 8-43	1/6/09	12/28/14
011823-011000DK	Denmark	AVASTIN® (Bevacizumab)	Granted	PR174317	12/28/09	CA 2005 00006	2/17/05	CR 2005 00006	12/18/06	12/28/14
011823-011000ES	Spain	AVASTIN® (Bevacizumab)	Granted	2081974T3	12/28/09	C200500004	2/8/05	C200500004	9/3/08	12/28/14
011823-011000FI	Finland	AVASTIN® (Bevacizumab)	Granted	FI108797	12/28/09	L20050004	2/25/05	215	5/15/08	12/28/14
011823-011000FR	France	AVASTIN® (Bevacizumab)	Granted	EP0451216	12/28/09	05C0004	2/7/05	05C0004	7/17/07	12/27/14
011823-011000GB	Great Britain	AVASTIN® (Bevacizumab)	Granted	GB0451216	12/28/09	SPC/GB05/009	2/17/05	SPC/GB05/009	8/9/05	12/27/14
011823-011000HU	Hungary	AVASTIN® (Bevacizumab)	Granted	211174	12/28/09	S0500005	2/11/05	S000046	1/28/08	12/28/14
011823-011000IE	Ireland	AVASTIN® (Bevacizumab)	Granted	82755	12/28/09	2005/007	3/2/05	2005/007	3/16/06	12/27/14
011823-011000IT	Italy	AVASTIN® (Bevacizumab)	Granted	EP0451216	12/28/09	CU-B2005CCP865	2/21/05	C-UB2005CCP865	8/29/05	12/28/14
011823-011000LU	Luxembourg	AVASTIN® (Bevacizumab)	Granted	EP0451216	12/28/09	91 139	2/4/05	CCP91139	8/31/05	12/28/14
011823-011000NL	Netherlands	AVASTIN® (Bevacizumab)	Granted	EP0451216	12/28/09	300173	2/10/05	300173	2/20/06	12/27/14
011823-011000NO	Norway	AVASTIN® (Bevacizumab)	Granted	310473	12/28/09	SPC/NO2005005	2/18/05	SPC/NO 2005 005	12/1/08	12/28/14
011823-011000PT	Portugal	AVASTIN® (Bevacizumab)	Granted	PT 92758	10/20/10	188	2/18/05	188	3/11/05	10/21/15
011823-011000SE	Sweden	AVASTIN® (Bevacizumab)	Granted	SE0451216	12/28/09	0590004-8	2/4/05	0590004-8	1/10/06	12/28/14
011823-011000SI	Slovenia	AVASTIN® (Bevacizumab)	Granted	SI 8912489	12/28/09	C-200540007	6/1/05	200540007	2/6/06	12/28/14
011823-014800AT	Austria	TYSABRI® (natalizumab)	Granted	E133452	12/28/09	SZ26/2006	8/7/06	SZ 26/2006	11/30/09	12/28/14
011823-014800BE	Belgium	TYSABRI® (natalizumab)	Granted	EP0451216	12/28/09	2006C/024	8/7/06	2006C/024	6/5/07	12/28/14
011823-014800DE	Germany	TYSABRI® (natalizumab)	**Pending**	68925536.5	12/29/09	122006000036.4	8/7/06	NYA	NYA	NYA

011823-014800DK	Denmark	TYSABRI® (natalizumab)	Granted	PR174317	12/28/09	CA 200600022	8/7/06	CR 2006 00022	12/10/07	12/28/14
011823-014800ES	Spain	TYSABRI® (natalizumab)	Granted	2081974T3	12/28/09	C200600026	8/7/06	C200600026	6/3/08	12/28/14
011823-014800FI	Finland	TYSABRI® (natalizumab)	Granted	FI108797	12/28/09	L20060010	8/7/06	227	10/31/08	12/28/14
014800FR	France	TYSABRI® (natalizumab)	Granted	EP0451216	12/28/2009	06C0028	8/16/2006	09/47	11/20/09	12/27/14
011823-014800GB	Great Britain	TYSABRI® (natalizumab)	Granted	GB0451216	12/28/09	SPC/GB/06/027	8/7/06	SPC/GB06/027	2/12/10	12/27/14
011823-014800HU	Hungary	TYSABRI® (natalizumab)	Granted	211174	12/28/09	S0600007	8/7/06	S000085	12/8/09	12/28/14
011823-014800IE	Ireland	TYSABRI® (natalizumab)	Granted	82755	12/28/09	2006/027	8/8/06	2006/027	3/20/08	12/27/14
011823-014800IT	Italy	TYSABRI® (natalizumab)	Granted	EP0451216	12/28/09	C-UB2006CCP929	8/7/06	C-UB2006CCP929	12/20/06	12/28/14
011823-014800LU	Luxembourg	TYSABRI® (natalizumab)	Granted	EP0451216	12/28/09	91272	8/7/06	91272	10/9/06	12/28/14
011823-014800NL	Netherlands	TYSABRI® (natalizumab)	Granted	EP0451216	12/28/09	300239	8/7/06	300239	1/9/07	12/27/14
011823-014800NO	Norway	TYSABRI® (natalizumab)	Granted	310473	12/28/09	SPC/NO2006009	8/7/06	SPC/NO 2006 009	10/22/09	12/28/14
011823-014800PT	Portugal	TYSABRI® (natalizumab)	Granted	PT 92758	10/20/10	235	8/7/06	235	12/18/06	10/21/15
011823-014800SE	Sweden	TYSABRI® (natalizumab)	Granted	SE0451216	12/28/09	0690023-7	8/7/06	0690023-7	3/18/08	12/28/14
011823-014800SI	Slovenia	TYSABRI® (natalizumab)	Granted	SI 8912489	12/28/09	C-200640013	8/7/06	200640013	11/3/06	12/28/14
NONE	Switzerland	TYSABRI® (natalizumab)	Granted	EP0451216	12/28/09	C00451216/05	11/2/07	C00451216/05	1/30/09	12/27/14
015600AT	Austria	LUCENTIS® (Ranibizumab)	Granted	E133452	12/28/09	SZ36/2007	6/21/07	SZ 36/2007	11/30/09	12/28/14
011823-015600BE	Belgium	LUCENTIS® (Ranibizumab)	Granted	EP0451216	12/28/09	2007C/030	4/16/07	2007C/030	2/3/09	12/28/14
011823-015600BG	Bulgaria	LUCENTIS® (Ranibizumab)	Granted	BG61095	12/28/09	07/041	6/14/07	SPC/BG 2007/0041	3/30/09	12/28/14
011823-015600DE	Germany	LUCENTIS® (Ranibizumab)	**Pending**	68925536.5	12/29/09	122007000037.5	4/11/07	NYA	NYA	NYA
011823-015600DK	Denmark	LUCENTIS® (Ranibizumab)	Granted	PR174317	12/28/09	CA 2007 00029	4/19/07	CR 2007 00029	12/10/07	12/28/14
011823-015600ES	Spain	LUCENTIS® (Ranibizumab)	Granted	2081974T3	12/28/09	C200700020	4/13/07	C200700020	6/3/08	12/28/14
011823-015600FI	Finland	LUCENTIS® (Ranibizumab)	Granted	FI108797	12/28/09	L20070013	4/13/07	228	10/31/08	12/28/14

011823-015600FR	France	LUCENTIS® (Ranibizumab)	Granted	EP0451216	12/28/09	07C0029	4/13/07	07C0029	4/1/08	12/27/14
011823-015600GB	Great Britain	LUCENTIS® (Ranibizumab)	Granted	GB0451216	12/28/09	SPC/GB07/033	4/17/07	SPC/GB07/033	10/4/09	12/27/14
011823-015600HU	Hungary	LUCENTIS® (Ranibizumab)	Granted	211174	12/28/09	S070003	4/18/07	S000072	6/25/09	12/28/14
011823-015600IE	Ireland	LUCENTIS® (Ranibizumab)	Granted	82755	12/28/09	2007/019	4/12/07	2007/019	3/20/08	12/27/14
011823-015600IT	Italy	LUCENTIS® (Ranibizumab)	Granted	EP0451216	12/28/09	UB2007CCP969	4/30/07	C-UB2007CCP969	7/9/07	12/28/14
011823-015600LU	Luxembourg	LUCENTIS® (Ranibizumab)	Granted	EP0451216	12/28/09	91333	4/11/07	CCP91333	6/11/07	12/28/14
011823-015600NL	Netherlands	LUCENTIS® (Ranibizumab)	Granted	EP0451216	12/28/09	300279	4/18/07	300279	8/14/07	12/27/14
011823-015600NO	Norway	LUCENTIS® (Ranibizumab)	Granted	310473	12/28/09	SPC/NO2007006	4/18/07	SPC/NO 2007 006	10/23/09	12/28/14
011823-015600PT	Portugal	LUCENTIS® (Ranibizumab)	**Pending**	PT 92758	10/20/10	269	4/16/07	NYA	NYA	NYA
011823-015600SE	Sweden	LUCENTIS® (Ranibizumab)	Granted	SE0451216	12/28/09	0790030-1	5/11/07	0790030-1	3/18/08	12/28/14
011823-015600SI	Slovenia	LUCENTIS® (Ranibizumab)	Granted	SI 8912489	12/28/09	C-200740008	5/10/07	200740008	9/4/07	12/28/14

EXHIBIT B

Amendment No. 1 to the 2003 Settlement Agreement

AMENDMENT NO. 1 TO THE 2003 SETTLEMENT AGREEMENT

This Amendment No. 1 to the 2003 Settlement Agreement ("**Amendment No. 1**") is entered into as of the Effective Date by and between PDL BioPharma, Inc. ("**PDL**"), Genentech, Inc. ("**Genentech**"), and F. Hoffmann-La Roche Ltd (each, a "**Party**" and collectively, the "**Parties**"), and amends that certain Settlement Agreement dated December 18, 2003, by and between PDL and Genentech (the "**2003 Settlement Agreement**").

Except as expressly provided herein, capitalized terms shall have the meanings set forth in the 2003 Settlement Agreement and references to Sections shall be deemed references to the 2003 Settlement Agreement.

WHEREAS, PDL and Genentech are Parties to the 2003 Settlement Agreement; and

WHEREAS, in connection with the Parties' execution of that certain Confidential Settlement Agreement by and between PDL, Genentech, and F. Hoffmann-La Roche Ltd executed concurrently herewith (the "**2014 Settlement Agreement**"), the Parties deem it to be in their best interests and to their mutual advantage to amend the 2003 Settlement Agreement as set forth herein.

NOW THEREFORE, in exchange for good and valuable consideration, the receipt of which is hereby acknowledged, the Parties agree as follows:

1. The Effective Date of this Amendment No. 1 shall be the effective date of the 2014 Settlement Agreement.

2. Section 1.1 of the 2003 Settlement Agreement is deleted in its entirety and is replaced with the following new Section 1.1:

> 1.1 **"Party"** means PDL, Genentech, or Roche (as defined in Section 1.1.1 below). Each Party agrees and stipulates that the references to Genentech in Sections 3 and 4 shall also be deemed to refer to Roche (as defined in Section 1.1.1 below).

3. The second sentence of Section 1.1 of the 2003 Settlement Agreement, setting forth the definition of "PDL Patents," is deleted in its entirety.

4. The following Section 1.1.1 is added to the 2003 Settlement Agreement:

> 1.1.1 **"Roche"** means Roche Holding, Inc. and its Affiliates, including without limitation F. Hoffmann-La Roche Ltd.

5. Section 1.2 of the 2003 Settlement Agreement is deleted in its entirety and is replaced with the following new Section 1.2:

> 1.2 **"PDL Patent Family"** shall have the meaning given to the term "PDL Licensed Patents" in Section 1.13 of the Amended and Restated Patent Licensing Master

Agreement between PDL and Genentech, as amended by Amendment No. 1 thereto (the "**2014 Amended PLMA**").

6. Section 1.3 of the 2003 Settlement Agreement is deleted in its entirety and is replaced with the following new Section 1.3:

1.3 **"Opposition**" means the European Patent Office proceedings, including without limitation opposition and appeal proceedings, concerning PDL's European Patent No. 0 451 216.

7. Section 1.4 of the 2003 Settlement Agreement is deleted in its entirety and is replaced with the following new Section 1.4:

1.4 **"Genentech Products"** means Herceptin, Avastin, Xolair, Lucentis, Perjeta, and Kadcyla, each of which shall have the respective meaning set forth in Section 1 of the 2014 Amended PLMA. The antibody onartuzumab shall be considered a Genentech Product if it is determined that onartuzumab is a GNE Licensed Product and a Licensed Product pursuant to Section 4.1(e) of the 2014 Amended PLMA.

8. Section 1.5 of the 2003 Settlement Agreement is deleted in its entirety.

9. Section 1.8 of the 2003 Settlement Agreement is deleted in its entirety.

10. Section 1.9 of the 2003 Settlement Agreement is deleted in its entirety and is replaced with the following new Section 1.9:

1.9 **"Third Party"** means a Person that is not PDL, Genentech, Roche, or any of their Affiliates.

11. The following Section 1.9.1 is added to the 2003 Settlement Agreement:

1.9.1 **"Affiliate"** means any Entity that, on or after the Amendment Effective Date, controls, is controlled by, or is under common control with, another Entity; and "control" for purposes of this definition shall mean the possession of the power to direct or cause the direction of substantially all of the management and policies of an Entity, whether through the ownership of voting stock, by contract or otherwise. In the case of a corporation, "control" shall include the direct or indirect ownership of fifty percent (50%) or more of the outstanding voting stock. An Entity shall be an Affiliate only during such period of time that such Entity meets the definition set forth in this Section 1.9.1. With respect to Genentech and Roche, the term "Affiliate" shall not include Chugai Pharmaceutical Co., Ltd. ("Chugai") unless and until Genentech or Roche provides written notice to PDL specifying Chugai as an Affiliate.

12. The following Section 1.9.2 is added to the 2003 Settlement Agreement:

1.9.2 **"Entity"** means a trust, corporation, partnership, joint venture, limited liability company, association, unincorporated organization or other legally recognized form of organization. **"Person"** shall mean any natural person or Entity.

13. The following Section 1.11 is added to the 2003 Settlement Agreement:

1.11 **"Legal Proceeding"** means any lawsuit or any other civil or administrative proceeding, or the making of any claim or counterclaim, of any kind in any court, tribunal, agency or governmental entity.

14. The following Section 1.12 is added to the 2003 Settlement Agreement:

1.12 **"Amendment Effective Date"** means the effective date of the 2014 Settlement Agreement.

15. The following Section 1.13 is added to the 2003 Settlement Agreement:

1.13 "**PDL License Agreements**" shall have the meaning given to that term in the 2014 Confidential Settlement Agreement. "**PDL License Agreement**" shall refer to any one of the PDL License Agreements.

16. Section 2.2 of the 2003 Settlement Agreement is deleted in its entirety.

17. Section 2.3 of the 2003 Settlement Agreement is deleted in its entirety and is replaced with the following new Section 2.3:

2.3 Genentech and Roche each, on their own and on behalf of their Affiliates, agree, covenant, and stipulate that, upon issuance, each component of the PDL Patent Family, and each claim therein, is valid and enforceable.

18. Section 2.4 of the 2003 Settlement Agreement is deleted in its entirety and is replaced with the following new Section 2.4:

2.4 **No Patent or Payment Challenges**.

(a) No Challenges to the PDL Patent Family. Commencing on the Amendment Effective Date and at all times thereafter, Genentech, Roche, and their Affiliates shall not directly or indirectly initiate or prosecute any Legal Proceeding anywhere in the world challenging or contesting the validity, enforceability, patentability, or allowability of any component of the PDL Patent Family or any of the claims therein, and none of their in-house attorneys or officers shall make any assertion to PDL challenging or contesting the validity, enforceability, patentability, or allowability of any component of the PDL Patent Family or any of the claims therein. The Parties acknowledge and agree, for the avoidance of doubt, (i) that the prohibitions contained

in this Section 2.4(a) apply to PDL's supplementary protection certificates (and applications therefor) addressed to Herceptin, Avastin, Xolair, Lucentis or any other GNE Licensed Product, or Licensed Product, in each country in which such supplementary protection certificates have issued or are pending, and (ii) that this Section 2.4(a) prohibits Genentech, Roche, and their Affiliates from directly or indirectly initiating or prosecuting any Legal Proceeding anywhere in the world challenging or contesting, and none of their in-house attorneys or officers shall make any assertion to PDL challenging or contesting (a) that those products infringe, are protected or covered by, or are specified in the claims of, their respective supplementary protection certificates (or applications therefor) or European Patent No. 0 451 216, or (b) that such supplementary protection certificates are enforceable, valid, or not void for any reason or that any applications for supplementary protection certificates based on European Patent No. 0 451 216 or any divisional patent relating thereto should be allowed or, if issued, would be valid and enforceable.

(b) No Failure to Pay Royalties. Commencing on the Amendment Effective Date and at all times thereafter, Genentech, Roche, and their Affiliates shall not refuse to pay royalties to PDL on the express ground that (i) any component of the PDL Patent Family or any of the claims therein, including supplementary protection certificates included therein, is void, invalid, unenforceable, unpatentable, or unallowable, or (ii) any PDL License Agreement is void or unenforceable.

(c) No Right to Terminate. Commencing on the Amendment Effective Date and at all times thereafter, Genentech, Roche, and their Affiliates shall not terminate or seek to modify a PDL License Agreement on the express ground that any component of the PDL Patent Family or any of the claims therein, including supplementary protection certificates included therein, is void, invalid, unenforceable, unpatentable, or unallowable.

(d) No Assistance to Third Parties. Commencing on the Amendment Effective Date and at all times thereafter, Genentech, Roche, and their Affiliates shall not knowingly and intentionally assist or cause any Third Party to directly or indirectly initiate or prosecute any Legal Proceeding anywhere in the world challenging or contesting the validity, enforceability, patentability, or allowability of any component of the PDL Patent Family or any of the claims therein, including supplementary protection certificates included therein.

(e) No Liability for Patent Prosecution, Third Party Conduct or Compliance with Laws. Nothing in Section 2.4 shall preclude Genentech, Roche, or their Affiliates from characterizing any aspect of any component within the PDL Patent Family (including without limitation one or more claims) in prosecuting their own patent applications or in litigation with a Third Party concerning a patent owned by Genentech, Roche, or their Affiliates or a Third Party patent. PDL acknowledges and agrees that Genentech, Roche, and their Affiliates cannot control, and thus Genentech, Roche, and their Affiliates shall not be held responsible or liable for, the actions of any Third Party that may decide, without assistance, encouragement, or inducement by Genentech, Roche,

or their Affiliates, to challenge the validity, enforceability, patentability, or allowability of any component of the PDL Patent Family and/or any claims therein. In the event Genentech, Roche, or their Affiliates (i) reasonably believes that it is required by law to provide documents and/or information to a Third Party in connection with any Legal Proceeding involving such Third Party or (ii) reasonably believes that it is required (and only to the extent it is so required) to provide technical, scientific or business documents and/or information (excluding Legal Materials (as such term is defined in the 2003 Settlement Agreement)) to any Third Party under a contract or other written agreement between Genentech, Roche, or their Affiliates and such Third Party signed prior to the Amendment Effective Date, Genentech's, Roche's, or their Affiliates' provision of such documents and/or information under the circumstances set forth in such clauses (i) or (ii) of this sentence shall not constitute a breach of Section 2.4.

19. Section 2.5 of the 2003 Settlement Agreement is deleted in its entirety.

20. Section 2.6 of the 2003 Settlement Agreement is deleted in its entirety and is replaced with the following new Section 2.6:

2.6 This 2003 Settlement Agreement shall be subject to (and hereby incorporates) Section 10.2 of the 2014 Settlement Agreement.

21. Section 2.7 of the 2003 Settlement Agreement is deleted in its entirety.

22. Section 4.2 of the 2003 Settlement Agreement is modified to reflect a Cure Period of thirty days, by replacing in Section 4.2 the text "ten (10) days" and with the text "thirty (30) days."

23. The following new Section 4.2(j) is added to the 2003 Settlement Agreement:

(j) In the event of an alleged breach by Genentech and Roche of Section 2.3 and/or 2.4 of this Agreement, PDL shall be entitled to seek a single recovery only against both Genentech and Roche under each of these Sections 4.2 (b), (c), (d), (e) and (h). By way of example, but not limitation, if PDL alleges a breach of Section 2.3 and/or 2.4 by Genentech and Roche, it may seek (among other relief provided for in this Agreement and this Section 4.2) only a single enhanced royalty of * * * on each unit of Licensed Product referenced in Sections 4.2(b) and (c), not two royalties of * * * on each unit of Licensed Product referenced in those sections. Similarly, and by way of further example, but not limitation, if PDL alleges a breach of Section 2.3 and/or 2.4 by Genentech and Roche, it may seek (among other relief provided for in this Agreement and this Section 4.2) only a single recovery against both Genentech and Roche jointly in the total amount of * * * under Section 4.2(e), and not against each of them individually in the amount of * * * for a total of * * *.

24. Section 5 of the 2003 Settlement Agreement is deleted in its entirety. The 2003 Settlement Agreement shall be subject to (and hereby incorporates) Section 7 of the 2014 Settlement Agreement.

25. Section 6.1 of the 2003 Settlement Agreement is deleted in its entirety and is replaced with the following new Section 6.1:

6.1 This Settlement Agreement shall become effective on December 18, 2003, and shall remain in effect until the later of December 31, 2015 or the performance and satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA, except that the provisions of Sections 5, 7, and 8 shall survive the expiration of this Settlement Agreement.

26. The following new Section 6.2 is added to the 2003 Settlement Agreement:

6.2 Fixed Royalty Term and Fully Paid Up License.

(a) The Parties acknowledge and agree that in no event shall Genentech owe any royalties to PDL under the 2014 Amended PLMA or the PDL License Agreements on Net Sales of (i) Lucentis occurring in the United States after June 30, 2013, (ii) Lucentis occurring outside the United States after December 28, 2014, and (iii) Avastin, Herceptin, Xolair, Perjeta, Kadcyla and any other GNE Licensed Product or Licensed Product occurring anywhere in the world after December 31, 2015, in each case of (i), (ii), and (iii) regardless of the expiry date or technical scope of any component of the PDL Licensed Patents.

(b) Upon the satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Lucentis occurring in the United States on or prior to June 30, 2013, Genentech shall have a fully paid up license under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Net Sales of Lucentis occurring in the United States.

(c) Upon the satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Lucentis occurring outside the United States on or prior to December 28, 2014, Genentech shall have a fully paid up license under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Lucentis.

(d) Upon the satisfaction, on a product by product basis, of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Avastin, Herceptin, Xolair, Perjeta, Kadcyla, or any other GNE Licensed Product or Licensed Product (other than Lucentis) occurring anywhere in the world on or prior to December 31, 2015, Genentech shall have a fully paid up license, on a product by product basis, under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Avastin, Herceptin, Xolair, Perjeta, Kadcyla and any other GNE Licensed Product or Licensed Product.

27. Section 7.1 of the 2003 Settlement Agreement is deleted in its entirety.

28. Section 8.3 of the 2003 Settlement Agreement is deleted in its entirety and is replaced with the following new Section 8.3:

8.3 Any notice required or desired to be given hereunder shall be in writing and shall be served as provided herein either by an air courier service (such as FedEx, DHL or UPS) or by personal delivery. Service of any notice shall be deemed complete upon actual receipt before 5:00 p.m. at the location of delivery (and shall be deemed complete on the following day if actually received after 5:00 p.m. at the location of delivery). In order to be effective, any notice must be served upon and received by both the Party or Parties and the persons designated to receive a copy thereof at the addresses set forth below:

If to Genentech:

Genentech, Inc.
1 DNA Way
South San Francisco, CA 94080
Tel: (650) 225-1000
Fax: (650) 952-9881
Attn: General Counsel

With a copy to:

Williams & Connolly LLP
725 12th Street, N.W.
Washington, D.C. 20005
Attention: Paul Gaffney, Esq.

If to Roche:

F. Hoffmann-La Roche Ltd
Grenzacherstrasse 124
CH-4070
Basel, Switzerland
Attn: Legal Department
Fax: +41-61-688-1396

With a copy to:

Williams & Connolly LLP
725 12th Street, N.W.
Washington, D.C. 20005
Attention: Paul Gaffney, Esq.

If to PDL:

PDL BioPharma, Inc.
932 Southwood Boulevard
Incline Village, NV 89451
Tel: 775-832-8500
Fax: 775-832-8501
Attn: General Counsel

With a copy to:

Irell & Manella LLP
1800 Avenue of the Stars, Suite 900
Los Angeles, California 90067
Attention: David I. Gindler, Esq.

29. Section 8.6 of the 2003 Settlement Agreement is deleted in its entirety and is replaced with the following new Section 8.6:

> 8.6 This Agreement (as amended by this Amendment No. 1), the 2014 Settlement Agreement, the 2014 Amended PLMA, and the PDL License Agreements constitute the entire understanding and contract between the Parties with respect to the subject matter referred to therein. Any and all other representations, understandings, or agreements, whether oral, written, or implied, are merged into and superseded by the terms of the foregoing agreements. No provision of this Agreement can be waived, modified, amended, or supplemented except in a writing that expressly references this Agreement and is signed by an authorized representative of each Party to be bound.

30. This Amendment No. 1 may be executed and delivered in any number of counterparts. When each Party has signed and delivered at least one counterpart to all other Parties, each counterpart shall be deemed an original and all counterparts, taken together, shall constitute one and the same agreement, which shall be binding and effective on the Parties hereto. This Amendment No. 1 shall not become binding on the Parties hereto unless it has been executed by authorized representatives of all Parties.

31. On and after the Effective Date, each reference in the 2003 Settlement Agreement to "this Settlement Agreement," "hereunder," "hereof," or words of like import referring to the 2003 Settlement Agreement, as well as references to the 2003 Settlement Agreement in other agreements between PDL and Genentech, shall mean and be a reference to the 2003 Settlement Agreement as amended by this Amendment No. 1.

32. Except as specifically amended above, the 2003 Settlement Agreement is and shall continue to be in full force and effect. In the event of any conflict between the terms of this Amendment No. 1, on the one hand, and the terms of the 2003 Settlement Agreement or the 2014 Settlement Agreement, on the other hand, the terms of this Amendment No. 1 shall govern.

IN WITNESS WHEREOF, the Parties have executed this Amendment No. 1 through their duly authorized representatives as of the Effective Date.

PDL BioPharma, Inc. **Genentech, Inc.**

By _____ By _____

Title _____ Title _____

F. Hoffmann-La Roche Ltd

By _____

Title _____

EXHIBIT C

Amendment No. 2 to the HER-2 PDL License Agreement

AMENDMENT NO. 2 TO THE HER-2 LICENSE AGREEMENT

This Amendment No. 2 to the HER-2 License Agreement ("**Amendment No. 2**") is entered into as of the Effective Date by and between PDL BioPharma, Inc. ("**PDL**") and Genentech, Inc. ("**Genentech**" or "**GNE**") (each, a "**Party**" and collectively, the "**Parties**"), and amends that certain PDL License Agreement directed to the antigen HER-2 dated November 3, 1998 (as amended on December 18, 2003), by and between PDL and Genentech (the "**HER-2 License Agreement**").

Except as expressly provided herein, capitalized terms shall have the meanings set forth in the HER-2 License Agreement and references to Sections shall be deemed references to the HER-2 License Agreement.

WHEREAS, PDL and Genentech are Parties to the HER-2 License Agreement; and

WHEREAS, in connection with the Parties' execution of that certain Confidential Settlement Agreement by and between PDL, Genentech, and F. Hoffmann La-Roche Ltd executed concurrently herewith (the **"2014 Settlement Agreement"**), the Parties deem it to be in their best interests and to their mutual advantage to amend the HER-2 License Agreement as set forth herein.

NOW THEREFORE, in exchange for good and valuable consideration, the receipt of which is hereby acknowledged, the Parties agree as follows:

1. The Effective Date of this Amendment No. 2 shall be the effective date of the 2014 Settlement Agreement.

2. Section 1.01 of the HER-2 License Agreement is deleted in its entirety and is replaced with the following new Section 1.01:

> **1.01 "Affiliate"** shall mean any Entity that, on or after the Effective Date of Amendment No. 2 to this Agreement, controls, is controlled by, or is under common control with, another Entity; and "control" for purposes of this definition shall mean the possession of the power to direct or cause the direction of substantially all of the management and policies of an Entity, whether through the ownership of voting stock, by contract or otherwise. In the case of a corporation, "control" shall include the direct or indirect ownership of fifty percent (50%) or more of the outstanding voting stock. An Entity shall be an Affiliate only during such period of time that such Entity meets the definition set forth in this Section 1.01. With respect to Genentech and Roche, the term "Affiliate" shall not include Chugai Pharmaceutical Co., Ltd. ("Chugai") unless and until Genentech or Roche provides written notice to PDL specifying Chugai as an Affiliate.

3. The following Section 1.01.1 is added to the HER-2 License Agreement:

> **1.01.1 "Entity"** shall mean a trust, corporation, partnership, joint venture, limited liability company, association, unincorporated organization or other legally recognized form of organization. **"Person"** shall mean any natural person or Entity.

4. The following Section 1.01.2 is added to the HER-2 License Agreement:

1.01.2 "Designee" shall mean an Affiliate, sublicensee, co-promoting party, or other Person employed by or under contract with Genentech to sell, or otherwise authorized by Genentech to sell a particular Licensed Product or GNE Licensed Product (or Licensed Products or GNE Licensed Products) for or on behalf of Genentech. A Person shall be a Designee only during such period of time that such Person meets the definition set forth in this Section 1.01.2. The Parties acknowledge and agree, for the avoidance of doubt, that each of Roche and Novartis Pharma AG shall be considered a Designee of Genentech (each with respect to certain Licensed Product(s) or GNE Licensed Product(s)) for purposes of this Agreement.

5. Section 1.08 of the HER-2 License Agreement is deleted in its entirety and is replaced with the following new Section 1.08:

1.08 "Licensed Product" means an Antibody with respect to which GNE has either significant marketing rights or has done significant development (e.g., created, humanized or conducted preclinical or clinical development), the manufacture, import, use, offer to sell or sale of which would infringe, if not licensed under this Agreement, a Valid Claim. GNE agrees and stipulates, for the avoidance of doubt, that trastuzumab (Herceptin), pertuzumab (Perjeta), and ado-trastuzumab emtansine (Kadcyla) are Licensed Products.

6. Section 1.09 of the HER-2 License Agreement is deleted in its entirety and is replaced with the following new Section 1.09:

1.09 **"Net Sales"** means the aggregate gross revenues, whether in cash or in kind, corresponding to the price actually invoiced for the sale or other transfer of Finished Products by GNE, and/or by an Affiliate and/or by a Designee of GNE to one or more Third Parties, less Five Percent (5%) to cover the following: (a) credits or allowances, if any, actually granted on account of price adjustments, recalls, rejection, or return of items previously sold, (b) excise and sales taxes, or duties, imposed on and paid by GNE or by an Affiliate or Designee of GNE with respect to such sales (excluding income or franchise taxes of any kind), and (c) outer packing, freight and freight insurance costs. If GNE or any of its Affiliates or Designees receive non-cash consideration for any Finished Product sold or otherwise transferred to a Third Party, the fair market value of such non-cash consideration on the date of such transfer as known to GNE, or as reasonably estimated by GNE if unknown, shall be included in the definition of Net Sales. Net Sales shall not include Finished Products provided for bona fide clinical trial, evaluation, research or development purposes.

Notwithstanding any other provision in this Agreement, the 2014 Settlement Agreement or any other agreement between the Parties, for purposes of calculating Net Sales, the term "aggregate gross revenues" in this Section 1.09 (i) specifically excludes Value Added Tax (VAT); and (ii) shall be calculated based on the price actually invoiced for the sale of Finished Products by GNE, its Affiliates, and its Designees; provided, however, in the event GNE or any of its Affiliates or Designees receive, in

part or whole, non-cash consideration for such sale, the fair market value of such non-cash consideration on the date of such transfer as known to GNE, or as reasonably estimated by GNE if unknown, shall also be included in the calculation of aggregate gross revenues.

Net Sales for Bulk Products shall be calculated by multiplying the units of Finished Product to which such Bulk Product is reasonably anticipated to be converted by the established market price in the country of sale of the Finished Product on the date of sale of the Bulk Product. By way of example and without limitation, units of Finished Product may be measured in grams or doses, as appropriate.

The method of calculating Net Sales of materials in a form other than Finished Product or Bulk Product that can be converted into Finished Product shall be established by good faith discussion between PDL and GNE.

For the sake of clarity, no sale or transfer of Finished Product or Bulk Product by GNE or Roche to any of their Affiliates or Designees shall be included within Net Sales because such a sale or transfer is not a sale or transfer to a Third Party.

7. Section 1.10 of the HER-2 License Agreement is deleted in its entirety.

8. Section 1.11 of the HER-2 License Agreement is deleted in its entirety and is replaced with the following new Section 1.11:

1.11 "PDL Licensed Patents" shall have the meaning set forth in Section 1.13 of the Amended and Restated Patent Licensing Master Agreement between PDL and Genentech, as amended by Amendment No. 1 thereto (the "**2014 Amended PLMA**").

9. Section 1.12 of the HER-2 License Agreement is deleted in its entirety and is replaced with the following new Section 1.12:

1.12 "Territory" means worldwide.

10. Section 1.13 of the HER-2 License Agreement is deleted in its entirety and is replaced with the following new Section 1.13:

1.13 "Valid Claim" means (i) any claim in any PDL Licensed Patent, or (ii) any component of the PDL Licensed Patents (including supplementary protection certificates or applications therefor), which has neither expired nor been disclaimed.

11. The following Section 1.14 is added to the HER-2 License Agreement:

1.14 "Third Party" means any natural person or entity that is not Genentech or any of its Affiliates or Designees.

12. Section 2.05 of the HER-2 License Agreement is deleted in its entirety.

13. Section 3.03 of the HER-2 License Agreement is deleted in its entirety.

14. Section 3.04 of the HER-2 License Agreement is deleted in its entirety and is replaced with the following new Section 3.04:

3.04 Royalties to PDL. The royalties payable to PDL under this PDL License Agreement shall be as set forth in Section 4.1 of the 2014 Amended PLMA, except that in the event that GNE (i) breaches its obligations under Sections 2.3 or 2.4 of the Settlement Agreement by and between PDL and GNE dated December 18, 2003 (as amended) ("2003 Settlement Agreement"); and (ii) fails to cure such breaches as provided under Section 4.2 of the 2003 Settlement Agreement, then PDL, at its sole discretion, may invoke its rights under Article 4 of the 2003 Settlement Agreement.

3.04.1 Fixed Royalty Term and Fully Paid Up License.

(a) The Parties acknowledge and agree that in no event shall Genentech owe any royalties to PDL under the 2014 Amended PLMA or the PDL License Agreements on Net Sales of (i) Lucentis occurring in the United States after June 30, 2013, (ii) Lucentis occurring outside the United States after December 28, 2014, and (iii) Avastin, Herceptin, Xolair, Perjeta, Kadcyla and any other GNE Licensed Product or Licensed Product occurring anywhere in the world after December 31, 2015, in each case of (i), (ii), and (iii) regardless of the expiry date or technical scope of any component of the PDL Licensed Patents.

(b) Upon the satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Lucentis occurring in the United States on or prior to June 30, 2013, Genentech shall have a fully paid up license under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Net Sales of Lucentis occurring in the United States.

(c) Upon the satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Lucentis occurring outside the United States on or prior to December 28, 2014, Genentech shall have a fully paid up license under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Lucentis.

(d) Upon the satisfaction, on a product by product basis, of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Avastin, Herceptin, Xolair, Perjeta, Kadcyla, or any other GNE Licensed Product or Licensed Product (other than Lucentis) occurring anywhere in the world on or prior to December 31, 2015, Genentech shall have a fully paid up license, on a product by product basis, under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Avastin, Herceptin, Xolair, Perjeta, Kadcyla and any other GNE Licensed Product or Licensed Product.

15. Section 3.07 is deleted in its entirety and is replaced with the following new Section 3.07:

3.07 Currency Conversion. All amounts payable to PDL under this Agreement

shall be payable in U.S. Dollars by wire transfer to a bank account designated by PDL. When calculating Net Sales in currencies other than U.S. dollars, Genentech, its Affiliates and Designees shall convert the amount of such sales into U.S. dollars using the foreign currency translation method actually used on a consistent basis in preparing its audited financial statements. (As of the Effective Date, Genentech uses the average year to date exchange rate as reported by Reuters.)

16. Section 3.08(a) of the HER-2 License Agreement is amended to delete the second-to-last sentence of the provision and replace it with the following:

These reports shall be certified by an officer of Genentech to the best of his or her knowledge after reasonable inquiry and shall state for each calendar quarter: (1) Net Sales of the Licensed Product in such quarter, (2) the amounts deducted pursuant to Section 1.09 of this Agreement in such quarter, and (3) the net royalty due to PDL thereon pursuant to this Article 3.

17. The following Section 3.09.1 is added to the HER-2 License Agreement:

3.09.1 Any inspection conducted pursuant to Section 3.09 shall be conducted according to the procedures set forth on Exhibit 1 hereto.

18. Section 7.01 of the HER-2 License Agreement is deleted in its entirety and is replaced with the following new Section 7.01:

7.01 Term. Unless earlier terminated as provided in this Article 7, this Agreement shall come into force on November 3, 1998 and shall remain in effect until the later of December 31, 2015 or the performance and satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA. Thereafter, all licenses or sublicenses granted hereunder shall become fully paid up and royalty free.

19. Section 8.02 of the HER-2 License Agreement is amended to delete the phrase “Section 11.6 of the Master Agreement” and replace it with “Section 8.6 of the 2014 Amended PLMA.”

20. Section 8.04 of the HER-2 License Agreement is deleted in its entirety and is replaced with the following new Section 8.04:

8.04 Notices. Any notice required or desired to be given hereunder shall be in writing and shall be served as provided herein either by an air courier service (such as FedEx, DHL or UPS) or by personal delivery. Service of any notice shall be deemed complete upon actual receipt before 5:00 p.m. at the location of delivery (and shall be deemed complete on the following day if actually received after 5:00 p.m. at the location of delivery). In order to be effective, any notice must be served upon and received by both the Party or Parties and the persons designated to receive a copy thereof at the addresses set forth below:

If to Genentech:

Genentech, Inc.
1 DNA Way
South San Francisco, CA 94080
Tel: (650) 225-1000
Fax: (650) 952-9881
Attn: General Counsel

With a copy to:
Williams & Connolly LLP
725 12th Street, N.W.
Washington, D.C. 20005
Attention: Paul Gaffney, Esq.

If to PDL:

PDL BioPharma, Inc.
932 Southwood Boulevard
Incline Village, NV 89451
Tel: 775-832-8500
Fax: 775-832-8501
Attn: General Counsel

With a copy to:

Irell & Manella LLP
1800 Avenue of the Stars, Suite 900
Los Angeles, California 90067
Attention: David I. Gindler, Esq.

21. Section 8.09 of the HER-2 License Agreement is deleted in its entirety and is replaced with the following new Section 8.09:

> **8.09** This Agreement (as amended by this Amendment No. 2), the 2014 Settlement Agreement, the 2014 Amended PLMA, and the 2003 Settlement Agreement (as amended) constitute the entire understanding and contract between the Parties with respect to the subject matter referred to therein. Any and all other representations, understandings, or agreements, whether oral, written, or implied, are merged into and superseded by the terms of the foregoing agreements. No provision of this Agreement can be waived, modified, amended, or supplemented except in a writing that expressly references this Agreement and is signed by an authorized representative of each Party to be bound.

22. This Amendment No. 2 may be executed and delivered in any number of counterparts. When each Party has signed and delivered at least one counterpart to all other Parties, each counterpart shall be deemed an original and all counterparts, taken together, shall constitute one and the same

agreement, which shall be binding and effective on the Parties hereto. This Amendment No. 2 shall not become binding on the Parties hereto unless it has been executed by authorized representatives of all Parties.

23. On and after the Effective Date, each reference in the HER-2 License Agreement to "this Agreement," "hereunder," "hereof," or words of like import referring to the HER-2 License Agreement, as well as references to the HER-2 License Agreement in other agreements between PDL and Genentech, shall mean and be a reference to the HER-2 License Agreement as amended by this Amendment No. 2.

24. Except as specifically amended above, the HER-2 License Agreement is and shall continue to be in full force and effect. In the event of any conflict between the terms of this Amendment No. 2, on the one hand, and the terms of the HER-2 License Agreement or the 2014 Settlement Agreement, on the other hand, the terms of this Amendment No. 2 shall govern.

IN WITNESS WHEREOF, the Parties have executed this Amendment through their duly authorized representatives as of the Effective Date.

PDL BioPharma, Inc. **Genentech, Inc.**

By _____ By _____

Title _____ Title _____

EXHIBIT 1 to Amendment No. 2 to the HER-2 PDL License Agreement

Audit Protocol

Exhibit 1

Inspection Procedures

Any inspection of books and records conducted pursuant to Section 3.09 of the PDL License Agreements ("Audit") shall be conducted in accordance with the procedures set forth below. To the extent Section 3.09 of any of the PDL License Agreements ("Section 3.09") and the procedures specified in this Exhibit 1 are in conflict, this Exhibit 1 shall control.

1. **Time Period Subject to Audit; Time to Initiate Audit.**
Net Sales subject to an Audit shall be limited to Net Sales occurring during the period from and including August 15, 2013 to and including December 31, 2015. Any Audit shall be initiated on or before June 30, 2016.

2. **Selection of Auditor.**
PDL shall provide written notice to Genentech of its intention to conduct an Audit, including in such notice (i) a statement of what time period of Net Sales will be the subject of the Audit, and (ii) the name of an independent U.S. accounting firm (the "Auditor") selected by PDL, subject to Genentech's consent, which consent shall not be unreasonably withheld or delayed. The Auditor shall have substantial experience conducting royalty audits and knowledge of customary practices in conducting royalty audits.

3. **Scope of Audit.**
Upon the commencement of the Audit, the Auditor shall propose in writing to Genentech all of the information that the Auditor believes at that time, in good faith and consistent with customary practice, to be reasonably required to conduct the Audit (the "Proposed Audit Plan"), i.e., information "showing the sales of Licensed Products in the Territory in sufficient detail to enable the royalties payable hereunder to be determined." (Section 3.09). The Proposed Audit Plan shall also include a listing of all proposed interviews of Genentech personnel that the Auditor believes at that time, in good faith to be consistent with customary practice, to be reasonably required to conduct the Audit.

Within fourteen (14) days following Genentech's receipt of the Proposed Audit Plan, or as soon thereafter as practicable, Genentech shall meet in person with the Auditor to discuss the Proposed Audit Plan. In the event Genentech and the Auditor cannot agree on whether one or more items of information or interview(s) included in the Proposed Audit Plan are sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, Genentech and PDL shall attempt to resolve between themselves whether such information or interview(s) is sought in good faith, consistent with customary practice, and reasonably required. In the event Genentech and PDL cannot agree, either Genentech or PDL may invoke Paragraph 6 below. Upon resolution of all disputes concerning the Proposed Audit Plan (by Genentech and the Auditor, Genentech and PDL, and/or pursuant to Paragraph 6 below), the Proposed Audit Plan, amended as

necessary to be consistent with the resolution of those disputes, shall be deemed the "Final Audit Plan".

During the course of the Audit, the Auditor may request additional information and/or interviews that are sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, even if not part of the Final Audit Plan. In the event Genentech and the Auditor cannot agree on whether one or more items of additional information or interview(s) are sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, Genentech and PDL shall attempt to resolve between themselves whether such information or interview(s) is sought in good faith, consistent with customary practice, and reasonably required. In the event Genentech and PDL cannot agree, either Genentech or PDL may invoke Paragraph 6 below.

4. Production of Information.

The Auditor shall then provide written notice to Genentech of the "Final Audit Plan." Genentech shall take commercially diligent efforts to provide the information and interview(s) specified in the Final Audit Plan to the Auditor within six (6) months of receipt of such written notice except in the event of (i) exceptional circumstances or (ii) requests for additional information or interview(s) made after adoption of the Final Audit Plan, in which of cases (i) or (ii) the parties, in consultation with the Auditor, shall agree upon a reasonable extension of time for Genentech to provide all of the information and interview(s). Genentech shall take commercially reasonable efforts to secure the cooperation of its Affiliates and Designees if required to obtain any items of information specified in the Final Audit Plan; provided, however, any such efforts are subject to Genentech's contractual rights and obligations in relation to such Affiliates and Designees. Any Affiliate's or Designee's failure to provide information within the prescribed six (6) month period shall not constitute a breach of this paragraph 4.

5. Limitations on Genentech's Obligations.

For the sake of clarity, but without limitation, Genentech's provision of information and/or interview(s) of personnel for purposes of the Audit is subject to Genentech's records preservation obligations as set forth in Section 3.09 of the PDL License Agreements, Genentech's contractual rights and obligations with regard to its Affiliates and Designees, and any and all applicable legal privileges.

6. Resolution of Disputes Concerning Audit Data.

To facilitate the rapid resolution of disputes concerning whether certain information or interview(s) of personnel is sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, within fourteen (14) days of Genentech's receipt of the Proposed Audit Plan, Genentech and PDL shall agree upon and jointly engage a neutral third party who shall be a mutually-agreed upon expert in royalty accounting from a "Big Four" accounting firm ("the Neutral Auditor").

The role of the Neutral Auditor shall be limited to resolving whether certain information or interview(s) of personnel sought by the Auditor is sought in good faith, consistent with customary

practice, and reasonably required to conduct the Audit (including how to interpret the language "sought in good faith, consistent with customary practice, and reasonably required to conduct the Audit"). The Neutral Auditor's resolution of such a dispute shall be binding, final and unappealable. The Neutral Auditor shall have authority only to resolve disputes concerning the scope of information and interviews of personnel to be provided to the Auditor. The Neutral Auditor shall have no authority to resolve any other issue or dispute, including but not limited to any dispute between Genentech and PDL relating to or involving (i) the interpretation of any provision, or portion thereof, of any PDL License Agreement, the 2014 Amended PLMA, the 2003 Settlement Agreement (as amended) or the 2014 Settlement Agreement; (ii) an alleged underpayment or overpayment of royalties; or (iii) any matter whatsoever other than the scope of information and interviews of personnel to be provided to the Auditor. In the event the Parties disagree regarding whether a particular issue or dispute is subject to resolution by the Neutral Auditor, such issue or dispute shall not be subject to resolution by the Neutral Auditor and instead shall be exclusively subject to the dispute resolution procedures set forth in Section 8.6 of the 2014 Amended PLMA. By way of example (but not limitation), if the Auditor requests information that may be reasonably required for the Audit based on PDL's interpretation of a particular contract provision but that may not be reasonably required for the Audit based on Genentech's interpretation of such contract provision, such dispute (regardless of whether it is characterized as a dispute about whether the information is reasonably required for the Audit and/or a dispute about the interpretation of the contract provision) shall not be subject to resolution by the Neutral Auditor, and must be resolved, if at all, pursuant to Section 8.6 of the 2014 Amended PLMA.

The procedure for resolution of disputes by the Neutral Auditor shall be determined in conjunction with the Neutral Auditor upon his/her engagement, but PDL and Genentech agree that (i) written submissions shall be permitted and shared between the Auditor, PDL and Genentech; (ii) each dispute referred to the Neutral Auditor shall be resolved no later than fourteen (14) days after such referral; and (iii) the standard to be applied by the Neutral Auditor is whether the information or interview(s) of personnel sought by the Auditor is sought in good faith, consistent with customary practice, and reasonably required for the Audit.

PDL and Genentech agree that any and all materials and information and communications generated during and in relation to the resolution of any dispute by the Neutral Auditor, (including but not limited to, Party submissions to the Neutral Auditor, statements, findings, or determinations by the Neutral Auditor, correspondence between the Parties, correspondence between PDL or Genentech and the Auditor) in any form whatsoever, shall be inadmissible in any arbitration proceeding pursuant to Section 8.6 of the 2014 Amended PLMA or any other legal proceeding between PDL and Genentech. All fees and costs incurred by the Neutral Auditor shall be shared equally by PDL and Genentech.

EXHIBIT D

Amendment No. 1 to the VEGF PDL License Agreement

AMENDMENT NO. 1 TO THE VEGF LICENSE AGREEMENT

This Amendment No. 1 to the VEGF License Agreement ("**Amendment No. 1**") is entered into as of the Effective Date by and between PDL BioPharma, Inc. ("**PDL**") and Genentech, Inc. ("**Genentech**" or "**GNE**") (each, a "**Party**" and collectively, the "**Parties**"), and amends that certain PDL License Agreement directed to the antigen VEGF dated March 5, 2004, by and between PDL and Genentech (the "**VEGF License Agreement**").

Except as expressly provided herein, capitalized terms shall have the meanings set forth in the VEGF License Agreement and references to Sections shall be deemed references to the VEGF License Agreement.

WHEREAS, PDL and Genentech are Parties to the VEGF License Agreement; and

WHEREAS, in connection with the Parties' execution of that certain Confidential Settlement Agreement by and between PDL, Genentech, and F. Hoffmann La-Roche Ltd executed concurrently herewith (the **"2014 Settlement Agreement"**), the Parties deem it to be in their best interests and to their mutual advantage to amend the VEGF License Agreement as set forth herein.

NOW THEREFORE, in exchange for good and valuable consideration, the receipt of which is hereby acknowledged, the Parties agree as follows:

1. The Effective Date of this Amendment No. 1 shall be the effective date of the 2014 Settlement Agreement.

2. Section 1.01 of the VEGF License Agreement is deleted in its entirety and is replaced with the following new Section 1.01:

> **1.01 "Affiliate"** shall mean any Entity that, on or after the Effective Date of Amendment No. 1 to this Agreement, controls, is controlled by, or is under common control with, another Entity; and "control" for purposes of this definition shall mean the possession of the power to direct or cause the direction of substantially all of the management and policies of an Entity, whether through the ownership of voting stock, by contract or otherwise. In the case of a corporation, "control" shall include the direct or indirect ownership of fifty percent (50%) or more of the outstanding voting stock. An Entity shall be an Affiliate only during such period of time that such Entity meets the definition set forth in this Section 1.01. With respect to Genentech and Roche, the term "Affiliate" shall not include Chugai Pharmaceutical Co., Ltd. ("Chugai") unless and until Genentech or Roche provides written notice to PDL specifying Chugai as an Affiliate.

3. The following Section 1.01.1 is added to the VEGF License Agreement:

> **1.01.1 "Entity"** shall mean a trust, corporation, partnership, joint venture, limited liability company, association, unincorporated organization or other legally recognized form of organization. **"Person"** shall mean any natural person or Entity.

4. The following Section 1.01.2 is added to the VEGF License Agreement:

1.01.2 "Designee" shall mean an Affiliate, sublicensee, co-promoting party, or other Person employed by or under contract with Genentech to sell, or otherwise authorized by Genentech to sell a particular Licensed Product or GNE Licensed Product (or Licensed Products or GNE Licensed Products) for or on behalf of Genentech. A Person shall be a Designee only during such period of time that such Person meets the definition set forth in this Section 1.01.2. The Parties acknowledge and agree, for the avoidance of doubt, that each of Roche and Novartis Pharma AG shall be considered a Designee of Genentech (each with respect to certain Licensed Product(s) or GNE Licensed Product(s)) for purposes of this Agreement.

5. Section 1.08 of the VEGF License Agreement is deleted in its entirety and is replaced with the following new Section 1.08:

1.08 "Licensed Product" means an Antibody with respect to which GNE has either significant marketing rights or has done significant development (e.g., created, humanized or conducted preclinical or clinical development), the manufacture, import, use, offer to sell or sale of which would infringe, if not licensed under this Agreement, a Valid Claim. GNE agrees and stipulates, for the avoidance of doubt, that bevacizumab (Avastin) and ranibizumab (Lucentis) are Licensed Products.

6. Section 1.09 of the VEGF License Agreement is deleted in its entirety and is replaced with the following new Section 1.09:

1.09 **"Net Sales"** means the aggregate gross revenues, whether in cash or in kind, corresponding to the price actually invoiced for the sale or other transfer of Finished Products by GNE, and/or by an Affiliate and/or by a Designee of GNE to one or more Third Parties, less Five Percent (5%) to cover the following: (a) credits or allowances, if any, actually granted on account of price adjustments, recalls, rejection, or return of items previously sold, (b) excise and sales taxes, or duties, imposed on and paid by GNE or by an Affiliate or Designee of GNE with respect to such sales (excluding income or franchise taxes of any kind), and (c) outer packing, freight and freight insurance costs. If GNE or any of its Affiliates or Designees receive non-cash consideration for any Finished Product sold or otherwise transferred to a Third Party, the fair market value of such non-cash consideration on the date of such transfer as known to GNE, or as reasonably estimated by GNE if unknown, shall be included in the definition of Net Sales. Net Sales shall not include Finished Products provided for bona fide clinical trial, evaluation, research or development purposes.

Notwithstanding any other provision in this Agreement, the 2014 Settlement Agreement or any other agreement between the Parties, for purposes of calculating Net Sales, the term "aggregate gross revenues" in this Section 1.09 (i) specifically excludes Value Added Tax (VAT); and (ii) shall be calculated based on the price actually invoiced for the sale of Finished Products by GNE, its Affiliates, and its Designees; provided, however, in the event GNE or any of its Affiliates or Designees receive, in part or whole, non-cash consideration for such sale, the fair market value of such non-cash consideration on the date of such transfer as known to GNE, or as reasonably estimated by GNE if unknown, shall also be included in the calculation of aggregate gross revenues.

Net Sales for Bulk Products shall be calculated by multiplying the units of Finished Product to which such Bulk Product is reasonably anticipated to be converted by the established market price in the country of sale of the Finished Product on the date of sale of the Bulk Product. By way of example and without limitation, units of Finished Product may be measured in grams or doses, as appropriate.

The method of calculating Net Sales of materials in a form other than Finished Product or Bulk Product that can be converted into Finished Product shall be established by good faith discussion between PDL and GNE.
For the sake of clarity, no sale or transfer of Finished Product or Bulk Product by GNE or Roche to any of their Affiliates or Designees shall be included within Net Sales because such a sale or transfer is not a sale or transfer to a Third Party.

7. Section 1.10 of the VEGF License Agreement is deleted in its entirety.

8. Section 1.11 of the VEGF License Agreement is deleted in its entirety and is replaced with the following new Section 1.11:

1.11 "PDL Licensed Patents" shall have the meaning set forth in Section 1.13 of the Amended and Restated Patent Licensing Master Agreement between PDL and Genentech, as amended by Amendment No. 1 thereto (the "**2014 Amended PLMA**").

9. Section 1.12 of the VEGF License Agreement is deleted in its entirety and is replaced with the following new Section 1.12:

1.12 "Territory" means worldwide.

10. Section 1.13 of the VEGF License Agreement is deleted in its entirety and is replaced with the following new Section 1.13:

1.13 "Valid Claim" means (i) any claim in any PDL Licensed Patent, or (ii) any component of the PDL Licensed Patents (including supplementary protection certificates or applications therefor), which has neither expired nor been disclaimed.

11. The following Section 1.14 is added to the VEGF License Agreement:

1.14 "Third Party" means any natural person or entity that is not Genentech or any of its Affiliates or Designees.

12. Section 2.05 of the VEGF License Agreement is deleted in its entirety.

13. Section 3.03 of the VEGF License Agreement is deleted in its entirety.

14. Section 3.04 of the VEGF License Agreement is deleted in its entirety and is replaced with the following new Section 3.04:

3.04 Royalties to PDL. The royalties payable to PDL under this PDL License Agreement shall be as set forth in Section 4.1 of the 2014 Amended PLMA, except that

in the event that GNE (i) breaches its obligations under Sections 2.3 or 2.4 of the Settlement Agreement by and between PDL and GNE dated December 18, 2003 (as amended) ("2003 Settlement Agreement"); and (ii) fails to cure such breaches as provided under Section 4.2 of the 2003 Settlement Agreement, then PDL, at its sole discretion, may invoke its rights under Article 4 of the 2003 Settlement Agreement.

3.04.1 Fixed Royalty Term and Fully Paid Up License.

(a) The Parties acknowledge and agree that in no event shall Genentech owe any royalties to PDL under the 2014 Amended PLMA or the PDL License Agreements on Net Sales of (i) Lucentis occurring in the United States after June 30, 2013, (ii) Lucentis occurring outside the United States after December 28, 2014, and (iii) Avastin, Herceptin, Xolair, Perjeta, Kadcyla and any other GNE Licensed Product or Licensed Product occurring anywhere in the world after December 31, 2015, in each case of (i), (ii), and (iii) regardless of the expiry date or technical scope of any component of the PDL Licensed Patents.

(b) Upon the satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Lucentis occurring in the United States on or prior to June 30, 2013, Genentech shall have a fully paid up license under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Net Sales of Lucentis occurring in the United States.

(c) Upon the satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Lucentis occurring outside the United States on or prior to December 28, 2014, Genentech shall have a fully paid up license under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Lucentis.

(d) Upon the satisfaction, on a product by product basis, of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Avastin, Herceptin, Xolair, Perjeta, Kadcyla, or any other GNE Licensed Product or Licensed Product (other than Lucentis) occurring anywhere in the world on or prior to December 31, 2015, Genentech shall have a fully paid up license, on a product by product basis, under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Avastin, Herceptin, Xolair, Perjeta, Kadcyla and any other GNE Licensed Product or Licensed Product.

15. Section 3.07 is deleted in its entirety and is replaced with the following new Section 3.07:

3.07 Currency Conversion. All amounts payable to PDL under this Agreement shall be payable in U.S. Dollars by wire transfer to a bank account designated by PDL. When calculating Net Sales in currencies other than U.S. dollars, Genentech, its Affiliates and Designees shall convert the amount of such sales into U.S. dollars using the foreign currency translation method actually used on a consistent basis in preparing

its audited financial statements. (As of the Effective Date, Genentech uses the average year to date exchange rate as reported by Reuters.)

16. Section 3.08(a) of the VEGF License Agreement is amended to delete the second-to-last sentence of the provision and replace it with the following:

These reports shall be certified by an officer of Genentech to the best of his or her knowledge after reasonable inquiry and shall state for each calendar quarter: (1) Net Sales of the Licensed Product in such quarter, (2) the amounts deducted pursuant to Section 1.09 of this Agreement in such quarter, and (3) the net royalty due to PDL thereon pursuant to this Article 3.

17. The following Section 3.09.1 is added to the VEGF License Agreement:

3.09.1 Any inspection conducted pursuant to Section 3.09 shall be conducted according to the procedures set forth on Exhibit 1 hereto.

18. Section 7.01 of the VEGF License Agreement is deleted in its entirety and is replaced with the following new Section 7.01:

7.01 Term. Unless earlier terminated as provided in this Article 7, this Agreement shall come into force on March 5, 2004 and shall remain in effect until the later of December 31, 2015 or the performance and satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA. Thereafter, all licenses or sublicenses granted hereunder shall become fully paid up and royalty free.

19. Section 8.02 of the VEGF License Agreement is amended to delete the phrase “Section 11.6 of the Master Agreement” and replace it with “Section 8.6 of the 2014 Amended PLMA.”

20. Section 8.04 of the VEGF License Agreement is deleted in its entirety and is replaced with the following new Section 8.04:

8.04 Notices. Any notice required or desired to be given hereunder shall be in writing and shall be served as provided herein either by an air courier service (such as FedEx, DHL or UPS) or by personal delivery. Service of any notice shall be deemed complete upon actual receipt before 5:00 p.m. at the location of delivery (and shall be deemed complete on the following day if actually received after 5:00 p.m. at the location of delivery). In order to be effective, any notice must be served upon and received by both the Party or Parties and the persons designated to receive a copy thereof at the addresses set forth below:

If to Genentech:

Genentech, Inc.
1 DNA Way
South San Francisco, CA 94080
Tel: (650) 225-1000
Fax: (650) 952-9881
Attn: General Counsel

With a copy to:
Williams & Connolly LLP
725 12th Street, N.W.
Washington, D.C. 20005
Attention: Paul Gaffney, Esq.

If to PDL:

PDL BioPharma, Inc.
932 Southwood Boulevard
Incline Village, NV 89451
Tel: 775-832-8500
Fax: 775-832-8501
Attn: General Counsel

With a copy to:

Irell & Manella LLP
1800 Avenue of the Stars, Suite 900
Los Angeles, California 90067
Attention: David I. Gindler, Esq.

21. Section 8.09 of the VEGF License Agreement is deleted in its entirety and is replaced with the following new Section 8.09:

> **8.09** This Agreement (as amended by this Amendment No. 1), the 2014 Settlement Agreement, the 2014 Amended PLMA, and the 2003 Settlement Agreement (as amended) constitute the entire understanding and contract between the Parties with respect to the subject matter referred to therein. Any and all other representations, understandings, or agreements, whether oral, written, or implied, are merged into and superseded by the terms of the foregoing agreements. No provision of this Agreement can be waived, modified, amended, or supplemented except in a writing that expressly references this Agreement and is signed by an authorized representative of each Party to be bound.

22. This Amendment No. 1 may be executed and delivered in any number of counterparts. When each Party has signed and delivered at least one counterpart to all other Parties, each counterpart shall be deemed an original and all counterparts, taken together, shall constitute one and the same agreement, which shall be binding and effective on the Parties hereto. This Amendment No. 1 shall not become binding on the Parties hereto unless it has been executed by authorized representatives of all Parties.

23. On and after the Effective Date, each reference in the VEGF License Agreement to “this Agreement,” “hereunder,” “hereof,” or words of like import referring to the VEGF License Agreement, as well as references to the VEGF License Agreement in other agreements between PDL

and Genentech, shall mean and be a reference to the VEGF License Agreement as amended by this Amendment No. 1.

24. Except as specifically amended above, the VEGF License Agreement is and shall continue to be in full force and effect. In the event of any conflict between the terms of this Amendment No. 1, on the one hand, and the terms of the VEGF License Agreement or the 2014 Settlement Agreement, on the other hand, the terms of this Amendment No. 1 shall govern.

IN WITNESS WHEREOF, the Parties have executed this Amendment through their duly authorized representatives as of the Effective Date.

PDL BioPharma, Inc. **Genentech, Inc.**

By _____ By _____

Title _____ Title _____

EXHIBIT 1 to Amendment No. 1 to the VEGF PDL License Agreement

Audit Protocol

Exhibit 1

Inspection Procedures

Any inspection of books and records conducted pursuant to Section 3.09 of the PDL License Agreements ("Audit") shall be conducted in accordance with the procedures set forth below. To the extent Section 3.09 of any of the PDL License Agreements ("Section 3.09") and the procedures specified in this Exhibit 1 are in conflict, this Exhibit 1 shall control.

1. **Time Period Subject to Audit; Time to Initiate Audit.**
Net Sales subject to an Audit shall be limited to Net Sales occurring during the period from and including August 15, 2013 to and including December 31, 2015. Any Audit shall be initiated on or before June 30, 2016.

2. **Selection of Auditor.**
PDL shall provide written notice to Genentech of its intention to conduct an Audit, including in such notice (i) a statement of what time period of Net Sales will be the subject of the Audit, and (ii) the name of an independent U.S. accounting firm (the "Auditor") selected by PDL, subject to Genentech's consent, which consent shall not be unreasonably withheld or delayed. The Auditor shall have substantial experience conducting royalty audits and knowledge of customary practices in conducting royalty audits.

3. **Scope of Audit.**
Upon the commencement of the Audit, the Auditor shall propose in writing to Genentech all of the information that the Auditor believes at that time, in good faith and consistent with customary practice, to be reasonably required to conduct the Audit (the "Proposed Audit Plan"), i.e., information "showing the sales of Licensed Products in the Territory in sufficient detail to enable the royalties payable hereunder to be determined." (Section 3.09). The Proposed Audit Plan shall also include a listing of all proposed interviews of Genentech personnel that the Auditor believes at that time, in good faith to be consistent with customary practice, to be reasonably required to conduct the Audit.

Within fourteen (14) days following Genentech's receipt of the Proposed Audit Plan, or as soon thereafter as practicable, Genentech shall meet in person with the Auditor to discuss the Proposed Audit Plan. In the event Genentech and the Auditor cannot agree on whether one or more items of information or interview(s) included in the Proposed Audit Plan are sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, Genentech and PDL shall attempt to resolve between themselves whether such information or interview(s) is sought in good faith, consistent with customary practice, and reasonably required. In the event Genentech and PDL cannot agree, either Genentech or PDL may invoke Paragraph 6 below. Upon resolution of all disputes concerning the Proposed Audit Plan (by Genentech and the Auditor, Genentech and PDL, and/or pursuant to Paragraph 6 below), the Proposed Audit Plan, amended as

necessary to be consistent with the resolution of those disputes, shall be deemed the "Final Audit Plan".

During the course of the Audit, the Auditor may request additional information and/or interviews that are sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, even if not part of the Final Audit Plan. In the event Genentech and the Auditor cannot agree on whether one or more items of additional information or interview(s) are sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, Genentech and PDL shall attempt to resolve between themselves whether such information or interview(s) is sought in good faith, consistent with customary practice, and reasonably required. In the event Genentech and PDL cannot agree, either Genentech or PDL may invoke Paragraph 6 below.

4. Production of Information.

The Auditor shall then provide written notice to Genentech of the "Final Audit Plan." Genentech shall take commercially diligent efforts to provide the information and interview(s) specified in the Final Audit Plan to the Auditor within six (6) months of receipt of such written notice except in the event of (i) exceptional circumstances or (ii) requests for additional information or interview(s) made after adoption of the Final Audit Plan, in which of cases (i) or (ii) the parties, in consultation with the Auditor, shall agree upon a reasonable extension of time for Genentech to provide all of the information and interview(s). Genentech shall take commercially reasonable efforts to secure the cooperation of its Affiliates and Designees if required to obtain any items of information specified in the Final Audit Plan; provided, however, any such efforts are subject to Genentech's contractual rights and obligations in relation to such Affiliates and Designees. Any Affiliate's or Designee's failure to provide information within the prescribed six (6) month period shall not constitute a breach of this paragraph 4.

5. Limitations on Genentech's Obligations.

For the sake of clarity, but without limitation, Genentech's provision of information and/or interview(s) of personnel for purposes of the Audit is subject to Genentech's records preservation obligations as set forth in Section 3.09 of the PDL License Agreements, Genentech's contractual rights and obligations with regard to its Affiliates and Designees, and any and all applicable legal privileges.

6. Resolution of Disputes Concerning Audit Data.

To facilitate the rapid resolution of disputes concerning whether certain information or interview(s) of personnel is sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, within fourteen (14) days of Genentech's receipt of the Proposed Audit Plan, Genentech and PDL shall agree upon and jointly engage a neutral third party who shall be a mutually-agreed upon expert in royalty accounting from a "Big Four" accounting firm ("the Neutral Auditor").

The role of the Neutral Auditor shall be limited to resolving whether certain information or interview(s) of personnel sought by the Auditor is sought in good faith, consistent with customary

practice, and reasonably required to conduct the Audit (including how to interpret the language "sought in good faith, consistent with customary practice, and reasonably required to conduct the Audit"). The Neutral Auditor's resolution of such a dispute shall be binding, final and unappealable. The Neutral Auditor shall have authority only to resolve disputes concerning the scope of information and interviews of personnel to be provided to the Auditor. The Neutral Auditor shall have no authority to resolve any other issue or dispute, including but not limited to any dispute between Genentech and PDL relating to or involving (i) the interpretation of any provision, or portion thereof, of any PDL License Agreement, the 2014 Amended PLMA, the 2003 Settlement Agreement (as amended) or the 2014 Settlement Agreement; (ii) an alleged underpayment or overpayment of royalties; or (iii) any matter whatsoever other than the scope of information and interviews of personnel to be provided to the Auditor. In the event the Parties disagree regarding whether a particular issue or dispute is subject to resolution by the Neutral Auditor, such issue or dispute shall not be subject to resolution by the Neutral Auditor and instead shall be exclusively subject to the dispute resolution procedures set forth in Section 8.6 of the 2014 Amended PLMA. By way of example (but not limitation), if the Auditor requests information that may be reasonably required for the Audit based on PDL's interpretation of a particular contract provision but that may not be reasonably required for the Audit based on Genentech's interpretation of such contract provision, such dispute (regardless of whether it is characterized as a dispute about whether the information is reasonably required for the Audit and/or a dispute about the interpretation of the contract provision) shall not be subject to resolution by the Neutral Auditor, and must be resolved, if at all, pursuant to Section 8.6 of the 2014 Amended PLMA.

The procedure for resolution of disputes by the Neutral Auditor shall be determined in conjunction with the Neutral Auditor upon his/her engagement, but PDL and Genentech agree that (i) written submissions shall be permitted and shared between the Auditor, PDL and Genentech; (ii) each dispute referred to the Neutral Auditor shall be resolved no later than fourteen (14) days after such referral; and (iii) the standard to be applied by the Neutral Auditor is whether the information or interview(s) of personnel sought by the Auditor is sought in good faith, consistent with customary practice, and reasonably required for the Audit.

PDL and Genentech agree that any and all materials and information and communications generated during and in relation to the resolution of any dispute by the Neutral Auditor, (including but not limited to, Party submissions to the Neutral Auditor, statements, findings, or determinations by the Neutral Auditor, correspondence between the Parties, correspondence between PDL or Genentech and the Auditor) in any form whatsoever, shall be inadmissible in any arbitration proceeding pursuant to Section 8.6 of the 2014 Amended PLMA or any other legal proceeding between PDL and Genentech. All fees and costs incurred by the Neutral Auditor shall be shared equally by PDL and Genentech.

EXHIBIT E

Amendment No. 1 to the IgE PDL License Agreement

AMENDMENT NO. 1 TO THE IgE LICENSE AGREEMENT

This Amendment No. 1 to the IgE License Agreement ("**Amendment No. 1**") is entered into as of the Effective Date by and between PDL BioPharma, Inc. ("**PDL**") and Genentech, Inc. ("**Genentech**" or "**GNE**") (each, a "**Party**" and collectively, the "**Parties**"), and amends that certain PDL License Agreement directed to the antigen IgE dated December 18, 2003, by and between PDL and Genentech (the "**IgE License Agreement**").

Except as expressly provided herein, capitalized terms shall have the meanings set forth in the IgE License Agreement and references to Sections shall be deemed references to the IgE License Agreement.

WHEREAS, PDL and Genentech are Parties to the IgE License Agreement; and

WHEREAS, in connection with the Parties' execution of that certain Confidential Settlement Agreement by and between PDL, Genentech, and F. Hoffmann La-Roche Ltd executed concurrently herewith (the **"2014 Settlement Agreement"**), the Parties deem it to be in their best interests and to their mutual advantage to amend the IgE License Agreement as set forth herein.

NOW THEREFORE, in exchange for good and valuable consideration, the receipt of which is hereby acknowledged, the Parties agree as follows:

1. The Effective Date of this Amendment No. 1 shall be the effective date of the 2014 Settlement Agreement.

2. Section 1.01 of the IgE License Agreement is deleted in its entirety and is replaced with the following new Section 1.01:

> **1.01 "Affiliate"** shall mean any Entity that, on or after the Effective Date of Amendment No. 1 to this Agreement, controls, is controlled by, or is under common control with, another Entity; and "control" for purposes of this definition shall mean the possession of the power to direct or cause the direction of substantially all of the management and policies of an Entity, whether through the ownership of voting stock, by contract or otherwise. In the case of a corporation, "control" shall include the direct or indirect ownership of fifty percent (50%) or more of the outstanding voting stock. An Entity shall be an Affiliate only during such period of time that such Entity meets the definition set forth in this Section 1.01. With respect to Genentech and Roche, the term "Affiliate" shall not include Chugai Pharmaceutical Co., Ltd. ("Chugai") unless and until Genentech or Roche provides written notice to PDL specifying Chugai as an Affiliate.

3. The following Section 1.01.1 is added to the IgE License Agreement:

> **1.01.1 "Entity"** shall mean a trust, corporation, partnership, joint venture, limited liability company, association, unincorporated organization or other legally recognized form of organization. **"Person"** shall mean any natural person or Entity.

4. The following Section 1.01.2 is added to the IgE License Agreement:

1.01.2 "Designee" shall mean an Affiliate, sublicensee, co-promoting party, or other Person employed by or under contract with Genentech to sell, or otherwise authorized by Genentech to sell a particular Licensed Product or GNE Licensed Product (or Licensed Products or GNE Licensed Products) for or on behalf of Genentech. A Person shall be a Designee only during such period of time that such Person meets the definition set forth in this Section 1.01.2. The Parties acknowledge and agree, for the avoidance of doubt, that each of Roche and Novartis Pharma AG shall be considered a Designee of Genentech (each with respect to certain Licensed Product(s) or GNE Licensed Product(s)) for purposes of this Agreement.

5. Section 1.08 of the IgE License Agreement is deleted in its entirety and is replaced with the following new Section 1.08:

1.08 "Licensed Product" means an Antibody with respect to which GNE has either significant marketing rights or has done significant development (e.g., created, humanized or conducted preclinical or clinical development), the manufacture, import, use, offer to sell or sale of which would infringe, if not licensed under this Agreement, a Valid Claim. GNE agrees and stipulates, for the avoidance of doubt, that omalizumab (Xolair) is a Licensed Product.

6. Section 1.09 of the IgE License Agreement is deleted in its entirety and is replaced with the following new Section 1.09:

1.09 **"Net Sales"** means the aggregate gross revenues, whether in cash or in kind, corresponding to the price actually invoiced for the sale or other transfer of Finished Products by GNE, and/or by an Affiliate and/or by a Designee of GNE to one or more Third Parties, less Five Percent (5%) to cover the following: (a) credits or allowances, if any, actually granted on account of price adjustments, recalls, rejection, or return of items previously sold, (b) excise and sales taxes, or duties, imposed on and paid by GNE or by an Affiliate or Designee of GNE with respect to such sales (excluding income or franchise taxes of any kind), and (c) outer packing, freight and freight insurance costs. If GNE or any of its Affiliates or Designees receive non-cash consideration for any Finished Product sold or otherwise transferred to a Third Party, the fair market value of such non-cash consideration on the date of such transfer as known to GNE, or as reasonably estimated by GNE if unknown, shall be included in the definition of Net Sales. Net Sales shall not include Finished Products provided for bona fide clinical trial, evaluation, research or development purposes.

Notwithstanding any other provision in this Agreement, the 2014 Settlement Agreement or any other agreement between the Parties, for purposes of calculating Net Sales, the term "aggregate gross revenues" in this Section 1.09 (i) specifically excludes Value Added Tax (VAT); and (ii) shall be calculated based on the price actually invoiced for the sale of Finished Products by GNE, its Affiliates, and its Designees; provided, however, in the event GNE or any of its Affiliates or Designees receive, in part or whole, non-cash consideration for such sale, the fair market value of such non-cash consideration on the date of such transfer as known to GNE, or as reasonably estimated by GNE if unknown, shall also be included in the calculation of aggregate gross revenues.

Net Sales for Bulk Products shall be calculated by multiplying the units of Finished Product to which such Bulk Product is reasonably anticipated to be converted by the established market price in the country of sale of the Finished Product on the date of sale of the Bulk Product. By way of example and without limitation, units of Finished Product may be measured in grams or doses, as appropriate.

The method of calculating Net Sales of materials in a form other than Finished Product or Bulk Product that can be converted into Finished Product shall be established by good faith discussion between PDL and GNE.
For the sake of clarity, no sale or transfer of Finished Product or Bulk Product by GNE or Roche to any of their Affiliates or Designees shall be included within Net Sales because such a sale or transfer is not a sale or transfer to a Third Party.

7. Section 1.10 of the IgE License Agreement is deleted in its entirety.

8. Section 1.11 of the IgE License Agreement is deleted in its entirety and is replaced with the following new Section 1.11:

1.11 "PDL Licensed Patents" shall have the meaning set forth in Section 1.13 of the Amended and Restated Patent Licensing Master Agreement between PDL and Genentech, as amended by Amendment No. 1 thereto (the "**2014 Amended PLMA**").

9. Section 1.12 of the IgE License Agreement is deleted in its entirety and is replaced with the following new Section 1.12:

1.12 "Territory" means worldwide.

10. Section 1.13 of the IgE License Agreement is deleted in its entirety and is replaced with the following new Section 1.13:

1.13 "Valid Claim" means (i) any claim in any PDL Licensed Patent, or (ii) any component of the PDL Licensed Patents (including supplementary protection certificates or applications therefor), which has neither expired nor been disclaimed.

11. The following Section 1.14 is added to the IgE License Agreement:

1.14 "Third Party" means any natural person or entity that is not Genentech or any of its Affiliates or Designees.

12. Section 2.05 of the IgE License Agreement is deleted in its entirety.

13. Section 3.03 of the IgE License Agreement is deleted in its entirety.

14. Section 3.04 of the IgE License Agreement is deleted in its entirety and is replaced with the following new Section 3.04:

3.04 Royalties to PDL. The royalties payable to PDL under this PDL License Agreement shall be as set forth in Section 4.1 of the 2014 Amended PLMA, except that

in the event that GNE (i) breaches its obligations under Sections 2.3 or 2.4 of the Settlement Agreement by and between PDL and GNE dated December 18, 2003 (as amended) ("2003 Settlement Agreement"); and (ii) fails to cure such breaches as provided under Section 4.2 of the 2003 Settlement Agreement, then PDL, at its sole discretion, may invoke its rights under Article 4 of the 2003 Settlement Agreement.

3.04.1 Fixed Royalty Term and Fully Paid Up License.

(a) The Parties acknowledge and agree that in no event shall Genentech owe any royalties to PDL under the 2014 Amended PLMA or the PDL License Agreements on Net Sales of (i) Lucentis occurring in the United States after June 30, 2013, (ii) Lucentis occurring outside the United States after December 28, 2014, and (iii) Avastin, Herceptin, Xolair, Perjeta, Kadcyla and any other GNE Licensed Product or Licensed Product occurring anywhere in the world after December 31, 2015, in each case of (i), (ii), and (iii) regardless of the expiry date or technical scope of any component of the PDL Licensed Patents.

(b) Upon the satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Lucentis occurring in the United States on or prior to June 30, 2013, Genentech shall have a fully paid up license under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Net Sales of Lucentis occurring in the United States.

(c) Upon the satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Lucentis occurring outside the United States on or prior to December 28, 2014, Genentech shall have a fully paid up license under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Lucentis.

(d) Upon the satisfaction, on a product by product basis, of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Avastin, Herceptin, Xolair, Perjeta, Kadcyla, or any other GNE Licensed Product or Licensed Product (other than Lucentis) occurring anywhere in the world on or prior to December 31, 2015, Genentech shall have a fully paid up license, on a product by product basis, under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Avastin, Herceptin, Xolair, Perjeta, Kadcyla and any other GNE Licensed Product or Licensed Product.

15. Section 3.07 is deleted in its entirety and is replaced with the following new Section 3.07:

3.07 Currency Conversion. All amounts payable to PDL under this Agreement shall be payable in U.S. Dollars by wire transfer to a bank account designated by PDL. When calculating Net Sales in currencies other than U.S. dollars, Genentech, its Affiliates and Designees shall convert the amount of such sales into U.S. dollars using the foreign currency translation method actually used on a consistent basis in preparing

its audited financial statements. (As of the Effective Date, Genentech uses the average year to date exchange rate as reported by Reuters.)

16. Section 3.08(a) of the IgE License Agreement is amended to delete the second-to-last sentence of the provision and replace it with the following:

These reports shall be certified by an officer of Genentech to the best of his or her knowledge after reasonable inquiry and shall state for each calendar quarter: (1) Net Sales of the Licensed Product in such quarter, (2) the amounts deducted pursuant to Section 1.09 of this Agreement in such quarter, and (3) the net royalty due to PDL thereon pursuant to this Article 3.

17. The following Section 3.09.1 is added to the IgE License Agreement:

3.09.1 Any inspection conducted pursuant to Section 3.09 shall be conducted according to the procedures set forth on Exhibit 1 hereto.

18. Section 7.01 of the IgE License Agreement is deleted in its entirety and is replaced with the following new Section 7.01:

7.01 Term. Unless earlier terminated as provided in this Article 7, this Agreement shall come into force on December 18, 2003 and shall remain in effect until the later of December 31, 2015 or the performance and satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA. Thereafter, all licenses or sublicenses granted hereunder shall become fully paid up and royalty free.

19. Section 8.02 of the IgE License Agreement is amended to delete the phrase “Section 11.6 of the Master Agreement” and replace it with “Section 8.6 of the 2014 Amended PLMA.”

20. Section 8.04 of the IgE License Agreement is deleted in its entirety and is replaced with the following new Section 8.04:

8.04 Notices. Any notice required or desired to be given hereunder shall be in writing and shall be served as provided herein either by an air courier service (such as FedEx, DHL or UPS) or by personal delivery. Service of any notice shall be deemed complete upon actual receipt before 5:00 p.m. at the location of delivery (and shall be deemed complete on the following day if actually received after 5:00 p.m. at the location of delivery). In order to be effective, any notice must be served upon and received by both the Party or Parties and the persons designated to receive a copy thereof at the addresses set forth below:

If to Genentech:

Genentech, Inc.
1 DNA Way
South San Francisco, CA 94080
Tel: (650) 225-1000
Fax: (650) 952-9881
Attn: General Counsel

With a copy to:
Williams & Connolly LLP
725 12th Street, N.W.
Washington, D.C. 20005
Attention: Paul Gaffney, Esq.

If to PDL:

PDL BioPharma, Inc.
932 Southwood Boulevard
Incline Village, NV 89451
Tel: 775-832-8500
Fax: 775-832-8501
Attn: General Counsel

With a copy to:

Irell & Manella LLP
1800 Avenue of the Stars, Suite 900
Los Angeles, California 90067
Attention: David I. Gindler, Esq.

21. Section 8.09 of the IgE License Agreement is deleted in its entirety and is replaced with the following new Section 8.09:

> **8.09** This Agreement (as amended by this Amendment No. 1), the 2014 Settlement Agreement, the 2014 Amended PLMA, and the 2003 Settlement Agreement (as amended) constitute the entire understanding and contract between the Parties with respect to the subject matter referred to therein. Any and all other representations, understandings, or agreements, whether oral, written, or implied, are merged into and superseded by the terms of the foregoing agreements. No provision of this Agreement can be waived, modified, amended, or supplemented except in a writing that expressly references this Agreement and is signed by an authorized representative of each Party to be bound.

22. This Amendment No. 1 may be executed and delivered in any number of counterparts. When each Party has signed and delivered at least one counterpart to all other Parties, each counterpart shall be deemed an original and all counterparts, taken together, shall constitute one and the same agreement, which shall be binding and effective on the Parties hereto. This Amendment No. 1 shall not become binding on the Parties hereto unless it has been executed by authorized representatives of all Parties.

23. On and after the Effective Date, each reference in the IgE License Agreement to “this Agreement,” “hereunder,” “hereof,” or words of like import referring to the IgE License Agreement, as well as references to the IgE License Agreement in other agreements between PDL and Genentech, shall mean and be a reference to the IgE License Agreement as amended by this Amendment No. 1.

24. Except as specifically amended above, the IgE License Agreement is and shall continue to be in full force and effect. In the event of any conflict between the terms of this Amendment No. 1, on the one hand, and the terms of the IgE License Agreement or the 2014 Settlement Agreement, on the other hand, the terms of this Amendment No. 1 shall govern.

IN WITNESS WHEREOF, the Parties have executed this Amendment through their duly authorized representatives as of the Effective Date.

PDL BioPharma, Inc. **Genentech, Inc.**

By _____ By _____

Title _____ Title _____

EXHIBIT 1 to Amendment No. 1 to the IgE PDL License Agreement

Audit Protocol

Exhibit 1

Inspection Procedures

Any inspection of books and records conducted pursuant to Section 3.09 of the PDL License Agreements ("Audit") shall be conducted in accordance with the procedures set forth below. To the extent Section 3.09 of any of the PDL License Agreements ("Section 3.09") and the procedures specified in this Exhibit 1 are in conflict, this Exhibit 1 shall control.

1. Time Period Subject to Audit; Time to Initiate Audit.

Net Sales subject to an Audit shall be limited to Net Sales occurring during the period from and including August 15, 2013 to and including December 31, 2015. Any Audit shall be initiated on or before June 30, 2016.

2. Selection of Auditor.

PDL shall provide written notice to Genentech of its intention to conduct an Audit, including in such notice (i) a statement of what time period of Net Sales will be the subject of the Audit, and (ii) the name of an independent U.S. accounting firm (the "Auditor") selected by PDL, subject to Genentech's consent, which consent shall not be unreasonably withheld or delayed. The Auditor shall have substantial experience conducting royalty audits and knowledge of customary practices in conducting royalty audits.

3. Scope of Audit.

Upon the commencement of the Audit, the Auditor shall propose in writing to Genentech all of the information that the Auditor believes at that time, in good faith and consistent with customary practice, to be reasonably required to conduct the Audit (the "Proposed Audit Plan"), i.e., information "showing the sales of Licensed Products in the Territory in sufficient detail to enable the royalties payable hereunder to be determined." (Section 3.09). The Proposed Audit Plan shall also include a listing of all proposed interviews of Genentech personnel that the Auditor believes at that time, in good faith to be consistent with customary practice, to be reasonably required to conduct the Audit.

Within fourteen (14) days following Genentech's receipt of the Proposed Audit Plan, or as soon thereafter as practicable, Genentech shall meet in person with the Auditor to discuss the Proposed Audit Plan. In the event Genentech and the Auditor cannot agree on whether one or more items of information or interview(s) included in the Proposed Audit Plan are sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, Genentech and PDL shall attempt to resolve between themselves whether such information or interview(s) is sought in good faith, consistent with customary practice, and reasonably required. In the event Genentech and PDL cannot agree, either Genentech or PDL may invoke Paragraph 6 below. Upon resolution of all disputes concerning the Proposed Audit Plan (by Genentech and the Auditor, Genentech and PDL, and/or pursuant to Paragraph 6 below), the Proposed Audit Plan, amended as

necessary to be consistent with the resolution of those disputes, shall be deemed the "Final Audit Plan".

During the course of the Audit, the Auditor may request additional information and/or interviews that are sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, even if not part of the Final Audit Plan. In the event Genentech and the Auditor cannot agree on whether one or more items of additional information or interview(s) are sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, Genentech and PDL shall attempt to resolve between themselves whether such information or interview(s) is sought in good faith, consistent with customary practice, and reasonably required. In the event Genentech and PDL cannot agree, either Genentech or PDL may invoke Paragraph 6 below.

4. Production of Information.

The Auditor shall then provide written notice to Genentech of the "Final Audit Plan." Genentech shall take commercially diligent efforts to provide the information and interview(s) specified in the Final Audit Plan to the Auditor within six (6) months of receipt of such written notice except in the event of (i) exceptional circumstances or (ii) requests for additional information or interview(s) made after adoption of the Final Audit Plan, in which of cases (i) or (ii) the parties, in consultation with the Auditor, shall agree upon a reasonable extension of time for Genentech to provide all of the information and interview(s). Genentech shall take commercially reasonable efforts to secure the cooperation of its Affiliates and Designees if required to obtain any items of information specified in the Final Audit Plan; provided, however, any such efforts are subject to Genentech's contractual rights and obligations in relation to such Affiliates and Designees. Any Affiliate's or Designee's failure to provide information within the prescribed six (6) month period shall not constitute a breach of this paragraph 4.

5. Limitations on Genentech's Obligations.

For the sake of clarity, but without limitation, Genentech's provision of information and/or interview(s) of personnel for purposes of the Audit is subject to Genentech's records preservation obligations as set forth in Section 3.09 of the PDL License Agreements, Genentech's contractual rights and obligations with regard to its Affiliates and Designees, and any and all applicable legal privileges.

6. Resolution of Disputes Concerning Audit Data.

To facilitate the rapid resolution of disputes concerning whether certain information or interview(s) of personnel is sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, within fourteen (14) days of Genentech's receipt of the Proposed Audit Plan, Genentech and PDL shall agree upon and jointly engage a neutral third party who shall be a mutually-agreed upon expert in royalty accounting from a "Big Four" accounting firm ("the Neutral Auditor").

The role of the Neutral Auditor shall be limited to resolving whether certain information or interview(s) of personnel sought by the Auditor is sought in good faith, consistent with customary

practice, and reasonably required to conduct the Audit (including how to interpret the language "sought in good faith, consistent with customary practice, and reasonably required to conduct the Audit"). The Neutral Auditor's resolution of such a dispute shall be binding, final and unappealable. The Neutral Auditor shall have authority only to resolve disputes concerning the scope of information and interviews of personnel to be provided to the Auditor. The Neutral Auditor shall have no authority to resolve any other issue or dispute, including but not limited to any dispute between Genentech and PDL relating to or involving (i) the interpretation of any provision, or portion thereof, of any PDL License Agreement, the 2014 Amended PLMA, the 2003 Settlement Agreement (as amended) or the 2014 Settlement Agreement; (ii) an alleged underpayment or overpayment of royalties; or (iii) any matter whatsoever other than the scope of information and interviews of personnel to be provided to the Auditor. In the event the Parties disagree regarding whether a particular issue or dispute is subject to resolution by the Neutral Auditor, such issue or dispute shall not be subject to resolution by the Neutral Auditor and instead shall be exclusively subject to the dispute resolution procedures set forth in Section 8.6 of the 2014 Amended PLMA. By way of example (but not limitation), if the Auditor requests information that may be reasonably required for the Audit based on PDL's interpretation of a particular contract provision but that may not be reasonably required for the Audit based on Genentech's interpretation of such contract provision, such dispute (regardless of whether it is characterized as a dispute about whether the information is reasonably required for the Audit and/or a dispute about the interpretation of the contract provision) shall not be subject to resolution by the Neutral Auditor, and must be resolved, if at all, pursuant to Section 8.6 of the 2014 Amended PLMA.

The procedure for resolution of disputes by the Neutral Auditor shall be determined in conjunction with the Neutral Auditor upon his/her engagement, but PDL and Genentech agree that (i) written submissions shall be permitted and shared between the Auditor, PDL and Genentech; (ii) each dispute referred to the Neutral Auditor shall be resolved no later than fourteen (14) days after such referral; and (iii) the standard to be applied by the Neutral Auditor is whether the information or interview(s) of personnel sought by the Auditor is sought in good faith, consistent with customary practice, and reasonably required for the Audit.

PDL and Genentech agree that any and all materials and information and communications generated during and in relation to the resolution of any dispute by the Neutral Auditor, (including but not limited to, Party submissions to the Neutral Auditor, statements, findings, or determinations by the Neutral Auditor, correspondence between the Parties, correspondence between PDL or Genentech and the Auditor) in any form whatsoever, shall be inadmissible in any arbitration proceeding pursuant to Section 8.6 of the 2014 Amended PLMA or any other legal proceeding `between PDL and Genentech. All fees and costs incurred by the Neutral Auditor shall be shared equally by PDL and Genentech.

EXHIBIT F

Amendment No. 1 to Form PDL License Agreement

AMENDMENT NO. 1 TO THE FORM OF PDL LICENSE AGREEMENT

This Amendment No. 1 to Exhibit A of the Amended and Restated Patent Licensing Master Agreement (Queen Patents) ("**Amendment No. 1**") is entered into as of the Effective Date by and between PDL BioPharma, Inc. ("**PDL**") and Genentech, Inc. ("**Genentech**" or "**GNE**") (each, a "**Party**" and collectively, the "**Parties**"), and amends that Form of PDL License Agreement (the "**Form of License Agreement**").

Except as expressly provided herein, capitalized terms shall have the meanings set forth in the Form of License Agreement and references to Sections shall be deemed references to the Form of License Agreement.

WHEREAS, PDL and Genentech are Parties to the 2014 Amended PLMA (as defined below); and

WHEREAS, in connection with the Parties' execution of that certain Confidential Settlement Agreement by and between PDL, Genentech, and F. Hoffmann La-Roche Ltd executed concurrently herewith (the **"2014 Settlement Agreement"**), the Parties deem it to be in their best interests and to their mutual advantage to amend the Form of License Agreement as set forth herein.

NOW THEREFORE, in exchange for good and valuable consideration, the receipt of which is hereby acknowledged, the Parties agree as follows:

1. The Effective Date of this Amendment No. 1 shall be the effective date of the 2014 Settlement Agreement.

2. Section 1.01 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 1.01:

> **1.01 "Affiliate"** shall mean any Entity that, on or after the Effective Date of Amendment No. 1 to this Agreement, controls, is controlled by, or is under common control with, another Entity; and "control" for purposes of this definition shall mean the possession of the power to direct or cause the direction of substantially all of the management and policies of an Entity, whether through the ownership of voting stock, by contract or otherwise. In the case of a corporation, "control" shall include the direct or indirect ownership of fifty percent (50%) or more of the outstanding voting stock. An Entity shall be an Affiliate only during such period of time that such Entity meets the definition set forth in this Section 1.01. With respect to Genentech and Roche, the term "Affiliate" shall not include Chugai Pharmaceutical Co., Ltd. ("Chugai") unless and until Genentech or Roche provides written notice to PDL specifying Chugai as an Affiliate.

3. The following Section 1.01.1 is added to the Form of License Agreement:

> **1.01.1 "Entity"** shall mean a trust, corporation, partnership, joint venture, limited liability company, association, unincorporated organization or other legally

recognized form of organization. **"Person"** shall mean any natural person or Entity.

4. The following Section 1.01.2 is added to the Form of License Agreement:

1.01.2 "Designee" shall mean an Affiliate, sublicensee, co-promoting party, or other Person employed by or under contract with Genentech to sell, or otherwise authorized by Genentech to sell a particular Licensed Product or GNE Licensed Product (or Licensed Products or GNE Licensed Products) for or on behalf of Genentech. A Person shall be a Designee only during such period of time that such Person meets the definition set forth in this Section 1.01.2. The Parties acknowledge and agree, for the avoidance of doubt, that each of Roche and Novartis Pharma AG shall be considered a Designee of Genentech (each with respect to certain Licensed Product(s) or GNE Licensed Product(s)) for purposes of this Agreement.

5. Section 1.08 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 1.08:

1.08 "Licensed Product" means an Antibody with respect to which GNE has either significant marketing rights or has done significant development (e.g., created, humanized or conducted preclinical or clinical development), the manufacture, import, use, offer to sell or sale of which would infringe, if not licensed under this Agreement, a Valid Claim. GNE agrees and stipulates, for the avoidance of doubt, that _____ is a Licensed Product.

6. Section 1.09 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 1.09:

1.09 **"Net Sales"** means the aggregate gross revenues, whether in cash or in kind, corresponding to the price actually invoiced for the sale or other transfer of Finished Products by GNE, and/or by an Affiliate and/or by a Designee of GNE to one or more Third Parties, less Five Percent (5%) to cover the following: (a) credits or allowances, if any, actually granted on account of price adjustments, recalls, rejection, or return of items previously sold, (b) excise and sales taxes, or duties, imposed on and paid by GNE or by an Affiliate or Designee of GNE with respect to such sales (excluding income or franchise taxes of any kind), and (c) outer packing, freight and freight insurance costs. If GNE or any of its Affiliates or Designees receive non-cash consideration for any Finished Product sold or otherwise transferred to a Third Party, the fair market value of such non-cash consideration on the date of such transfer as known to GNE, or as reasonably estimated by GNE if unknown, shall be included in the definition of Net Sales. Net Sales shall not include Finished Products provided for bona fide clinical trial, evaluation, research or development purposes.

Notwithstanding any other provision in this Agreement, the 2014 Settlement Agreement or any other agreement between the Parties, for purposes of calculating Net Sales, the term "aggregate gross revenues" in this Section 1.09 (i) specifically excludes Value Added Tax (VAT); and (ii) shall be calculated based on the price

actually invoiced for the sale of Finished Products by GNE, its Affiliates, and its Designees; provided, however, in the event GNE or any of its Affiliates or Designees receive, in part or whole, non-cash consideration for such sale, the fair market value of such non-cash consideration on the date of such transfer as known to GNE, or as reasonably estimated by GNE if unknown, shall also be included in the calculation of aggregate gross revenues.

Net Sales for Bulk Products shall be calculated by multiplying the units of Finished Product to which such Bulk Product is reasonably anticipated to be converted by the established market price in the country of sale of the Finished Product on the date of sale of the Bulk Product. By way of example and without limitation, units of Finished Product may be measured in grams or doses, as appropriate.

The method of calculating Net Sales of materials in a form other than Finished Product or Bulk Product that can be converted into Finished Product shall be established by good faith discussion between PDL and GNE.

For the sake of clarity, no sale or transfer of Finished Product or Bulk Product by GNE or Roche to any of their Affiliates or Designees shall be included within Net Sales because such a sale or transfer is not a sale or transfer to a Third Party.

7. Section 1.10 of the Form of License Agreement is deleted in its entirety.

8. Section 1.11 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 1.11:

1.11 "PDL Licensed Patents" shall have the meaning set forth in Section 1.13 of the Amended and Restated Patent Licensing Master Agreement between PDL and Genentech, as amended by Amendment No. 1 thereto (the "**2014 Amended PLMA**").

9. Section 1.12 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 1.12:

1.12 "Territory" means worldwide.

10. Section 1.13 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 1.13:

1.13 "Valid Claim" means (i) any claim in any PDL Licensed Patent, or (ii) any component of the PDL Licensed Patents (including supplementary protection certificates or applications therefor), which has neither expired nor been disclaimed.

11. The following Section 1.14 is added to the Form of License Agreement:

1.14 "Third Party" means any natural person or entity that is not Genentech or any of its Affiliates or Designees.

12. Section 2.05 of the Form of License Agreement is deleted in its entirety.

13. Section 3.01 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 3.01:

3.01 Exercise Fee. The exercise fee provided by Genentech to PDL in consideration for execution of this License Agreement shall be as set forth in Section 3.2 of the 2014 Amended PLMA.

14. Section 3.03 of the Form of License Agreement is deleted in its entirety.

15. Section 3.04 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 3.04:

3.04 Royalties to PDL. The royalties payable to PDL under this PDL License Agreement shall be as set forth in Section 4.1 of the 2014 Amended PLMA, except that in the event that GNE (i) breaches its obligations under Sections 2.3 or 2.4 of the Settlement Agreement by and between PDL and GNE dated December 18, 2003 (as amended) ("2003 Settlement Agreement"); and (ii) fails to cure such breaches as provided under Section 4.2 of the 2003 Settlement Agreement, then PDL, at its sole discretion, may invoke its rights under Article 4 of the 2003 Settlement Agreement.

3.04.1 Fixed Royalty Term and Fully Paid Up License.

(a) The Parties acknowledge and agree that in no event shall Genentech owe any royalties to PDL under the 2014 Amended PLMA or the PDL License Agreements on Net Sales of (i) Lucentis occurring in the United States after June 30, 2013, (ii) Lucentis occurring outside the United States after December 28, 2014, and (iii) Avastin, Herceptin, Xolair, Perjeta, Kadcyla, ____ and any other GNE Licensed Product or Licensed Product occurring anywhere in the world after December 31, 2015, in each case of (i), (ii), and (iii) regardless of the expiry date or technical scope of any component of the PDL Licensed Patents.

(b) Upon the satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Lucentis occurring in the United States on or prior to June 30, 2013, Genentech shall have a fully paid up license under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Net Sales of Lucentis occurring in the United States.

(c) Upon the satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Lucentis occurring outside the United States on or prior to December 28, 2014, Genentech shall have a fully paid up license under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Lucentis.

(d) Upon the satisfaction, on a product by product basis, of all payment obligations provided for in Section 4 of the 2014 Amended PLMA and the PDL License Agreements on Net Sales of Avastin, Herceptin, Xolair, Perjeta, Kadcyla, ____ or any other GNE Licensed Product or Licensed Product (other than Lucentis) occurring anywhere in the world on or prior to December 31, 2015, Genentech shall have a fully paid up license, on a product by product basis, under all PDL Licensed Patents (in existence or not as of the Effective Date) with respect to Avastin, Herceptin, Xolair, Perjeta, Kadcyla, ____ and any other GNE Licensed Product or Licensed Product.

16. Section 3.07 is deleted in its entirety and is replaced with the following new Section 3.07:

3.07 Currency Conversion. All amounts payable to PDL under this Agreement shall be payable in U.S. Dollars by wire transfer to a bank account designated by PDL. When calculating Net Sales in currencies other than U.S. dollars, Genentech, its Affiliates and Designees shall convert the amount of such sales into U.S. dollars using the foreign currency translation method actually used on a consistent basis in preparing its audited financial statements. (As of the Effective Date, Genentech uses the average year to date exchange rate as reported by Reuters.)

17. Section 3.08(a) of the Form of License Agreement is amended to delete the second-to-last sentence of the provision and replace it with the following:

These reports shall be certified by an officer of Genentech to the best of his or her knowledge after reasonable inquiry and shall state for each calendar quarter: (1) Net Sales of the Licensed Product in such quarter, (2) the amounts deducted pursuant to Section 1.09 of this Agreement in such quarter, and (3) the net royalty due to PDL thereon pursuant to this Article 3.

18. The following Section 3.09.1 is added to the Form of License Agreement:

3.09.1 Any inspection conducted pursuant to Section 3.09 shall be conducted according to the procedures set forth on Exhibit 1 hereto.

19. Section 7.01 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 7.01:

7.01 Term. Unless earlier terminated as provided in this Article 7, this Agreement shall come into force on _____ and shall remain in effect until the later of December 31, 2015 or the performance and satisfaction of all payment obligations provided for in Section 4 of the 2014 Amended PLMA. Thereafter, all licenses or sublicenses granted hereunder shall become fully paid up and royalty free.

20. Section 8.02 of the Form of License Agreement is amended to delete the phrase "Section 11.6 of the Master Agreement" and replace it with "Section 8.6 of the 2014 Amended PLMA."

21. Section 8.04 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 8.04:

8.04 Notices. Any notice required or desired to be given hereunder shall be in writing and shall be served as provided herein either by an air courier service (such as FedEx, DHL or UPS) or by personal delivery. Service of any notice shall be deemed complete upon actual receipt before 5:00 p.m. at the location of delivery (and shall be deemed complete on the following day if actually received after 5:00 p.m. at the location of delivery). In order to be effective, any notice must be served upon and received by both the Party or Parties and the persons designated to receive a copy thereof at the addresses set forth below:

If to Genentech:

Genentech, Inc.
1 DNA Way
South San Francisco, CA 94080
Tel: (650) 225-1000
Fax: (650) 952-9881
Attn: General Counsel

With a copy to:
Williams & Connolly LLP
725 12th Street, N.W.
Washington, D.C. 20005
Attention: Paul Gaffney, Esq.

If to PDL:

PDL BioPharma, Inc.
932 Southwood Boulevard
Incline Village, NV 89451
Tel: 775-832-8500
Fax: 775-832-8501
Attn: General Counsel

With a copy to:

Irell & Manella LLP
1800 Avenue of the Stars, Suite 900
Los Angeles, California 90067
Attention: David I. Gindler, Esq.

22. Section 8.09 of the Form of License Agreement is deleted in its entirety and is replaced with the following new Section 8.09:

> **8.09** This Agreement (as amended by this Amendment No. 1), the 2014 Settlement Agreement, the 2014 Amended PLMA, and the 2003 Settlement Agreement (as amended) constitute the entire understanding and contract between the Parties with respect to the subject matter referred to therein. Any and all other representations, understandings, or agreements, whether oral, written, or implied, are merged into and superseded by the terms of the foregoing agreements. No provision of this Agreement can be waived, modified, amended, or supplemented except in a writing that expressly references this Agreement and is signed by an authorized representative of each Party to be bound.

23. This Amendment No. 1 may be executed and delivered in any number of counterparts. When each Party has signed and delivered at least one counterpart to all other Parties, each counterpart shall be deemed an original and all counterparts, taken together, shall constitute one and the same agreement, which shall be binding and effective on the Parties hereto. This Amendment No. 1 shall not become binding on the Parties hereto unless it has been executed by authorized representatives of all Parties.

24. On and after the Effective Date, each reference in the Form of License Agreement to "this Agreement," "hereunder," "hereof," or words of like import referring to the Form of License Agreement, as well as references to the Form of License Agreement in other agreements between PDL and Genentech, shall mean and be a reference to the Form of License Agreement as amended by this Amendment No. 1.

25. Except as specifically amended above, the Form of License Agreement is and shall continue to be in full force and effect. In the event of any conflict between the terms of this Amendment No. 1, on the one hand, and the terms of the Form of License Agreement or the 2014 Settlement Agreement, on the other hand, the terms of this Amendment No. 1 shall govern.

IN WITNESS WHEREOF, the Parties have executed this Amendment through their duly authorized representatives as of the Effective Date.

PDL BioPharma, Inc. **Genentech, Inc.**

By _____ By _____

Title _____ Title _____

EXHIBIT 1 to Amendment No. 1 to the Form PDL License Agreement

Audit Protocol

Exhibit 1

Inspection Procedures

Any inspection of books and records conducted pursuant to Section 3.09 of the PDL License Agreements ("Audit") shall be conducted in accordance with the procedures set forth below. To the extent Section 3.09 of any of the PDL License Agreements ("Section 3.09") and the procedures specified in this Exhibit 1 are in conflict, this Exhibit 1 shall control.

1. **Time Period Subject to Audit; Time to Initiate Audit.**
Net Sales subject to an Audit shall be limited to Net Sales occurring during the period from and including August 15, 2013 to and including December 31, 2015. Any Audit shall be initiated on or before June 30, 2016.

2. **Selection of Auditor.**
PDL shall provide written notice to Genentech of its intention to conduct an Audit, including in such notice (i) a statement of what time period of Net Sales will be the subject of the Audit, and (ii) the name of an independent U.S. accounting firm (the "Auditor") selected by PDL, subject to Genentech's consent, which consent shall not be unreasonably withheld or delayed. The Auditor shall have substantial experience conducting royalty audits and knowledge of customary practices in conducting royalty audits.

3. **Scope of Audit.**
Upon the commencement of the Audit, the Auditor shall propose in writing to Genentech all of the information that the Auditor believes at that time, in good faith and consistent with customary practice, to be reasonably required to conduct the Audit (the "Proposed Audit Plan"), i.e., information "showing the sales of Licensed Products in the Territory in sufficient detail to enable the royalties payable hereunder to be determined." (Section 3.09). The Proposed Audit Plan shall also include a listing of all proposed interviews of Genentech personnel that the Auditor believes at that time, in good faith to be consistent with customary practice, to be reasonably required to conduct the Audit.

Within fourteen (14) days following Genentech's receipt of the Proposed Audit Plan, or as soon thereafter as practicable, Genentech shall meet in person with the Auditor to discuss the Proposed Audit Plan. In the event Genentech and the Auditor cannot agree on whether one or more items of information or interview(s) included in the Proposed Audit Plan are sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, Genentech and PDL shall attempt to resolve between themselves whether such information or interview(s) is sought in good faith, consistent with customary practice, and reasonably required. In the event Genentech and PDL cannot agree, either Genentech or PDL may invoke Paragraph 6 below. Upon resolution of all disputes concerning the Proposed Audit Plan (by Genentech and the Auditor, Genentech and PDL, and/or pursuant to Paragraph 6 below), the Proposed Audit Plan, amended as

necessary to be consistent with the resolution of those disputes, shall be deemed the "Final Audit Plan".

During the course of the Audit, the Auditor may request additional information and/or interviews that are sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, even if not part of the Final Audit Plan. In the event Genentech and the Auditor cannot agree on whether one or more items of additional information or interview(s) are sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, Genentech and PDL shall attempt to resolve between themselves whether such information or interview(s) is sought in good faith, consistent with customary practice, and reasonably required. In the event Genentech and PDL cannot agree, either Genentech or PDL may invoke Paragraph 6 below.

4. Production of Information.

The Auditor shall then provide written notice to Genentech of the "Final Audit Plan." Genentech shall take commercially diligent efforts to provide the information and interview(s) specified in the Final Audit Plan to the Auditor within six (6) months of receipt of such written notice except in the event of (i) exceptional circumstances or (ii) requests for additional information or interview(s) made after adoption of the Final Audit Plan, in which of cases (i) or (ii) the parties, in consultation with the Auditor, shall agree upon a reasonable extension of time for Genentech to provide all of the information and interview(s). Genentech shall take commercially reasonable efforts to secure the cooperation of its Affiliates and Designees if required to obtain any items of information specified in the Final Audit Plan; provided, however, any such efforts are subject to Genentech's contractual rights and obligations in relation to such Affiliates and Designees. Any Affiliate's or Designee's failure to provide information within the prescribed six (6) month period shall not constitute a breach of this paragraph 4.

5. Limitations on Genentech's Obligations.

For the sake of clarity, but without limitation, Genentech's provision of information and/or interview(s) of personnel for purposes of the Audit is subject to Genentech's records preservation obligations as set forth in Section 3.09 of the PDL License Agreements, Genentech's contractual rights and obligations with regard to its Affiliates and Designees, and any and all applicable legal privileges.

6. Resolution of Disputes Concerning Audit Data.

To facilitate the rapid resolution of disputes concerning whether certain information or interview(s) of personnel is sought in good faith, consistent with customary practice, and reasonably required by the Auditor to conduct the Audit, within fourteen (14) days of Genentech's receipt of the Proposed Audit Plan, Genentech and PDL shall agree upon and jointly engage a neutral third party who shall be a mutually-agreed upon expert in royalty accounting from a "Big Four" accounting firm ("the Neutral Auditor").

The role of the Neutral Auditor shall be limited to resolving whether certain information or interview(s) of personnel sought by the Auditor is sought in good faith, consistent with customary

practice, and reasonably required to conduct the Audit (including how to interpret the language "sought in good faith, consistent with customary practice, and reasonably required to conduct the Audit"). The Neutral Auditor's resolution of such a dispute shall be binding, final and unappealable. The Neutral Auditor shall have authority only to resolve disputes concerning the scope of information and interviews of personnel to be provided to the Auditor. The Neutral Auditor shall have no authority to resolve any other issue or dispute, including but not limited to any dispute between Genentech and PDL relating to or involving (i) the interpretation of any provision, or portion thereof, of any PDL License Agreement, the 2014 Amended PLMA, the 2003 Settlement Agreement (as amended) or the 2014 Settlement Agreement; (ii) an alleged underpayment or overpayment of royalties; or (iii) any matter whatsoever other than the scope of information and interviews of personnel to be provided to the Auditor. In the event the Parties disagree regarding whether a particular issue or dispute is subject to resolution by the Neutral Auditor, such issue or dispute shall not be subject to resolution by the Neutral Auditor and instead shall be exclusively subject to the dispute resolution procedures set forth in Section 8.6 of the 2014 Amended PLMA. By way of example (but not limitation), if the Auditor requests information that may be reasonably required for the Audit based on PDL's interpretation of a particular contract provision but that may not be reasonably required for the Audit based on Genentech's interpretation of such contract provision, such dispute (regardless of whether it is characterized as a dispute about whether the information is reasonably required for the Audit and/or a dispute about the interpretation of the contract provision) shall not be subject to resolution by the Neutral Auditor, and must be resolved, if at all, pursuant to Section 8.6 of the 2014 Amended PLMA.

The procedure for resolution of disputes by the Neutral Auditor shall be determined in conjunction with the Neutral Auditor upon his/her engagement, but PDL and Genentech agree that (i) written submissions shall be permitted and shared between the Auditor, PDL and Genentech; (ii) each dispute referred to the Neutral Auditor shall be resolved no later than fourteen (14) days after such referral; and (iii) the standard to be applied by the Neutral Auditor is whether the information or interview(s) of personnel sought by the Auditor is sought in good faith, consistent with customary practice, and reasonably required for the Audit.

PDL and Genentech agree that any and all materials and information and communications generated during and in relation to the resolution of any dispute by the Neutral Auditor, (including but not limited to, Party submissions to the Neutral Auditor, statements, findings, or determinations by the Neutral Auditor, correspondence between the Parties, correspondence between PDL or Genentech and the Auditor) in any form whatsoever, shall be inadmissible in any arbitration proceeding pursuant to Section 8.6 of the 2014 Amended PLMA or any other legal proceeding between PDL and Genentech. All fees and costs incurred by the Neutral Auditor shall be shared equally by PDL and Genentech.

EXHIBIT G

Purposefully left blank

EXHIBIT H

Stipulated Order of Dismissal (Nevada Litigation)

3990
PARSONS BEHLE & LATIMER
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Robert W. DeLong, Bar No. 10022
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Attorneys for Plaintiff
PDL BioPharma, Inc.

IN THE SECOND JUDICIAL DISTRICT OF THE STATE OF NEVADA

IN AND FOR THE COUNTY OF WASHOE

-o0o-

PDL BIOPHARMA, INC., a Delaware corporation, Plaintiff, vs. GENENTECH, INC., a Delaware corporation; F. HOFFMANN-LA ROCHE LTD, a Swiss corporation; and DOES 2 through 10, Defendants.	Case No. CV10-02578 Dept. No. B15

STIPULATION AND ORDER OF DISMISSAL WITH PREJUDICE

IT IS HEREBY STIPULATED AND AGREED, by and between Plaintiff PDL BioPharma, Inc. and Defendants Genentech, Inc. (“Genentech”) and F. Hoffmann-La Roche Ltd (“Roche”), by and through their undersigned counsel of record, that all claims

for relief against Genentech and Roche in the above-captioned matter be dismissed with prejudice pursuant to NRCP 41, with each party to bear its own attorneys' fees and costs.

AFFIRMATION

The undersigned does hereby affirm, pursuant to NRS 239B.030, that this document filed in the Second Judicial District Court does not contain the social security number of any person.

Dated: January __, 2014

Parsons Behle & Latimer

By:
Rew R. Goodenow, Bar No. 3722
Attorneys for Plaintiff
PDL BioPharma, Inc.

Dated: January __, 2014

Lionel Sawyer & Collins

By: _
Leslie Bryan Hart, Bar No. 4932
Attorneys for Defendants Genentech Inc.
and F. Hoffmann-La Roche Ltd

ORDER

IT IS SO ORDERED.

DATED this ___ day of _____, 2014

CHIEF JUDGE DAVID A. HARDY

EXHIBIT I

Stipulated Order of Dismissal (Writ Proceeding)

Case No. 63283

IN THE SUPREME COURT OF NEVADA

GENENTECH, INC., a Delaware corporation; and F. HOFFMAN-LA ROCHE LTD., a Swiss corporation, Petitioners, *vs*. THE SECOND JUDICIAL DISTRICT COURT of the State of Nevada, in and for the County of Washoe; and THE HONORABLE DAVID A. HARDY, District Judge, Respondents, and PDL BIOPHARMA, INC., a Delaware corporation, Real Party in Interest.	)))))))))))))))))))	District Court No. CV-02578

STIPULATION TO DISMISS PETITION FOR WRIT OF PROHIBITION, OR IN THE ALTERNATIVE, MANDAMUS

The parties stipulate to dismiss with prejudice the "Petition for Writ of Prohibition, or in the alternative, Mandamus," with each party to bear its own fees and costs.

Dated: January __, 2014.

LEWIS ROCA ROTHGERBER LLP

By: _____
DANIEL F. POLSENBERG (SBN 2376) JOEL D. HENRIOD (SBN 8492)
3993 Howard Hughes Pkwy, 6th Floor
Las Vegas, Nevada 89169
(702) 474-2616

PAUL B. GAFFNEY
AARON P. MAURER
Admitted Pro Hac Vice
WILLIAMS & CONNOLLY LLP
725 Twelfth Street, N.W.
Washington, DC 20005
(202) 434-5000

Attorneys for Genentech, Inc. and F. Hoffman LaRoche, Ltd

Dated: January __, 2014.

PARSONS BEHLE & LATIMER

By: _____ _
REW R. GOODENOW (SBN 3722)
ROBERT W. DELONG (SBN 10022)
50 West Liberty St., Suite 750
Reno, Nevada 89501

DAVID I. GINDLER
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Attorneys for PDL Biopharma, Inc.

EXHIBIT J

Joint Motion to Vacate Discovery Order

3870
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Attorneys for Defendants Genentech, Inc.
and F. Hoffmann-La Roche Ltd

IN THE SECOND JUDICIAL DISTRICT COURT OF
THE STATE OF NEVADA IN AND FOR THE
COUNTY OF WASHOE

PDL BIOPHARMA, INC., a Delaware corporation,

Plaintiff,

vs.

GENENTECH, INC., a Delaware corporation; F. HOFFMANN-LA ROCHE LTD, a Swiss corporation; and DOES 2 through 10,

Defendants.
_____/

CASE NO.: CV10-02578

DEPT. NO.: B15

JOINT REQUEST TO VACATE RECOMMENDATION FOR ORDER DATED DECEMBER 24, 2012 AND ORDER DATED MARCH 29, 2013

On September 17, 2012, Plaintiff PDL Biopharma, Inc., ("PDL") filed a Motion to Compel Production of Documents and Interrogatory Responses by Defendants F. Hoffman-La Roche Ltd. and Genentech, Inc. Withheld on the Basis of Privilege ("Motion to Compel"). On October 15, 2012, Defendants F. Hoffman-La Roche Ltd. ("Hoffman-La Roche") and Genentech, Inc. ("Genentech," collectively "Defendants") filed their Opposition to the Motion to Compel, and on October 29, 2012, PDL filed its Reply in Support of it Motion to Compel. Thereafter, on November 9, 2012, this Court

referred to Discovery Commissioner Wesley Ayres the Motion to Compel. On December 24, 2012, the Discovery Commissioner issued his Recommendation for Order in which he recommended to this Court that the Motion to Compel be granted-in-part and denied-in-part.

On January 11, 2013, Defendants filed Objections to Discovery Commissioner's Recommendation for Order. On March 29, 2013, this Court issued an Order Affirming the Recommendation for Order (collectively with the Discovery Commissioner's Recommendation for Order, the "Order on the Motion to Compel").

On May 28, 2013, Defendants filed with the Nevada Supreme Court a Petition for Writ of Prohibition, Or in the Alternative, Mandamus ("Writ Petition"), seeking review of the Order on the Motion to Compel. On July 1, 2013, the Supreme Court ordered that an Answer to the Writ Petition be filed, and on September 3, 2013, PDL filed its Answer. On December 16, 2013, Defendants filed their Reply. The Nevada Supreme Court has not yet acted on the merits of the Writ Petition.

PDL and Defendants have now reached an agreement to resolve this case and jointly request that this Court vacate the Order on the Motion to Compel. A form of a proposed Order is attached hereto as Exhibit 1.

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[1] A stipulation to dismiss this case with prejudice is being submitted to the Court contemporaneously with this motion. The Parties also are concurrently filing a stipulation requesting dismissal of the Writ Petition.

AFFIRMATION

(Pursuant to NRS 239B.030)

The undersigned does hereby affirm that the foregoing does not contain the social security number of any person.

DATED: January ____, 2014

PARSONS BEHLE & LATIMER

By:
Rew R. Goodenow
Nevada Bar No. 3722
Robert W. DeLong
Nevada Bar No. 10022
Attorney for Plaintiff

DATED: January ____, 2014

LIONEL SAWYER & COLLINS

By:
Leslie Bryan Hart
Nevada Bar No. 4932
Attorney for Defendants

EXHIBITS LIST

Exhibit	Description	No. of Pages
1	[Proposed] Order Vacating Recommendation For Order Dated December 24, 2012 and Order Dated March 29, 2013	

IN THE SECOND JUDICIAL DISTRICT COURT OF
THE STATE OF NEVADA IN AND FOR THE
COUNTY OF WASHOE

PDL BIOPHARMA, INC., a Delaware corporation,

Plaintiff,

vs.

GENENTECH, INC., a Delaware corporation; F. HOFFMANN-LA ROCHE LTD, a Swiss corporation; NOVARTIS AG, a Swiss corporation; and DOES 1 through 10, inclusive,

Defendants.
_____/

CASE NO.: CV10-02578

DEPT. NO.: B15

[PROPOSED] ORDER VACATING RECOMMENDATION FOR ORDER DATED DECEMBER 24, 2012 AND ORDER DATED MARCH 29, 2013

UPON CONSIDERATION OF the Parties' Joint Request to Vacate Recommendation for Order Dated December 24, 2012 and Order Dated March 29, 2013, the record in this case and the applicable law, and

GOOD CAUSE APPEARING, it is hereby

ORDERED that the Recommendation for Order and the Order are hereby vacated.

DATED: This day of _____, 2014.

_____
DISTRICT COURT JUDGE

Submitted by:

Leslie Bryan Hart, Esq., (SBN 4932)
LIONEL SAWYER & COLLINS
50 West Liberty Street, Suite 1100
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Attorneys for Defendants Genentech, Inc.
and F. Hoffmann-La Roche Ltd

EXHIBIT K

Stipulated Order of Dismissal (AAA Arbitration)

WRITER'S DIRECT
TELEPHONE (310) 203-7106
dgindler@irell.com

January 31, 2014

VIA EMAIL & FEDEX

Serena Lee, Esq.
Vice President
American Arbitration Association
One Sansome Street, Suite 1600
San Francisco, CA 94104

Re: PDL BioPharma, Inc. v. Genentech, Inc., AAA #74 122 359 13

Dear Ms. Lee:

On behalf of Claimant PDL BioPharma, Inc. and Respondent Genentech, Inc. (together, the "Parties"), the undersigned counsel notifies you that the Parties have reached a settlement and therefore agree and stipulate that all claims and counterclaims in the above-referenced arbitration are dismissed with prejudice, with each party to bear its own attorneys' fees and costs. Accordingly, this matter should be closed.

Thank you for your assistance in this matter.

Sincerely,

_____
David I. Gindler
Counsel for PDL BioPharma, Inc.

_____
Paul B. Gaffney
Counsel for Genentech, Inc.

2956807

EXHIBIT L

PDL Press Release

Contacts:
Peter Garcia
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Jennifer Williams
Cook Williams Communications, Inc.
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PDL BioPharma Announces Agreement with Genentech and Roche to Settle Litigation and Arbitration

INCLINE VILLAGE, NV, February 3, 2014 - PDL BioPharma, Inc. (PDL) (NASDAQ: PDLI) today announced that it has entered into an agreement with Genentech, Inc. (Genentech) and F. Hoffman-La Roche Ltd. (Roche) which resolves all outstanding legal disputes between the parties, including its Nevada litigation with Genentech and Roche and its arbitration proceedings with Genentech related to the audit of royalties on sales.

Under the terms of the agreement, effective retroactively to August 15, 2013, Genentech will pay a fixed royalty rate of 2.125 percent on worldwide sales of Avastin®, Herceptin®, Lucentis® Xolair®, Kadcyla® and Perjeta® , as compared to the previous tiered royalty rate in the U.S and the fixed rate on all ex-U.S based manufactured and sold licensed products. Pursuant to the agreement, Genentech and Roche confirm that Avastin, Herceptin, Lucentis, Xolair and Perjeta are licensed products as defined in the relevant license agreements between the parties, and further agree that Kadcyla is a licensed product. Genentech will pay these royalties on all worldwide sales of Avastin, Herceptin, Xolair, Perjeta and Kadcyla occurring on or before December 31, 2015. With respect to Lucentis, Genentech will owe no royalties on U.S. sales occurring after June 30, 2013, and will pay a royalty of 2.125 percent on all ex-U.S. sales occurring on or before December 28, 2014. Pursuant to a separate agreement, Roche Glycart agreed that Gazyva® is a licensed product. The royalty term and royalty rate for Gazyva remain unchanged from the existing license agreement pertaining thereto.

The agreement precludes Genentech and Roche from challenging the validity of PDL's Queen patents, including its supplementary protection certificates in Europe ("SPCs"), from contesting their obligation to pay royalties, from contesting patent coverage for Avastin, Herceptin, Lucentis, Xolair, Perjeta, Kadcyla and Gazyva and from assisting any third party in challenging PDL's Queen patents and SPCs. The agreement further outlines the conduct of any audits initiated by PDL of the books and records of Genentech in an effort to ensure a full and fair audit procedure. Finally, the agreement clarifies that the sales amounts from which the royalties are calculated do not include certain taxes and discounts.

The settlement agreement provides greater certainty for each of the parties in terms of the royalty rate payable under the agreement and the period over which they will be payable. PDL expects to recognize royalty revenue on the licensed products until the first quarter of 2016. Additionally, the settlement terms provide for a better definition of revenues and audit inspection procedures related to the arbitration dispute filed by PDL.

“The agreement announced today equitably resolves our litigation and arbitration in a way that benefits PDL’s shareholders, said John P. McLaughlin, president and chief executive officer of PDL BioPharma. “The royalty rate reflects an increase over historical rates and there is now certainty around the period for which we will continue to receive royalties.”

The settlement and the related agreement are conditional upon entry of a proposed order dismissing the underlying litigation and dismissal of the AAA arbitration filed by PDL.

About PDL BioPharma

PDL BioPharma manages a portfolio of patents and royalty assets, consisting primarily of its Queen et al. antibody humanization patents and license agreements with various biotechnology and pharmaceutical companies. PDL pioneered the humanization of monoclonal antibodies and, by doing so, enabled the discovery of a new generation of targeted treatments for cancer and immunologic diseases for which it receives significant royalty revenue. PDL is currently focused on intellectual property asset management, acquiring new income generating assets, and maximizing value for its shareholders.

The company was formerly known as Protein Design Labs, Inc. and changed its name to PDL BioPharma, Inc. in 2006. PDL was founded in 1986 and is headquartered in Incline Village, Nevada.

In 2011, PDL initiated a strategy to bring in new income generating assets from the healthcare sector. To accomplish this goal, PDL seeks to provide non-dilutive growth capital and financing solutions to late stage public and private healthcare companies and offers immediate financial monetization of royalty streams to companies, academic institutions, and inventors. PDL continues to pursue this strategic initiative for which it has already deployed approximately $500 million to date. PDL is focused on the quality of the income generating assets and potential returns on investment.

For more information, please visit www.pdl.com.

Cautionary Statements Concerning Forward-Looking Statements

This Press Release contains “forward-looking” statements as defined in the Private Securities Litigation Reform Act of 1995. These statements are based on management’s current expectations or predictions of future conditions, events or results based on various assumptions and management’s estimates of trends and economic factors in the markets in which we are active, as well as our business plans. Words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “seeks”, “estimates”,

“projects”, “forecasts”, “may”, “should”, variations of such words and similar expressions are intended to identify such forward-looking statements. The forward-looking statements may include, without limitation, statements regarding product development, product potential or financial performance. The forward-looking statements are subject to risks and uncertainties, which may cause results to differ materially from those set forth in the statements. Forward-looking statements in this release should be evaluated together with the many uncertainties that affect the business of PDL and its markets, particularly those discussed in the risk factors and cautionary statements in filings made by PDL with the Securities and Exchange Commission. Forward-looking statements are not guarantees of future performance, and actual results may differ materially from those projected. The forward-looking statements are representative only as of the date they are made, and PDL assumes no responsibility to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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Exhibit 10.5

Schedule of Omitted Credit Agreement

In accordance with Instruction 2 to Item 601(a) of Regulation S-K, the Credit Agreement between PDL BioPharma, Inc. (the Company) and Paradigm Spine, LLC, dated February 14, 2014, has not been filed because it is substantially similar to the form of credit agreement that was filed as Exhibit 10.56 to the Company's Annual Report on Form 10-K filed on March 3, 2014. The following schedule sets forth the material details in which the omitted credit agreement differs from the form of credit agreement that was filed as Exhibit 10.56 to the Company's Annual Report on Form 10-K filed on March 3, 2014.

Execution Date	Borrower(s)	Maturity Date	Amount Funded at Closing	Aggregate Available Credit	Additional Funding Conditions	Outstanding Borrowings Interest Rate Per Annum	Interest Only Period	Principal Repayment Schedule	Change in Control Fee
February 14, 2014	Paradigm Spine, LLC	February 14, 2019 or, if, Tranche 2 milestone is achieved and Tranche 2 is funded by Company, August 14, 2019	$50 million	Up to $75 million	Tranche 1: $50 million funded at Closing Tranche 2: between $6.25 million and $12.5 million (at Borrower's discretion) funded upon attainment of specified revenue milestone on or before December 31, 2014 and the occurrence of at least one positive health group determination Tranche 3: Up to $12.5 million (at Borrower's discretion) funded upon attainment of specified revenue milestone on or before June 30, 2015 and the occurrence of at least two positive health group determinations	13.0% During the Interest Only Period, Borrower may elect to pay up to a portion of interest as PIK Interest, which amount shall be added to the aggregate principal balance	Ends September 30, 2016	Equal installments commencing on the first payment date after the Interest Only Period until final maturity	If $56.25 million is funded by Company and Borrower makes certain stock repurchases, Borrower charged a fee if it undergoes a change in control

Exhibit 12.1

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

	2009	2010	2011	2012	2013	For the Three Months Ended March 31, 2014
Earnings:						
Income before income taxes	$ 280,285	$ 150,370	$ 307,428	$ 327,133	$ 401,876	$ 115,604
Add: fixed charges	19,430	43,578	36,153	29,097	24,931	10,541
Earnings	$ 299,715	$ 193,948	$ 343,581	$ 356,230	$ 426,807	$ 126,145
Fixed Charges:						
Interest expense[1]	$ 19,357	$ 43,529	$ 36,102	$ 29,036	$ 24,871	$ 10,525
Estimated interest portion of rent expense[2]	73	49	51	61	60	16
Fixed charges	19,430	$ 43,578	$ 36,153	$ 29,097	$ 24,931	$ 10,541
Ratio of earnings to fixed charges	15.43	4.45	9.50	12.24	17.12	11.97

[1] Interest expense includes amortization of debt discount and expenses.
[2] Represents the estimated portion of operating lease rental expense that is considered by us to be representative of interest and amortization of discount related to indebtedness.

Exhibit 31.1

CERTIFICATIONS

I, John P. McLaughlin, President and Chief Executive Officer, of PDL BioPharma, Inc., certify that:

(1) I have reviewed this Quarterly Report on Form 10-Q of PDL BioPharma, Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2014

/s/ John P. McLaughlin

John P. McLaughlin

President and Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Peter S. Garcia, Vice President and Chief Financial Officer, of PDL BioPharma, Inc., certify that:

(1) I have reviewed this Quarterly Report on Form 10-Q of PDL BioPharma, Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2014

/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 March 31, 2014, 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: May 12, 2014

By:

/s/ JOHN P. MCLAUGHLIN

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

By:

/s/ PETER S. GARCIA

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

(1)This certification accompanies the Quarterly Report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of PDL BioPharma, Inc. under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing. A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to PDL BioPharma, Inc. and will be retained by PDL BioPharma, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.