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

FORM 10-Q

(Mark One)

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 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 July 29, 2014, there were 160,637,802 shares of the Registrant's Common Stock outstanding.

PDL BIOPHARMA, INC.
2014 Form 10-Q
Table of Contents

GLOSSARY OF TERMS AND ABBREVIATIONS

Abbreviation/term	Definition
'216B Patent	European Patent No. 0 451 216B
'761 Patent	U.S. Patent No. 5,693,761
2012 Notes	2.0% Convertible Senior Notes due February 15, 2012, fully retired at June 30, 2011
Abbott	Abbott Laboratories
Accel 300	Accel 300, LLC, a wholly-owned subsidiary of kaléo, Inc.
Avinger	Avinger, Inc.
AxoGen	AxoGen, Inc.
AxoGen Royalty Agreement	Revenue Interests Purchase Agreement between PDL and AxoGen.
Biogen Idec	Biogen Idec, Inc.
Chugai	Chugai Pharmaceutical Co., Ltd.
Depomed	Depomed, Inc.
Depomed Royalty Agreement	Royalty Purchase and Sale Agreement among Depomed and Depo DR Sub, LLC, a wholly owned subsidiary of Depomed, and PDL
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
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.)
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.
Michigan Royalty Agreement	Royalty Purchase and Sale Agreement between The Regents of the University of Michigan and PDL
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.
SAB	Staff Accounting Bulletin
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
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, as amended
U.S.-based Sales	Products sold in the United States or manufactured in the United States and used or sold anywhere in the world
VB	Viscogliosi Brothers, LLC
VB Royalty Agreement	Royalty Purchase and Sale Agreement between Viscogliosi Brothers, LLC and PDL
VWAP	Volume weighted average share price
Wellstat Diagnostics	Wellstat Diagnostics, LLC
White Oak	White Oak Global Advisors, 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 June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Revenues				
Royalties from Queen et al. patents	$ 115,066	$ 143,617	$ 231,092	$ 235,464
Royalty rights - change in fair value	34,498	—	46,205	—
Interest revenue	12,613	4,903	21,684	8,651
License and other	575	—	575	—
Total revenues	162,752	148,520	299,556	244,115
Operating expenses:				
General and administrative	6,920	6,783	11,502	13,969
Operating income	155,832	141,737	288,054	230,146
Non-operating expense, net				
Interest and other income, net	82	60	132	150
Interest expense	(9,858)	(6,051)	(20,383)	(12,051)
Loss on extinguishment of debt	—	—	(6,143)	—
Total non-operating expense, net	(9,776)	(5,991)	(26,394)	(11,901)
Income before income taxes	146,056	135,746	261,660	218,245
Income tax expense	54,001	42,004	96,722	71,032
Net income	$ 92,055	$ 93,742	$ 164,938	$ 147,213
Net income per share				
Basic	$ 0.57	$ 0.67	$ 1.06	$ 1.05
Diluted	$ 0.52	$ 0.62	$ 0.94	$ 0.96
Weighted average shares outstanding				
Basic	160,256	139,825	155,752	139,821
Diluted	177,228	152,224	175,811	152,784
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 June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Net income	$ 92,055	$ 93,742	$ 164,938	$ 147,213
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	(204)	(3)	(1,296)	(6)
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]	(204)	(3)	(1,296)	(6)
Change in unrealized losses on cash flow hedges:				
Change in fair value of cash flow hedges, net of tax	264	(1,265)	331	2,302
Adjustment for net (gains) losses realized and included in net income, net of tax	2,027	(268)	2,755	979
Total change in unrealized losses on cash flow hedges, net of tax[b]	2,291	(1,533)	3,086	3,281
Total other comprehensive income (loss), net of tax	2,087	(1,536)	1,790	3,275
Comprehensive income	$ 94,142	$ 92,206	$ 166,728	$ 150,488

[a] Net of tax of ($110) and ($2) for the three months ended June 30, 2014 and 2013, respectively, and $(698) and ($3) for the six months ended June 30, 2014, and 2013, respectively.
[b] Net of tax of $1,234 and ($825) for the three months ended June 30, 2014 and 2013, respectively, and $1,662 and $1,767 for the six months ended June 30, 2014, and 2013, respectively.

See accompanying notes.

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

	June 30, 2014	December 31, 2013
	(unaudited)	(Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 214,525	$ 94,302
Short-term investments	3,243	5,238
Receivables from licensees and other	1,352	300
Deferred tax assets	2,535	377
Notes receivable	6,599	1,208
Prepaid and other current assets	1,793	6,272
Total current assets	230,047	107,697
Property and equipment, net	69	41
Royalty rights - at fair value	247,116	235,677
Notes and other receivables, long-term	413,720	193,840
Long-term deferred tax assets	17,395	6,700
Other assets	8,058	—
Total assets	$ 916,405	$ 543,955
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 341	$ 287
Accrued liabilities	61,935	11,857
Accrued income taxes	10,817	—
Term loan payable	37,364	74,397
Convertible notes payable	197,957	320,883
Total current liabilities	308,414	407,424
Convertible notes payable	272,824	—
Other long-term liabilities	38,506	23,042
Total liabilities	619,744	430,466
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, par value $0.01 per share, 10,000 shares authorized; no shares issued and outstanding	—	—
Common stock, par value $0.01 per share, 350,000 shares authorized; 160,266 and 139,935 shares issued and outstanding at June 30, 2014, and December 31, 2013, respectively	1,603	1,399
Additional paid-in capital	(120,590)	(233,173)
Accumulated other comprehensive loss	(3,098)	(4,888)
Retained earnings	418,746	350,151
Total stockholders' equity	296,661	113,489
Total liabilities and stockholders' equity	$ 916,405	$ 543,955

See accompanying notes.

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

	Six Months Ended June 30,	
	2014	**2013**
Cash flows from operating activities		
Net income	$ 164,938	$ 147,213
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of convertible notes and term loan offering costs	9,568	6,552
Change in fair value of royalty rights - at fair value	(45,390)	—
Loss on extinguishment of convertible notes	6,143	—
Other amortization, depreciation and accretion of embedded derivative	(94)	(214)
Hedge ineffectiveness on foreign exchange contracts	(3)	(5)
Stock-based compensation expense	616	373
Tax expense from stock-based compensation arrangements	—	(13)
Deferred income taxes	(2,564)	(548)
Changes in assets and liabilities:		
Receivables from licensees and other	(1,052)	366
Prepaid and other current assets	1,759	1,156
Accrued interest on notes receivable	(10,165)	(5,339)
Other assets	(29)	935
Accounts payable	54	(959)
Accrued liabilities	4,426	(290)
Accrued income taxes	10,817	18,753
Other long-term liabilities	7,129	(5,271)
Net cash provided by operating activities	146,153	162,709
Cash flows from investing activities		
Purchases of investments	—	(6,375)
Maturities of investments	—	16,405
Purchase of royalty rights - at fair value	(15,500)	—
Proceeds from royalty rights - at fair value	49,451	—
Purchase of notes receivable	(215,000)	(27,304)
Repayment of notes receivable	—	16,779
Purchase of property and equipment	(39)	(2)
Net cash used in investing activities	(181,088)	(497)
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	(37,500)	—
Cash dividends paid	(48,088)	(41,964)
Excess tax benefit from stock-based compensation	—	13
Net cash provided by/(used in) financing activities	155,158	(41,951)
Net increase in cash and cash equivalents	120,223	120,261
Cash and cash equivalents at beginning of the period	94,302	131,212
Cash and cash equivalents at end of period	$ 214,525	$ 251,473

Supplemental cash flow information				
Cash paid for income taxes	$	81,000	$	55,000
Cash paid for interest (including convertible debt inducement)	$	8,676	$	5,498
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), except as discussed under Correction of Immaterial Error and Reclassification below, 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 revenue" using the interest method. When and if supplemental royalties are received from certain of these notes and other long-term receivables, an adjustment to the estimated effective interest rate is affected prospectively.

Royalty Rights - At Fair Value

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

Realized and unrealized gains and losses from investments in royalty rights are presented together on the statements of income as a component of revenue under the caption, “Royalty rights - change in fair value.”

Correction of Immaterial Error

As disclosed in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014, PDL was engaged in ongoing discussions with the SEC staff after receiving a comment letter regarding the Company's consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013. The comment letter requested additional information about the Company’s accounting for the Depomed Royalty Agreement. The Company was asked to support its position and explain why the transaction was accounted for as the acquisition of intangible assets as opposed to that of financial assets. While significant judgment is required to account for this transaction, as either the acquisition of intangible assets or financial assets, we have concluded that it is most appropriate to account for the asset as a

Level 3 financial asset, which is a change to the previously reported accounting for this transaction. PDL has elected to measure this asset at fair value each reporting period. The change in the estimated fair value of this asset at each reporting period will be shown on a single caption, “Royalty rights - change in fair value” in our condensed consolidated statements of income. The purchase of this asset will be reported as an investing activity in our consolidated statements of cash flows. The revenue recognized each period related to this asset will be reported as an adjustment to net income in order to determine net cash provided by (used in) operating activities in our consolidated statements of cash flows. Actual cash received will be reported as an investing cash inflow in our consolidated statements of cash flows, separate from cash used in investing activities to purchase the asset in 2013. The Company reviewed the impact of this change in accounting on prior annual and interim periods in accordance with SAB no. 99, *Materiality* and SAB No. 108, *Considering the Effects of Prior year Misstatements when Quantifying Misstatements in Current Year Financial Statements* and determined that the changes were not material for the period from October 18, 2013 (acquisition date), through March 31, 2014, and did not represent a material impact to our consolidated financial statements in either our previously filed Annual Report on Form 10-K for the fiscal year ended December 31, 2013, or our previously filed Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014.

For the year ended December 31, 2013 (in thousands)

Amounts in 000's	As Filed	Reclassification	Correction of Error	As Corrected	% Error Change
Total Revenues	$ 442,921	$ 18,976	$ 190	$ 462,087	—%
Operating Income	$ 407,529	$ 18,976	$ 5,013	$ 431,518	1.2%
Pre-tax Income	$ 401,876	$ —	$ 5,013	$ 406,889	1.2%
Net Income	$ 264,530	$ —	$ 3,184	$ 267,714	1.2%
EPS:					
Basic	$ 1.89	$ —	$ 0.02	$ 1.91	1.1%
Diluted	$ 1.66	$ —	$ 0.02	$ 1.68	1.2%

For the three months ended March 31, 2014 (in thousands)

Amounts in 000's	As Filed	Reclassification	Correction of Error[1]	As Corrected	% Error Change
Total Revenues	$ 139,664	$ 9,071	$ 1,669	$ 150,404	1.2%
Operating Income	$ 123,151	$ 9,071	$ 12,786	$ 145,008	10.4%
Pre-tax Income	$ 115,604	$ —	$ 12,786	$ 128,390	11.1%
Net Income	$ 72,883	$ —	$ 8,121	$ 81,004	11.1%
EPS:					
Basic	$ 0.48	$ —	$ 0.05	$ 0.53	10.4%
Diluted	$ 0.44	$ —	$ 0.05	$ 0.49	11.4%

[1] Includes cumulative impact of 2013 corrections

We evaluated the materiality of correcting the cumulative error in the period ended June 30, 2014. Based on such evaluation, we concluded that the correction is not material to this period. Accordingly, we corrected the cumulative error in our condensed consolidated statement of income for the quarter ended June 30, 2014 as follows: (i) $1.7 million increase in total revenues, (ii) $12.8 million increase pre-tax income, (iii) $8.1 million increase in net income. The impacts to our condensed consolidated balance sheet and statements of cash flows were not material.

We determined that a retrospective revision due to the correction of an error was not required. The prospective change is reflected in the current period as a component of “Royalty rights - change in fair value” in our condensed consolidated statements of income. Intangible assets that were presented in historical periods have been reclassified to "Royalty rights - at fair value" for all periods presented. Such reclassifications did not have an impact on our results of operations, cash flows or financial position.

Reclassifications

Certain reclassifications of previously reported amounts have been made to conform to the current year presentation. Interest income recognized from financial assets that were previously reported as a component of "Interest and other income, net" in the condensed consolidated statements of income has been reclassified to "Interest revenue" as a component of revenue in the condensed consolidated statements of income.

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 June 30,		Six Months Ended June 30,	
Licensee	**Product Name**	**2014**	**2013**	**2014**	**2013**
Genentech	*Avastin*®	24%	31%	27%	33%
	Herceptin®	24%	32%	25%	32%
	Lucentis®	10%	20%	11%	17%
Biogen Idec[1]	*Tysabri*®	8%	9%	9%	11%
Depomed	*Glumetza*®	16%	0%	13%	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.

Recent Accounting Pronouncements

In May 2014, the FASB issued new revenue recognition guidance which amended the existing accounting standards for revenue recognition. The new guidance establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. It is effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently in the process of evaluating the impact of adoption of the new standard on its consolidated financial statements, but does not expect the impact to be material.

2. Net Income per Share

Net Income per Basic and Diluted Share:	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
(in thousands except per share amounts)				
Numerator				
Net income used to compute net income per basic share	$ 92,055	$ 93,742	$ 164,938	$ 147,213
Add back interest expense for convertible notes, net of estimated tax of approximately $0 and $3 for the three months ended June 30, 2014 and 2013, respectively, and $0 and $7 for the six months ended June 30, 2014 and 2013, respectively.	—	6	—	13
Net income used to compute net income per diluted share	$ 92,055	$ 93,748	$ 164,938	$ 147,226
Denominator				
Weighted-average shares used to compute net income per basic share	160,256	139,825	155,752	139,821
Restricted stock outstanding	115	75	90	71
Effect of dilutive stock options	22	19	21	19
Assumed conversion of February 2018 Notes	1,872	—	1,484	—
Assumed conversion of Series 2012 Notes	4,487	8,304	7,570	8,693
Assumed conversion of May 2015 Notes	10,476	3,825	10,894	4,004
Assumed conversion of February 2015 Notes	—	176	—	176
Weighted-average shares used to compute net income per diluted share	177,228	152,224	175,811	152,784
Net income per share - basic	$ 0.57	$ 0.67	$ 1.06	$ 1.05
Net income per share - diluted	$ 0.52	$ 0.62	$ 0.94	$ 0.96

We compute diluted net income per share using the sum of the weighted-average number of common and common equivalents shares outstanding. Common equivalent shares used in the computation of diluted net income per 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 diluted net income per share 21.8 million and 20.4 million shares for the three months ended June 30, 2014 and 2013, respectively, and 21.8 million and 20.4 million shares for the six months ended June 30, 2014, and 2013, 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 25.7 million and 24.0 million shares were excluded from our calculations of net income per diluted share for the three months ended June 30, 2014 and 2013, respectively, and 25.7 million and 24.0 million shares were excluded from our calculation of diluted net income per share for the six months ended June 30, 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 9.

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 June 30, 2014, 29.0 million shares for the six months ended June 30, 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 June 30, 2014, and 32.7 million shares were excluded from our calculation of net income per diluted share for the six months ended June 30, 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 9.

Anti-Dilutive Effect of Stock Options and Restricted Stock Awards

For the three and six months ended June 30, 2014, we excluded approximately 24,000 and 69,000 shares underlying outstanding stock options, respectively, 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 June 30, 2013, we excluded approximately 139,000 and 28,000 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. For the six months ended June 30, 2013, we excluded approximately 139,000 and 8,000 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.

	June 30, 2014				December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
(In thousands)								
Financial assets:								
Money market funds	$ 155,107	$ —	$ —	$ 155,107	$ 85,970	$ —	$ —	$ 85,970
Corporate securities	—	3,243	—	3,243	—	5,238	—	5,238
Royalty rights - at fair value	—	—	247,116	247,116	—	—	235,677	235,677
Total	$ 155,107	$ 3,243	$ 247,116	$ 405,466	$ 85,970	$ 5,238	$ 235,677	$ 326,885
Financial liabilities:								
Foreign currency hedge contracts	$ —	$ 4,199	$ —	$ 4,199	$ —	$ 8,871	$ —	$ 8,871

There have been no transfers between levels during the three months ended June 30, 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.

Corporate Securities

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

Royalty Rights - At Fair Value

Depomed Royalty Agreement

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

The rights acquired include Depomed's royalty and milestone payments accruing from and after October 1, 2013: (a) from Santarus 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 Purchase and Sale 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 Purchase and Sale Agreement terminates on the third anniversary following the date upon which the later of the following occurs: (a) October 25, 2021, or (b) at such time as no royalty payments remain payable under any license agreement and each of the license agreements has expired by its terms.

As of June 30, 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.

The asset acquired represents a single unit of accounting. The fair value of the asset acquired was determined by using a discounted cash flow analysis related to the expected future cash flows to be generated by each licensed product. This asset is classified as a Level 3 asset within the fair value hierarchy, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future commercialization for products not yet approved by the FDA or other regulatory agencies. The discounted cash flow was based upon expected royalties from sales of licensed products over a nine year period. The discount rates utilized ranged from approximately 21% to 25%. Significant judgment is required in selecting appropriate discount rates. Should these discount rates increase or decrease by 5%, the fair value of the asset could decrease by $22.3 million or increase by $28.2 million, respectively. A third-party expert was engaged to assist management with the development of its estimate of the expected future cash flows. The fair value of the asset is subject to variation should cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions effecting fair market value will be performed in each reporting period.

As of June 30, 2014, and December 31, 2013, the carrying value of the asset acquired and reported in our consolidated balance sheets was approximately $231.6 million and $235.7 million, respectively. As of June 30, 2014, the maximum loss exposure was $231.6 million.

VB Royalty Agreement

On June 26, 2014, PDL entered into the VB Royalty Agreement, whereby VB conveyed to the Company the right to receive royalties payable on sales of a PMA-approved spinal implant in exchange for a $15.5 million cash payment, less fees.

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

The fair value of the royalty right at June 30, 2014, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a nine year period. The discount rate utilized was approximately 17.5%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $1.4 million or increase by $1.7 million, respectively. A third-party expert was engaged to assist management with the development of its estimate of the expected future cash flows. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions effecting fair market value will be performed in each reporting period.

As of June 30, 2014, the carrying value of the asset acquired as reported in our consolidated balance sheets was $15.5 million. As of June 30, 2014, the maximum loss exposure was $15.5 million.

The following tables summarize the changes in Level 3 assets and the gains and losses included in earnings for the six months ending June 30, 2014:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

(in thousands)	**Royalty Rights - At Fair Value**
Beginning Balance at December 31, 2013	—
Transfer into Level 3	235,677
Total change in fair value for the period	
Included in earnings	(4,061)
Purchases, issues, sales, and settlements	
Purchases	15,500
Ending Balance at June 30, 2014	$ 247,116

The correction of the immaterial error as described in Note 1 resulted in accounting for the Depomed Royalty Agreement as a Level 3 financial asset. That correction has been identified above as a transfer into Level 3.

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(in thousands)	**2014**	**2013**	**2014**	**2013**
Total change in fair value for the period included in earnings for assets held at the end of the reporting period	$ (4,061)	$ —	$ (4,061)	$ —

Foreign Currency Hedge Contracts

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.

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

	June 30, 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	$ —	$ 50,191	$ 47,694	$ —	$ 46,042
Hyperion	1,200	—	1,200	1,194	—	1,195
AxoGen note receivable and embedded derivative	28,942	—	27,160	26,544	—	25,785
Avinger note receivable	20,422	—	19,336	20,250	—	19,061
LENSAR note receivable	39,591	—	40,842	39,572	—	39,572
Durata note receivable	40,000	—	39,402	24,995	—	24,995
Direct Flow Medical note receivable	35,049	—	34,723	34,799	—	34,799
Paradigm Spine note receivable	49,517	—	51,165	—	—	—
kaléo note receivable	155,407	—	155,407	—	—	—
Total	$ 420,319	$ —	$ 419,426	$ 195,048	$ —	$ 191,449
Liabilities:						
Series 2012 Notes	$ 47,160	$ 88,523	$ —	$ 172,630	$ 277,650	$ —
May 2015 Notes	150,797	248,889	—	148,253	212,304	—
February 2018 Notes	272,824	341,955	—	—	—	—
Term loan	37,364	37,500	—	74,397	75,000	—
Total	$ 508,145	$ 716,867	$ —	$ 395,280	$ 564,954	$ —

As of June 30, 2014, the estimated fair value of our Paradigm Spine note receivable and kaléo note receivable, as of June 30, 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 assist in evaluating our investments and the related inputs needed for us to estimate the fair value of certain investments. We determined our notes receivable assets are Level 3 assets as our valuations utilized significant unobservable inputs, including estimates of future revenues, discount rates, expectations about settlement, terminal values and required yield. To provide support for the estimated fair value measurements, we considered forward looking performance related to the investment and current measures associated with high yield indices, and reviewed the terms and yields of notes placed by specialty finance and venture firms both across industries and in similar sectors.

The carrying value and estimated fair value of the AxoGen note include the value of a change of control embedded derivative valued at $1.2 million and $1.1 million at June 30, 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 June 30, 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 Note Receivable and Credit Agreement was determined by using a discounted cash flow that was based upon expected income from estimated sales through December 31, 2016.

On June 30, 2014, the carrying value of the Avinger note exceeds its fair value. This is the result of discount rates used when performing a discounted cash flow for fair value valuation purposes. We determined this note to be a Level 3 asset, as our valuation utilized significant unobservable inputs, including a discount rate of 22.5%, 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 June 30, 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)						
June 30, 2014						
Cash	$ 59,418	$ —	$ —	$ 59,418	$ 59,418	$ —
Money market funds	155,107	—	—	155,107	155,107	—
Corporate security	3,500	—	(257)	3,243	—	3,243
Total	$ 218,025	$ —	$ (257)	$ 217,768	$ 214,525	$ 3,243
December 31, 2013						
Cash	$ 8,332	$ —	$ —	$ 8,332	$ 8,332	$ —
Money market funds	85,970	—	—	85,970	85,970	—
Corporate security	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 and six months ended June 30, 2014 and 2013.

The unrealized gain (loss) on investments included in other comprehensive income (loss), net of estimated taxes, was approximately ($167,000) and $1,129,000 as of June 30, 2014, and December 31, 2013, respectively. No significant facts or circumstances have arisen to indicate that there has been any deterioration in the creditworthiness of the issuers of these securities. Based on our review of these securities, we believe we had no other-than-temporary impairments on these securities as of June 30, 2014, and December 31, 2013.

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 June 30, 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			**June 30, 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	$ (1,207)
Euro	1.270	Sell Euro	27,940	(2,126)	44,450	(3,760)
Euro	1.281	Sell Euro	30,732	(2,073)	36,814	(2,785)
Euro	1.300	Sell Euro	—	—	19,500	(1,119)
Total			$ 58,672	$ (4,199)	$ 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**	**June 30, 2014**	**December 31, 2013**
(In thousands)			
Euro contracts	Accrued liabilities	$ 4,199	$ 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 June 30,		**Six Months Ended June 30,**	
	2014	**2013**	**2014**	**2013**
(In thousands)				
Net gain (loss) recognized in OCI, net of tax [1]	$ 264	$ (1,265)	$ 331	$ 2,303
Gain (loss) reclassified from accumulated OCI into royalty revenue, net of tax [2]	$ (2,027)	$ 268	$ (2,755)	$ (979)
Net gain (loss) recognized in interest and other income, net -- cash flow hedges [3]	$ 1	$ 2	$ 3	$ 5

(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 ($1) and ($2) for the three months ended June 30, 2014 and 2013, respectively, and $(3) and ($5) for the six months ended June 30, 2014, and 2013, respectively.

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 Wellstat Diagnostics amended the note receivable, providing a senior secured note receivable of $10.0 million, bearing interest at 12% per annum, to replace the original $7.5 million note. 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 six months ended June 30, 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.

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

On August 5, 2014, the Company received notice that the short term funding being provided pursuant to the agreement with the other lender entered into during June 2014, was being terminated. Wellstat Diagnostics remained in default because it was still unable to pay its debts as they became due. Accordingly, the Company delivered a notice of default to Wellstat Diagnostics, due to, inter alia, its on-going failure to pay its debts as they become due and Wellstat Diagnostics' failure to comply with certain covenants included in the First Amendment to Amended and Restated Credit Agreement by the deadlines to which the parties had agreed (the Borrower Notice). The Borrower Notice accelerates all obligations under the amended and restated credit agreement and demands immediate payment in full in an amount equal to $53,939,820, (which amount, in accordance with the terms of the amended and restated credit agreement, includes an amount that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company), plus accruing fees, costs and interest, and demands that Wellstat Diagnostics protect and preserve all collateral securing its obligations. On August 7, 2014, the Company delivered a notice to each of the guarantors of Wellstat Diagnostics' obligations to the Company under the credit agreement (the Guarantor Notice). The Guarantor Notice includes a demand that the guarantors remit payment to the Company in the amount of the outstanding obligations. The guarantors include certain affiliates and related companies of Wellstat Diagnostics, as well as Wellstat Diagnostics' shareholders. The Company is evaluating the remedies available to it at this time.

The amended and restated 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 June 30, 2014, and December 31, 2013, the carrying value of the note was included in non-current assets.

As of June 30, 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 June 30, 2014, the carrying value of all amounts advanced to Wellstat Diagnostics including accrued interest through March 31, 2014, was $50.2 million, which was recorded in notes receivable. As of June 30, 2014, the maximum loss exposure was $50.2 million. As a result of the event of default, we ceased to accrued interest for the current period presented.

We believe that Wellstat Diagnostics does not currently have sufficient capital to execute its business plan over the long term. Wellstat Diagnostics recently raised $2.5 million and has informed the Company that Wellstat Diagnostics is continuing to consider other sources of financing and strategic alternatives.

The estimated fair value of the collateral is approximately $50.2 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 has not made the payment due on March 5, 2014. The inability to make this payment constitutes a breach of the purchase agreement. The Company

completed an impairment analysis as of June 30, 2014. 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 June 30, 2014.

AxoGen Note Receivable and AxoGen Royalty Agreement

In October 2012, PDL entered into the AxoGen Royalty Agreement with AxoGen pursuant to which the Company will receive specified royalties on AxoGen’s net revenues (as defined in the AxoGen Royalty Agreement) generated by the sale, distribution or other use of AxoGen’s products. The AxoGen Royalty Agreement 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 $2.5 million beginning in the fourth quarter of 2014, and the right to require AxoGen to repurchase the AxoGen 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 AxoGen 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 AxoGen 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 AxoGen 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 $1.2 million and $1.1 million as of June 30, 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 gains of approximately $0.1 million and $0.4 million related to the change in the estimated fair value of embedded derivative during the three month periods ended June 30, 2014 and 2013, respectively. The Company recognized gains of approximately $0.1 million and $0.4 million related to the change in the estimated fair value of embedded derivative during the six month periods ended June 30, 2014 and 2013, respectively.

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

During the term of the AxoGen 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 June 30, 2014, the shares were valued at $3.2 million, which resulted in an unrealized loss of $0.3 million and is recorded in other comprehensive loss.

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 initially available to Avinger, we funded an initial $20.0 million, net of fees, at the close of the transaction. The additional $20.0 million in the form of a second tranche is no longer available to Avinger. Outstanding borrowings under the initial loan bear interest at a stated rate of 12% 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 loan. The loan 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 note receivable at any time. If Avinger repays the note 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. On May 27, 2014, the Company funded Durata an additional $15 million (tranche two) as a result of Durata's marketing approval of dalbavancin in the United States, which occurred on May 23, 2014, and was the milestone needed to receive the tranche two funding. 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 bore 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 decreased 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.

kaléo Note Purchase Agreement

On April 1, 2014, PDL entered into a note purchase agreement with Accel 300, a wholly-owned subsidiary of kaléo, pursuant to which the Company acquired $150 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.

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.

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

7. Accrued Liabilities

	June 30, 2014	December 31, 2013
(In thousands)		
Compensation	$ 1,829	$ 768
Interest	6,128	2,925
Deferred revenue	553	—
Foreign currency hedge	4,199	7,355
Dividend payable	48,315	59
Legal	400	324
Other	511	426
Total	$ 61,935	$ 11,857

8. 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 the 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 Avastin, Herceptin, Xolair, Perjeta and Kadcyla occurring on or before December 31, 2015, 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. 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. 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.-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.

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 June 30, 2014, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $84.6 million. In April 2010, Abbot acquired Facet and later renamed the entity AbbVie Biotherapeutics, Inc. If AbbVie Biotherapeutics, Inc.were to default, we could also be responsible for lease related costs including utilities, property taxes and common area maintenance, which may be as much as the actual lease payments.

We have recorded a liability of $10.7 million on our Condensed Consolidated Balance Sheets as of June 30, 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.

9. Convertible Notes and Term Loans

		Principal Balance Outstanding	Carrying Value	
		June 30,	June 30,	December 31,
Description	**Maturity Date**	**2014**	**2014**	**2013**
(In thousands)				
Convertible Notes				
Series 2012 Notes	February 15, 2015	$ 48,311	$ 47,160	$ 172,630
May 2015 Notes	May 1, 2015	$ 155,250	150,797	148,253
February 2018 Notes	February 1, 2018	$ 300,000	272,824	—
Term loan	October 28, 2014	$ 37,500	37,364	74,397
Total			$ 508,145	$ 395,280

As of June 30, 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 2015 Notes, a total of approximately 20.3 million shares of its common stock with a fair value of approximately $157.6 million and made an aggregate cash payment of approximately $34.2 million pursuant to the exchange and purchase agreements. Of the $34.2 million cash payment, $2.5 million is attributable to an inducement fee, $1.8 million is attributable to interest accrued through the date of settlement and $29.9 million is attributable to the repurchase of the Series 2012 Notes. It was determined that the exchange and purchase agreement represented an extinguishment of the related notes. As a result, a loss on extinguishment of $6.1 million was recorded. The $6.1 million loss on extinguishment included the derecognition of the original issuance discount of $5.8 million and a $0.3 million charge resulting from the difference of the face value of the notes and the fair value of the notes. Immediately following the exchange, $48.3 million principal amount of the Series 2012 Notes was outstanding with approximately $2.1 million of remaining original issuance discount 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' equity.

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

(In thousands)	June 30, 2014	December 31, 2013
Principal amount of the Series 2012 Notes	$ 48,311	$ 180,000
Unamortized discount of liability component	(1,151)	(7,370)
Total	$ 47,160	$ 172,630

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2014	2013	2014	2013
Contractual coupon interest	$ 347	$ 1,287	$ 1,108	$ 2,573
Amortization of debt issuance costs	62	287	932	571
Amortization of debt discount	399	1,513	1,379	3,000
Total	$ 808	$ 3,087	$ 3,419	$ 6,144

As of June 30, 2014, our Series 2012 Notes are convertible into 188.812 shares of the Company's common stock per $1,000 of principal amount, or approximately $5.30 per common share, subject to further adjustment upon certain events including dividend payments. As of June 30, 2014, the remaining discount amortization period was 0.6 years.

Our common stock 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 were convertible at the option of the holder during the quarter ended June 30, 2014. Our common stock price exceeded the conversion threshold price of $6.89 per common share for at least 20 days during the 30 consecutive trading days ended June 30, 2014; accordingly, the Series 2012 Notes are convertible at the option of the holder during the quarter ending September 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 June 30, 2014. At June 30, 2014, the if-converted value of our Series 2012 Notes exceeded their principal amount by approximately $40.0 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 June 30, 2014, the remaining discount amortization period is 0.8 years.

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

(In thousands)	**June 30, 2014**	**December 31, 2013**
Principal amount of the May 2015 Notes	$ 155,250	$ 155,250
Unamortized discount of liability component	(4,453)	(6,997)
Total	$ 150,797	$ 148,253

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(In thousands)	**2014**	**2013**	**2014**	**2013**
Contractual coupon interest	$ 1,456	$ 1,455	$ 2,911	$ 2,911
Amortization of debt issuance costs	317	307	632	611
Amortization of debt discount	1,283	1,194	2,544	2,366
Total	$ 3,056	$ 2,956	$ 6,087	$ 5,888

As of June 30, 2014, our May 2015 Notes are convertible into 165.4367 shares of the Company’s common stock per $1,000 of principal amount, or approximately $6.04 per common share, subject to further adjustment upon certain events including dividend payments.

Our common stock exceeded the conversion threshold price of $7.99 for at least 20 days during the 30 consecutive trading days ended March 31, 2014; accordingly, the May 2015 Notes were convertible at the option of the holder during the quarter ended June 30, 2014. Our common stock price exceeded the conversion threshold price of $7.86 per common share for at least 20 days during the 30 consecutive trading days ended June 30, 2014; accordingly, the May 2015 Notes are convertible at the option of the holder during the quarter ending September 30, 2014. At June 30, 2014, the if-converted value of our May 2015 exceeded their principal amount by approximately $93.4 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 25.7 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 $6.04 and $7.11, subject to further adjustment upon certain events including dividend payments, for the purchased call options and warrants, respectively.

If the share price is above $6.04, but below $7.11, 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 $7.11, 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 $7.11. For example, a 10% increase in the share price above $7.11 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 June 30, 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 June 30, 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 June 30, 2014, the remaining discount amortization period is 3.6 years.

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

(In thousands)	**June 30, 2014**
Principal amount of the February 2018 Notes	$ 300,000
Unamortized discount of liability component	(27,176)
Total	$ 272,824

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(In thousands)	**2014**	**2013**	**2014**	**2013**
Contractual coupon interest	$ 3,062	$ —	$ 4,633	$ —
Amortization of debt issuance costs	600	—	822	—
Amortization of debt discount	1,879	—	2,550	—
Total	$ 5,541	$ —	$ 8,005	$ —

As of June 30, 2014, our February 2018 Notes are not convertible. At June 30, 2014, the if-converted value of our February 2018 Notes exceeded the principal amount by approximately $16.8 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 price is subject to further adjustment in the event that future quarterly dividends exceed $0.15 per share.

The purchased call options and warrants are considered indexed to PDL stock, require net-share settlement, and met all criteria for equity classification at inception and at June 30, 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 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 June 30, 2014, the interest rate was 2.22%. Interest and the remaining principal payments associated with the Term Loan are due on the interest payment date of July 31, 2014, with the remaining outstanding balance due on October 28, 2014. The principal balance outstanding as of June 30, 2014, is $37.5 million.

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.

10. Other Long-Term Liabilities

	June 30, 2014	December 31, 2013
(In thousands)		
Accrued lease liability	$ 10,700	$ 10,700
Long term incentive accrual	795	—
Uncertain tax positions	16,607	10,826
Long-term deferred tax liabilities	10,404	—
Foreign currency hedge	—	1,516
Total	$ 38,506	$ 23,042

11. 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

The following table summarizes the Company's stock option and restricted stock award activity during the six months ended June 30, 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	(296)	—		296	$ 8.32
Shares released	—	—		(38)	$ 8.37
Forfeited or canceled	105	(105)	$ 22.60	—	
Plan shares expired	(105)	—		—	
Balance at June 30, 2014	4,182	67	$ 7.04	372	$ 8.05

12. 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 June 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	188.812	$ 5.30	June 3, 2014
May 2015 Notes	165.4367	$ 6.04	June 3, 2014

13. Income Taxes

For the three and six months ended June 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 six months ended June 30, 2014, by $5.8 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, 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.

14. Accumulated Other Comprehensive Income (Loss)

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

The balance of accumulated other comprehensive income (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 six months ended June 30, 2014	(1,296)	3,086	1,790
Ending Balance at June 30, 2014	$ (167)	$ (2,931)	$ (3,098)

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 manages a portfolio of patents and royalty assets, consisting primarily of its Queen et al. 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 invested approximately $715 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 the 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 Avastin, Herceptin, Xolair, Perjeta and Kadcyla occurring on or before December 31, 2015, 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. 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. 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.-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 June 12, 2014, we paid the regular quarterly dividend to our stockholders totaling $24.0 million using earnings generated in the three months ended June 30, 2014.

kaléo Note Purchase Agreement

On April 1, 2014, PDL entered into a note purchase agreement with Accel 300, a wholly-owned subsidiary of kaléo, pursuant to which the Company acquired $150 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), and by a pledge of kaléo's equity ownership in Accel 300.

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 royalties of Auvi-Q and EVZIO 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.

Durata Credit Agreement

On May 27, 2014, PDL funded Durata with an additional $15 million loan (tranche two) as a result of Durata's marketing approval of dalbavancin in the United States, which occurred on May 23, 2014, and was the milestone needed to receive the tranche two funding. Until the occurrence of the tranche two milestone, outstanding borrowings under tranche one bore 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 decreased to 12.75%.

VB Royalty Agreement

On June 26, 2014, PDL entered into the VB Royalty Agreement, whereby VB conveyed to the Company the right to receive royalties payable on sales of a PMA-approved spinal implant in exchange for a $15.5 million cash payment, less fees.

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

The fair value of the royalty right at June 30, 2014, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a nine year period. The discount rate utilized was approximately 17.5%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $1.4 million or increase by $1.7 million, respectively. A third-party expert was engaged to assist management with the development of its estimate of the expected future cash flows. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions effecting fair market value will be performed in each reporting period.

As of June 30, 2014, the carrying value of the asset acquired as reported in our consolidated balance sheets was $15.5 million. As of June 30, 2014, the maximum loss exposure was $15.5 million.

Wellstat Diagnostics Note Receivable and Credit Agreement

On August 5, 2014, the Company received notice that the short term funding being provided pursuant to the agreement with the another lender entered into during June 2014, was being terminated. Wellstat Diagnostics remained in default because it was still unable to pay its debts as they became due. Accordingly, the Company delivered a notice of default to Wellstat Diagnostics, due to, inter alia, its on-going failure to pay its debts as they become due and Wellstat Diagnostics' failure to comply with certain covenants by the deadlines to which the parties had agreed (the "Borrower Notice"). The Borrower Notice accelerates all obligations under the amended and restated credit agreement and demands immediate payment in full in an amount equal to $53,939,820, (which amount, in accordance with the terms of the amended and restated credit agreement, includes an amount that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company), plus accruing fees, costs and interest, and demands that Wellstat Diagnostics protect and preserve all collateral securing its obligations. On August 7, 2014, the Company delivered a notice to each of the guarantors of Wellstat Diagnostics' obligations to the Company under the credit agreement (the "Guarantor Notice"). The Guarantor Notice includes a demand that the guarantors remit payment to the Company in the amount of the outstanding obligations. The guarantors include certain affiliates and related companies of Wellstat Diagnostics, as well as Wellstat Diagnostics' shareholders. The Company is evaluating the remedies available to it at this time.

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 '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 '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 Avastin, Herceptin, Lucentis, Xolair and Tysabri 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 $115.1 million and $143.6 million net rebates and foreign exchange hedge adjustments for the three months ended June 30, 2014 and 2013, respectively, and $231.1 million and $235.5 million for the six months ended June 30, 2014, and 2013, respectively.

Licensing Agreements for Marketed Products

In the six months ended June 30, 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 Avastin, Herceptin, Xolair, Perjeta and Kadcyla occurring on or before December 31, 2015, 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. 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. 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.-based 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 FDA 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 European Medicines Agency 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 began receiving royalties in the first quarter of 2014 for the sales that occurred in the fourth quarter of 2013.

On July 29, 2014, Roche announced EU approval of Gazyva for the first line treatment of CLL with chlorambucil.

On March 6, 2014, Novartis reported that the EU had approved Xolair as an add-on therapy for chronic spontaneous idiopathic urticaria. On March 21, 2014, Genentech/Roche announced that the FDA had approved Xolair for chronic idiopathic urticaria. PDL expects to begin to receive royalties on this new indication in the third quarter of 2014 for the sales that occurred in the second quarter of 2014.

On August 6, 2014, Roche reported EU approval of Avastin for the treatment of ovarian cancer that is resistant to platinum-based chemotherapy.

On August 14, 2014, Genentech announced US approval of Avastin for the treatment of persistent, recurrent or metastatic cervical cancer in combination with chemotherapy.

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.

On October 21, 2013, Genentech/Roche announced approval of the subcutaneous formulation of Actemra in the U.S. On April 28, 2014, Roche announced approval of the subcutaneous formulation of Actemra in the EU.

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 the Depomed Royalty Agreement, 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.

VB

On June 26, 2014, PDL entered into the VB Royalty Agreement, whereby VB conveyed to the Company the right to receive royalties payable on sales of a PMA-approved spinal implant in exchange for a $15.5 million cash payment, less fees.

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

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

Except as set forth below, during the six months ended June 30, 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.

Royalty Rights - At Fair Value

We account for our royalty rights - at fair value at their estimated fair value. The estimated fair value of the royalty rights - at fair value is determined by using a discounted cash flow analysis related to the expected future cash flows to be received.

Generally these assets are classified as a Level 3 assets, as our valuation estimates utilize significant unobservable inputs, including estimates as to the probability and timing of future sales of the related products and discount rates applied to each cash flow in the asset. Related transaction fees and costs are expenses as incurred.

Realized and unrealized gains and losses from investments in royalty rights are presented together on the statement of income as a single component of revenue under the caption, “Royalty rights - change in fair value.”

We receive royalty payments based upon net sales of the covered products. Generally, under these agreements we receive royalty reports and payments approximately one month in arrears. We recognize royalty revenues when we can reliably estimate such amounts and collectability is reasonably assured.

Operating Results

Three and six months ended June 30, 2014, compared to three and six months ended June 30, 2013

Revenues

	Three Months Ended June 30,		Change from Prior	Six Months Ended June 30,		Change from Prior
	2014	2013	Year %	2014	2013	Year %
(Dollars in thousands)						
Revenues						
Royalties from Queen et al. patents	$ 115,066	$ 143,617	(20)%	$ 231,092	$ 235,464	(2)%
Royalty rights - change in fair value	34,498	—	N/M	46,205	—	N/M
Interest revenue	12,613	4,903	157%	21,684	8,651	151%
License and other	575	—	N/M	575	—	N/M
Total revenues	$ 162,752	$ 148,520	10%	$ 299,556	$ 244,115	23%

N/M = Not meaningful

Total revenues were $162.8 million and $148.5 million for the three months ended June 30, 2014, and 2013, respectively, and $299.6 million and $244.1 million for the six months ended June 30, 2014 and 2013. During the three months ended June 30, 2014, and 2013, our revenues consisted primarily of royalties and maintenance fees earned on sales of products under license agreements associated with our Queen et al. patents and interest revenue associated with our notes receivable debt financings to late stage healthcare companies, and during the three months ended June 30, 2014, royalty revenues also included $34.5 million in royalties associated with the royalties from U.S. sales of Glumetza and Janumet XR and change in fair value from our Depomed Royalty Agreement. Royalty revenue from Queen et al. patents 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.

Total revenues increased 10% for the three months ended June 30, 2014, when compared to the same period in 2013, and increased 23% for the six months ended June 30, 2014, when compared to the same period in 2013. The growth is primarily driven by the addition of the royalty revenue and change in fair value from PDL's purchase of Depomed's diabetes-related royalties, increased royalties in the first two quarters of 2014 related to sales of Xolair, Kadcyla, Perjeta and Actemra, along with a higher fixed royalty rate in 2014 over the blended fixed and tiered 2013 rate, a first quarter of 2014 $5.0 million retroactive payment from Genentech related to our Settlement Agreement, and an increase in interest revenue from new debt financings to late stage healthcare companies as part of our strategy to acquire income generating assets.

While the Queen et al. licensed products' sales increased quarter over quarter, the decrease in royalty revenues is a result of the current fixed royalty rate of 2.125% on net sales of Avastin, Herceptin, Lucentis, Xolair, Perjeta and Kadcyla ("Genentech Products") in 2014 compared to the combination of tiered and fixed royalty rates applicable in the second quarter of 2013. Previously, Genentech Products that were made or sold in the United States were subject to tiered royalty rates dependent on aggregate net sales and Genentech Products both made and sold outside of the United States were subject to a fixed royalty rate of 3%.

The second quarter 2014 royalty payment received from Genentech was for worldwide net sales in the first quarter 2014. PDL's second quarter royalty revenue was historically the highest amount of any quarter because the applicable tiered royalty rate was 3%. However, as aggregate net sales increased with each subsequent quarter, the tiered royalty rate declined, dropping to 1% in the third, fourth and first quarters. As a result, the blended royalty rate for all of 2013 for Genentech Products was 1.9%. A settlement with Genentech resulted in a single fixed royalty rate of 2.125%, which is greater than the annual blended royalty rate of 1.9% in 2013 and which will result in more uniform royalty revenue on a quarter-to-quarter basis in the current fiscal year. Thus, this decrease in royalties between the second quarters of 2013 and 2014 is solely a function of the transition to the new fixed royalty rate, which new royalty rate is anticipated to result in greater royalties to PDL when measured on an annual basis.

The following table summarizes the percentage of our total revenues earned from our licensees' net product sales that individually accounted for 10% or more of our total revenues for the three and six months ended June 30, 2014 and 2013:

		Three Months Ended June 30,		Six Months Ended June 30,	
Licensee	**Product Name**	**2014**	**2013**	**2014**	**2013**
Genentech	*Avastin*	24%	31%	27%	33%
	Herceptin	24%	32%	25%	32%
	Lucentis	10%	20%	11%	17%
Biogen Idec[1]	*Tysabri*	8%	9%	9%	11%
Depomed	*Glumetza*	16%	0%	13%	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 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 and six months ended June 30, 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 June 30, 2014, and 2013, as a result of our Euro forward contracts, we recognized ($3.1) million and $0.4 million as additions/(reductions) in royalty revenues from our Euro contracts, respectively, and for the six months ended June 30, 2014, and 2013, we recognized ($4.2) million and ($1.5) million as additions/(reductions) in royalty revenues from our Euro contracts, respectively.

Operating Expenses

	Three Months Ended June 30,		Change from Prior	Six Months Ended June 30,		Change from Prior
	2014	2013	Year %	2014	2013	Year %
(In thousands)						
General and administrative	$ 6,920	$ 6,783	2%	$ 11,502	$ 13,969	(18)%
Percentage of total revenues	4%	5%		4%	6%	

The increase in operating expenses for the three months ended June 30, 2014, as compared to the same period in 2013, was a result of an increase in general and administrative expenses of $1.0 million for professional services mostly related to the acquisition of other income related assets, $0.9 million for compensation, and $0.3 million for stock compensation, partially offset by a decrease in general and administrative expenses of $2.2 million related to legal expenses mostly related to litigation.

The decrease in operating expenses for the six months ended June 30, 2014, as compared to the same period in 2013, was a result of decrease in general and administrative expenses of $5.4 million related to legal expenses mostly related to litigation, partially offset by an increase in general and administrative expenses of $1.4 million for professional services mostly related to the acquisition of other revenue related assets and $1.2 million for compensation.

Non-operating Expense, Net

Non-operating expense, net, increased, in part, by the first quarter of 2014 loss on extinguishment of debt related to the Series 2012 Note partial extinguishment and the interest expense on the new February 2018 Notes. The increase in interest expense for the six months ended June 30, 2014, over the same period of 2013, consisted primarily of non-cash interest expense as we are required to compute interest expense using the interest rate for similar nonconvertible instruments in accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion.

Income Taxes

Income tax expense for the three months ended June 30, 2014 and 2013, was $54.0 million and $42.0 million, respectively, and for the six months ended June 30, 2014, and 2013, was $96.7 million and $71.0 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 six months ended June 30, 2014, by $5.8 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, which will result in a reduction to income tax expense.

Net Income per Share

Net income per share for the three and six months ended June 30, 2014, and 2013, is presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net income per share - basic	$ 0.57	$ 0.67	$ 1.06	$ 1.05
Net income per share - diluted	$ 0.52	$ 0.62	$ 0.94	$ 0.96

The decrease in diluted net income per diluted share is primarily due to the increase in outstanding shares, partially offset by the increased 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 $217.8 million and $99.5 million at June 30, 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 royalty rights of $49.5 million, proceeds from the issuance of warrants of $11.4 million, and cash generated by operating activities of $146.2 million, offset in part by cash advanced on notes receivable of $215.0 million, purchase of call options for $31.0 million, repurchase of a portion of the Series 2012 Notes for $29.9 million, payment of dividends of $48.1 million, repayment of a portion of the Term Loan of $37.5 million, purchase of royalty rights - at fair value of $15.5 million, and payment of debt issuance costs related to the February 2018 Note issuance of $9.8 million. We believe that cash from future 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 Wellstat Diagnostics amended the note receivable, providing a senior secured note receivable of $10.0 million, bearing interest at 12% per annum, to replace the original $7.5 million note. 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 six months ended June 30, 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.

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

On August 5, 2014, the Company received notice that the short term funding being provided pursuant to the agreement with the other lender entered into during June 2014, was being terminated. Wellstat Diagnostics remained in default because it was still unable to pay its debts as they became due. Accordingly, the Company delivered a notice of default to Wellstat Diagnostics, due to, inter alia, its on-going failure to pay its debts as they become due and Wellstat Diagnostics’ failure to comply with certain covenants included in the First Amendment to Amended and Restated Credit Agreement by the deadlines to which the parties had agreed (the Borrower Notice). The Borrower Notice accelerates all obligations under the amended and restated credit agreement and demands immediate payment in full in an amount equal to $53,939,820, (which amount, in accordance with the terms of the amended and restated credit agreement, includes an amount that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company), plus accruing fees, costs and interest, and demands that Wellstat Diagnostics protect and preserve all collateral securing its obligations. On August 7, 2014, the Company delivered a notice to each of the guarantors of Wellstat Diagnostics’ obligations to the Company under the credit agreement (the Guarantor Notice). The Guarantor Notice includes a demand that the guarantors remit payment to the Company in the amount of the outstanding obligations. The guarantors include certain affiliates and related companies of Wellstat Diagnostics, as well as Wellstat Diagnostics’ shareholders. The Company is evaluating the remedies available to it at this time.

The amended and restated 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 June 30, 2014, and December 31, 2013, the carrying value of the note was included in non-current assets.

As of June 30, 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 June 30, 2014, the carrying value of all amounts advanced to Wellstat Diagnostics including accrued interest through March 31, 2014, was $50.2 million, which was recorded in notes receivable. As of June 30, 2014, the maximum loss exposure was $50.2 million. As a result of the event of default, we ceased to accrued interest for the current period presented.

We believe that Wellstat Diagnostics does not currently have sufficient capital to execute its business plan over the long term. Wellstat Diagnostics recently raised $2.5 million and has informed the Company that Wellstat Diagnostics is continuing to consider other sources of financing and strategic alternatives.

The estimated fair value of the collateral is approximately $50.2 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 has not made the payment due on March 5, 2014. The Company completed an impairment analysis as of June 30, 2014. 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 June 30, 2014.

AxoGen Note Receivable and AxoGen Royalty Agreement

In October 2012, PDL entered into the AxoGen Royalty Agreement with AxoGen pursuant to which the Company will receive specified royalties on AxoGen’s net revenues (as defined in the AxoGen Royalty Agreement) generated by the sale, distribution or other use of AxoGen’s products. The AxoGen Royalty Agreement 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 $2.5 million beginning in the fourth quarter of 2014, and the right to require AxoGen to repurchase the AxoGen 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 AxoGen 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 AxoGen 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 AxoGen 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 $1.2 million and $1.1 million as of June 30, 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 gains of approximately $0.1 million and $0.4 million related to the change in the estimated fair value of embedded derivative during the three month periods ended June 30, 2014 and 2013, respectively. The Company recognized approximately $0.1 million and $0.4 million related to the change in the estimated fair value of the embedded derivative during the six months ended June 30, 2014 and 2013, respectively.

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

During the term of the AxoGen 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 June 30, 2014, the shares were valued at $3.2 million, which result in an unrealized loss of $0.3 million which is recorded in other comprehensive loss.

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 initially available to Avinger, we funded an initial $20.0 million, net of fees, at the close of the transaction. The additional $20.0 million in the form of a second tranche is no longer available to Avinger. Outstanding borrowings under the initial loan bear interest at a stated rate of 12% 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. On May 27, 2014, the Company funded Durata an additional $15 million (tranche two) as a result of Durata's marketing approval of dalbavancin in the United States, which occurred on May 23, 2014, and was the milestone needed to receive the tranche two funding. 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 bore 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 decreased 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 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 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.

kaléo Note Purchase Agreement

On April 1, 2014, PDL entered into a note purchase agreement with Accel 300, a wholly-owned subsidiary of kaléo, pursuant to which the Company acquired $150 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.

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.

Royalty Rights - At Fair Value

Depomed Royalty Agreement

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

The rights acquired include Depomed's royalty and milestone payments accruing from and after October 1, 2013: (a) from Santarus 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 Depomed 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 Depomed Royalty Agreement terminates on the third anniversary following the date upon which the later of the following occurs: (a) October 25, 2021, or (b) at such time as no royalty payments remain payable under any license agreement and each of the license agreements has expired by its terms.

As of June 30, 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.

The asset acquired represents a single unit of accounting. The fair value of the 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 asset is classified as a Level 3 assets with the fair value hierarchy, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future commercialization for products not yet approved by the FDA or other regulatory agencies. The discounted cash flow was based upon expected royalties from sales of licensed products over a nine year period. The discount rates utilized ranged from approximately 21% to 25%. Significant judgment is required in selecting appropriate discount rates. Should these discount rates increase or decrease by 5%, the fair value of the asset could decrease by $22.3 million or increase by $28.2 million, respectively. A third-party expert was engaged to help management develop its estimate of the expected future cash flows. The fair value of the asset is subject to variation should those cash flows vary

significantly from those estimates. An evaluation of those estimates, discount rates utilized and general market conditions effecting fair market value will be performed in each reporting period.

VB Royalty Agreement

On June 26, 2014, PDL entered into the VB Royalty Agreement, whereby VB conveyed to the Company the right to receive royalties payable on sales of a PMA-approved spinal implant in exchange for a $15.5 million cash payment, less fees.

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

The fair value of the royalty right at June 30, 2014, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a nine year period. The discount rate utilized was approximately 17.5%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $1.4 million or increase by $1.7 million, respectively. A third-party expert was engaged to assist management with the development of its estimate of the expected future cash flows. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions effecting fair market value will be performed in each reporting period.

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 2015 Notes, a total of approximately 20.3 million shares of its common stock with a fair value of approximately $157.6 million and made an aggregate cash payment of approximately $34.2 million pursuant to the exchange and purchase agreements. Of the $34.2 million cash payment, $2.5 million is attributable to an inducement fee, $1.8 million is attributable to interest accrued through the date of settlement and $29.9 million is attributable to the repurchase of the Series 2012 Notes. It was determined that the exchange and purchase agreement represented an extinguishment of the related notes. As a result, a loss on extinguishment of $6.1 million was recorded. The $6.1 million loss on extinguishment included the derecognition of the original issuance discount of $5.8 million and a $0.3 million charge resulting from the difference of the face value of the notes and the fair value of the notes. Immediately following the exchange, $48.3 million principal amount of the Series 2012 Notes was outstanding with approximately $2.1 million of remaining original issuance discount 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 August 18, 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 June 30, 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 June 30, 2014, the remaining discount amortization period is 0.8 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 25.7 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 $6.04 and $7.11, subject to further adjustment upon certain events including dividend payments, for the purchased call options and warrants, respectively.

If the share price is above $6.04, but below $7.11, 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 $7.11, 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 $7.11. For example, a 10% increase in the share price above $7.11 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 June 30, 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 June 30, 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 June 30, 2014, the remaining discount amortization period is 3.6 years.

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 is subject to further adjustment in the event that future quarterly dividends exceed $0.15 per share.

The purchased call options and warrants are considered indexed to PDL stock, require net-share settlement and met all criteria for equity classification at inception and at June 30, 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, were 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 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 June 30, 2014, the interest rate was 2.22%. Interest and the remaining principal payments associated with the Term Loan are due on the interest payment date of July 31 of 2014, with the remaining outstanding balance due on October 28, 2014. The principal balance outstanding as of June 30, 2014 is $37.5 million.

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 June 30, 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 June 30, 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 $541.1 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 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. On May 27, 2014, the Company funded Durata an additional $15 million (tranche two) as a result of Durata's marketing approval of dalbavancin in the United States, which occurred on May 23, 2014 and was the milestone needed to receive the tranche two funding. 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 June 30, 2014, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $84.6 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 June 30, 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 June 30, 2014, and December 31, 2013:

Euro Forward Contracts			**June 30, 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	$ (1,207)
Euro	1.270	Sell Euro	27,940	(2,126)	44,450	(3,760)
Euro	1.281	Sell Euro	30,732	(2,073)	36,814	(2,785)
Euro	1.300	Sell Euro	—	—	19,500	(1,119)
Total			$ 58,672	$ (4,199)	$ 111,614	$ (8,871)

Interest Rate Risk

Our investment portfolio was approximately $158.4 million at June 30, 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 $679.4 million at June 30, 2014, and $490.0 million at December 31, 2013, based on available pricing information. At June 30, 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 June 30, 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 June 30, 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 June 30, 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

In the first quarter of 2014, and as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the SEC on March 3, 2014, and our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014 filed with the SEC on May 12, 2014, we settled our outstanding litigation. The Company is not currently a named party to any material legal proceedings. 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 six months ended June 30, 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 for the year ended December 31, 2013, 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

10.1#	Note Purchase Agreement between the Company and Accel 300, LLC, dated April 1, 2014
10.2#*	2014/18 Long-Term Incentive Plan
10.3#	First Amendment to Lease Agreement between 932936, LLC and the Company, effective May 27, 2014
10.4#	First Amendment to Amended and Restated Credit Agreement between the Company and Wellstat Diagnostics, LLC, dated June 19, 2014†
10.5#	Amendment No. 1 to Credit Agreement among the Company, as borrower, the lenders from time to time party thereto and Royal Bank of Canada, as administrative agent, dated as of October 28, 2013
10.6	Amendment No. 2 to Credit Agreement among the Company, as borrower, the lenders from time to time party thereto and Royal Bank of Canada, as administrative agent, dated as of July 2, 2014 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed July 3, 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: August 18, 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)

NOTE PURCHASE AGREEMENT

dated April 1, 2014

between

ACCEL 300, LLC

and

THE PURCHASER NAMED HEREIN

NOTES DUE JUNE 1, 2029

Table of Contents

Page

Table of Contents

Page

Table of Contents

Table of Contents

NOTE PURCHASE AGREEMENT

This NOTE PURCHASE AGREEMENT (this "Note Purchase Agreement"), dated as of April 1, 2014, is by and between Accel 300, LLC, a Virginia limited liability company (the "Issuer") and PDL BioPharma, Inc. a Delaware corporation (the "Purchaser").

Article I
INTRODUCTORY

Section 1.1 Introductory. The Issuer proposes, subject to the terms and conditions stated herein, to issue and sell to the purchaser the Notes (as defined below) pursuant to the Indenture. The Notes will be offered and sold to the Purchaser in a transaction exempt from the registration requirements of the Securities Act. The Issuer will use the proceeds from the offering of the Notes to fund the Cash Purchase Price to obtain the Purchased Assets, to pay the expenses associated with the issuance of the Notes and to fund the Interest Reserve Account in the amount of $20,000,000.

ARTICLE II
RULES OF CONSTRUCTION AND DEFINED TERMS

Section 2.1 Rules of Construction and Defined Terms. The rules of construction set forth in Annex A shall apply to this Note Purchase Agreement and are hereby incorporated by reference into this Note Purchase Agreement as if set forth fully in this Note Purchase Agreement. Capitalized terms used but not otherwise defined in this Note Purchase Agreement shall have the respective meanings given to such terms in Annex A, which is hereby incorporated by reference into this Note Purchase Agreement as if set forth fully in this Note Purchase Agreement. Not all terms defined in Annex A are used in this Note Purchase Agreement.

ARTICLE III
SALE AND PURCHASE OF NOTES; CLOSING

Section 3.1 Sale and Purchase of Notes.

(a) The Issuer has authorized the issue and sale under the Indenture of Notes due June 1, 2029 and is issuing a note to the Purchaser in the original aggregate principal amount of $150,000,000 (the "Notes"). The Notes shall be in registered form as Definitive Notes in substantially the form set out in Exhibit A to the Indenture.

(b) On the basis of the representations and warranties contained in, and subject to the terms of, this Note Purchase Agreement, the Issuer hereby issues and sells the Notes to the Purchaser and the Purchaser hereby purchases the Notes from the Issuer. The Purchaser is purchasing the Notes at a purchase price equal to 100% of the principal amount thereof, or $150,000,000 (the "Purchase Price"). The Notes will bear interest from the Closing Date.

Section 3.2 Closing.

(a) Logistics. The closing of the purchase and sale hereunder (the "Closing") is taking place at the offices of Cooley LLP, 4401 Eastgate Mall, San Diego, California at 10:00 a.m., Pacific time, on the date hereof. The date of the Closing shall be the date on which all of the conditions set forth in Section 6.1 have been satisfied, and shall be referred to herein as the "Closing Date."

(b) Delivery of the Notes and Purchase Price. The Issuer hereby delivers to the Purchaser the Notes dated as of the date hereof and registered in the Purchaser's name (or in the name of its nominee), against delivery to the Issuer or its order of immediately available funds in the amount of the Purchase Price therefor by wire transfer of immediately available funds using wire transfer instructions previously provided by the Issuer to the Purchaser.

ARTICLE IV
REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF PURCHASER

The Purchaser agrees and acknowledges that the Issuer and the Parent and their respective counsel may rely upon the accuracy and performance of the representations, warranties and agreements of the Purchaser contained in this Article IV.

Section 4.1 Organization. The Purchaser is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization.

Section 4.2 Authority; Enforceability. This Note Purchase Agreement has been duly authorized, executed and delivered by the Purchaser and constitutes the valid, legally binding and enforceable obligation of the Purchaser, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general principles of equity.

Section 4.3 Source of Funds. The Purchaser represents, warrants and covenants that either:

(a) no Plan Assets have been used to purchase the Notes; or

(b) to the extent that Plan Assets are used to purchase the Notes, one or more statutory or administrative exemptions applies such that the use of such Plan Assets to purchase and hold such Notes will not constitute a non-exempt prohibited transaction within the meaning of Section 406 of ERISA or Section 4975 of the Code.

Section 4.4 Purchase for Investment and Restrictions on Resales. The Purchaser:

(a) acknowledges that (i) the Notes have not been and will not be registered under the Securities Act or any state securities laws and may be offered or resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is

available, (ii) the Issuer is under no obligation to register the Notes on behalf of the Purchaser or to assist the Purchaser in complying with any exemption from registration under the Securities Act, and (iii) the Notes may not be offered, sold, pledged or otherwise transferred except in compliance with the Indenture, the provisions therein regarding transfers of the Notes and the legend regarding transfers on the Notes;

(b) agrees that, if it should resell or otherwise transfer the Notes, in whole or in part, it will do so only pursuant to an exemption from, or in a transaction not subject to, registration under the Securities Act, applicable state securities laws, the respective rules and regulations promulgated thereunder and the provisions of this Note Purchase Agreement, and will do so only in a transaction that complies with the Indenture, the provisions therein regarding transfers of the Notes and the legend regarding transfers of the Notes, and it will give to each Person to whom it transfers the Notes, in whole or in part, notice of the restrictions on transfer of the Notes;

(c) agrees that it will (i) cause any Person to whom it intends to transfer the Notes to execute and deliver a resale confidentiality agreement substantially in the form attached to the Indenture, (ii) provide a copy of such agreement to the Issuer, and (iii) not make available any confidential information about the Issuer, the Parent, the Counterparty, the Licensed Products or NAI, to such Person until such resale confidentiality agreement is so executed and delivered and only in accordance with the such resale confidentiality agreement, and the Purchaser otherwise agrees to comply with the procedures relating to the execution and delivery of such resale confidentiality agreement set forth in the Indenture;

(d) represents that it is purchasing the Notes for investment purposes and not with a view to resale or distribution thereof in contravention of the requirements of the Securities Act; and

(e) acknowledges that there is no active trading market for the Notes and no such market may ever exist.

Section 4.5 Purchaser Status. The Purchaser represents and warrants to the Issuer that (a) it is either (i) a QIB or (ii) an "Institutional Accredited Investor", meaning an "Accredited Investor" as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act and (b) it is purchasing the Notes for its own account. The Purchaser acknowledges the sale of the Notes to it is being made pursuant to one or more exemptions under the Securities Act. The Purchaser understands and agrees that the Issuer is selling the Notes to the Purchaser in reliance upon the accuracy of the foregoing two sentences.

Section 4.6 Due Diligence. The Purchaser acknowledges that (i) it has made, either alone or together with its advisors, such independent investigation of the Issuer, the Parent, the Counterparty and their respective managements, assets and related matters, and such separate and independent investigation of the Purchased Assets and related matters, as the Purchaser deems to be, or such advisors have advised to be, necessary or advisable in connection with the purchase of the Notes pursuant to the transactions contemplated by this Note Purchase

Agreement, (ii) it and its advisors have received all information and data that it and such advisors believe to be necessary in order to reach an informed decision as to the advisability of the purchase of the Notes pursuant to the transactions contemplated by this Note Purchase Agreement, (iii) it understands the nature of the potential risks and potential rewards of the purchase of the Notes, (iv) it is a sophisticated investor with investment experience and has the ability to bear complete loss of its investment, including any such loss resulting from any default on the Notes, any termination of the License Agreement or termination of the Auvi-Q Royalty Payments under the License Agreement, any failure of NAI to be commercialized, any failure of Auvi-Q and/or NAI to meet any Person's sales projections, or any liquidation or winding up of the Issuer and (v) it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of purchasing the Notes and can bear the economic risks of investing in the Notes for an indefinite period of time. The Purchaser acknowledges that it has obtained its own attorneys, business advisors and tax advisors as to legal, business and tax advice (or has decided not to obtain such advice) and has not relied on the Issuer or the Parent for such advice. Except for the representations, warranties and covenants expressly made by the Issuer in this Note Purchase Agreement and the other Transaction Documents, the Purchaser is relying on its own investigation and analysis in entering into the transactions contemplated hereby.

Section 4.7 Counterparty. The Purchaser acknowledges and agrees that the Counterparty is not a party to the transactions to which this Note Purchase Agreement relates, the Counterparty has

not participated in the preparation of any document related thereto and the Counterparty does not make any representations or warranties whatsoever with respect to the transactions contemplated by the Transaction Documents, including the issuance of the Notes by the Issuer, the value thereof, the value of the rights transferred by the Parent to the Issuer with respect thereto or the risks associated therewith.

Section 4.8 Confidentiality Agreement. The Purchaser acknowledges and agrees that it shall be bound by the terms and conditions of the Confidentiality Agreement, agrees to execute any documents reasonably requested by the Issuer to evidence such obligation and acknowledges and agrees that such confidentiality agreement remains in effect and will survive the execution and delivery of this Note Purchase Agreement and the closing of the purchase of the Notes pursuant to its terms. In addition, the Purchaser acknowledges and agrees that it shall not communicate with the Counterparty (including by sending any Notices to the Counterparty or entering into any discussions, negotiations or agreements with the Counterparty) with respect to any matters arising under or relating to the License Agreement or any of the Transaction Documents or any of the transactions contemplated thereunder.

Section 4.9 Tax Treatment. The Purchaser acknowledges that the Issuer and the Purchaser intend to treat the Notes as debt for all income tax purposes.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF THE ISSUER

The Issuer hereby represents and warrants as of the date of this Note Purchase Agreement as follows:

Section 5.1 Organization. The Issuer is duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia.

Section 5.2 Authority; Enforceability. This Note Purchase Agreement has been duly authorized, executed and delivered by the Issuer and constitutes the valid, legally binding and enforceable obligation of the Issuer, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general principles of equity.

Section 5.3 Securities Laws. Assuming the accuracy of the representations and warranties of the Purchaser in this Note Purchase Agreement, (i) the Indenture is not required to be qualified under the Trust Indenture Act and (ii) no registration under the Securities Act of the Notes is required in connection with the sale of the Notes to the Purchaser as contemplated by this Note Purchase Agreement.

Section 5.4 Governmental Authorizations. Assuming the accuracy of the representations and warranties of the Purchaser in this Note Purchase Agreement, no consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Issuer of this Note Purchase Agreement or the transactions contemplated hereby other than such filings as shall have been made prior to the date hereof and such filings required to be made after the date hereof under applicable federal and state securities laws, such as applicable state blue sky filings, other than the filing of financing statements or other filings to perfect the Lien granted under the Indenture.

Section 5.5 Investment Company Act. Assuming the accuracy of the representations and warranties of the Purchaser in this Note Purchase Agreement and after giving effect to the offering and sale of the Notes and the purchase by the Issuer of the Purchased Assets, the Issuer will not be required to register as an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 5.6 Other Representations and Warranties. Each of the representations and warranties made by the Issuer in Section 5.1 of the Indenture is hereby incorporated herein by reference as if fully set forth herein and given for the benefit of the Purchaser.

ARTICLE VI
CLOSING DELIVERABLES

Section 6.1 Deliveries by the Issuer. On or before the Closing, the Issuer shall deliver the following to Purchaser:

(a) the Transaction Documents, executed by the parties thereto;

(b) the Notes, executed by the Issuer;

(c) a true, correct and complete copy of the License Agreement and all written amendments, if any, thereto through the Closing Date (other than certain schedules to the License Agreement that have been omitted), which shall be in full force and effect;

(d) a copy of the Counterparty Instruction, which shall be certified by a Responsible Officer of the Parent as having been sent to the Counterparty on or prior to the Closing Date;

(e) a favorable opinion, dated as of the Closing Date, of counsel for the Issuer, in form and substance reasonably satisfactory to the Purchaser;

(f) such certificates of resolutions or other action, incumbency certificates with specimen signatures and/or other certificates of the secretary or assistant secretary of the Issuer as the Purchaser may reasonably require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement;

(g) a certificate signed by a Responsible Officer of the Issuer certifying (i) that, as of the Closing Date, no Default or Event of Default has occurred and is continuing, and (ii) the representations and warranties of the Issuer contained in Article V or any other Transaction Document, or which are contained in any certificate furnished in connection with the closing of the transactions contemplated by the Transaction Documents, are true and correct in all material respects on and as of the Closing Date, except to the extent that such representations and warranties refer to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date;

(h) such documents and certifications as the Purchaser may reasonably require to evidence that the Issuer is in good standing in its jurisdiction of formation;

(i) any and all certificates and other instruments evidencing the Issuer Pledged Equity, together with undated stock powers or assignments of such certificates duly executed and signed in blank; and

(j) evidence reasonably satisfactory to the Purchaser that after giving effect to the transactions contemplated by the Transaction Documents, neither Parent nor Issuer shall have any material Indebtedness for borrowed money other than the Notes.

Section 6.2 Deliveries by the Purchaser. On or before the Closing, the Purchaser shall deliver to the Issuer an amount in cash equal to the Purchase Price, by wire transfer of immediately available funds.

Section 6.3 Deliveries by the Parent. On or before the Closing, the Parent shall pay the Transaction Expenses, to such Persons as shall be specified by the Issuer, as shall be due and payable in connection with the issuance of the Notes.

Section 6.4 Filing of Financing Statements. The filings of financing statements under the UCC and other recordings required or reasonably requested to be made to perfect a security interest in the Purchased Assets sold, transferred, conveyed, assigned, contributed and granted on the Closing Date, including those specified in Exhibit B to the Purchase and Sale Agreement and Exhibit D to the Indenture, shall have been duly made.

ARTICLE VII
ADDITIONAL COVENANTS

Section 7.1 Use of Proceeds. The Issuer will use the proceeds of the Notes to (i) fund the Cash Purchase Price to be paid by the Issuer to the Parent on the Closing Date for the Purchased Assets, to be used by the Parent for general corporate purposes, including funding of the development and commercialization of NAI and other prospective pipeline products, repaying amounts outstanding under that certain Loan and Security Agreement dated as of May 18, 2012 between Parent as borrower, and Hercules Technology Growth Capital, Inc. as lender and paying the expenses associated with the issuance of the Notes and (ii) fund the Interest Reserve Account in the amount of $20,000,000.

Section 7.2 Fees and Expenses. Each of the parties hereto agrees to pay its own fees and expenses (including fees and expenses of outside counsel), incurred in connection with the negotiation, preparation, execution, delivery and performance of this Note Purchase Agreement and the Indenture and the other Transaction Documents; provided, however, that the Issuer shall pay all U.S. federal and Virginia stamp, transfer and other similar Taxes, if any, that may be payable in respect of the sale and delivery to the Purchaser of the Notes pursuant to the terms of this Note Purchase Agreement.

ARTICLE VIII
SURVIVAL OF CERTAIN PROVISIONS

Section 8.1 Survival of Certain Provisions. The representations, warranties, covenants and agreements contained in this Note Purchase Agreement shall survive (a) the execution and delivery of this Note Purchase Agreement and the Notes and (b) the purchase or transfer by the Purchaser of the Notes or portion thereof or interest therein. All such provisions are binding upon and may be relied upon by any subsequent holder or beneficial owner of Notes that has executed and delivered a resale confidentiality agreement in compliance with the procedures set forth in the Indenture, regardless of any investigation made at any time by or on behalf of the Purchaser or any other holder of Notes. All statements contained in any certificate or other instrument delivered by or on behalf of any party hereto pursuant to this Note Purchase Agreement shall be deemed to have been relied upon by each other party hereto and shall survive the consummation of the transactions contemplated hereby regardless of any investigation made by or on behalf of any such party. This Note Purchase Agreement and the other Transaction Documents embody

the entire agreement and understanding among the parties hereto and supersede all prior agreements and understandings relating to the subject matter hereof, other than the separate Confidentiality

Agreement entered into between the Purchaser and the Issuer relating to the transactions contemplated hereby.

ARTICLE IX

NOTICES

Section 9.1 Notices. All statements, requests, notices and agreements hereunder shall be in writing and delivered by hand, mail, overnight courier or telefax as follows:

(a) if to the Purchaser, in accordance with Schedule 1; and

(b) if to the Issuer, in accordance with Section 13.5 of the Indenture.

ARTICLE X

SUCCESSORS AND ASSIGNS

Section 10.1 Successors and Assigns. This Note Purchase Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors, permitted assignees and permitted transferees. So long as any of the Notes are Outstanding, the Issuer may not assign any of its rights or obligations hereunder or any interest herein without the prior written consent of the Purchaser.

ARTICLE XI

SEVERABILITY

Section 11.1 Severability. Any provision of this Note Purchase Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

ARTICLE XII

WAIVER OF JURY TRIAL

Section 12.1 WAIVER OF JURY TRIAL. THE PURCHASER AND THE ISSUER HEREBY WAIVE TRIAL BY JURY IN ANY ACTION BROUGHT ON OR WITH RESPECT TO THIS NOTE PURCHASE AGREEMENT.

ARTICLE XIII

GOVERNING LAW; CONSENT TO JURISDICTION

Section 13.1 Governing Law; Consent to Jurisdiction.

(a) THIS NOTE PURCHASE AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL SUBSTANTIVE LAWS OF THE STATE OF NEW YORK WITHOUT REFERENCE TO THE RULES THEREOF RELATING TO CONFLICTS OF LAW OTHER THAN SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS. The parties hereto hereby submit to the non-exclusive jurisdiction of the federal and state courts of competent jurisdiction in the Borough of Manhattan in The City of New York in any suit or proceeding arising out of or relating to this Note Purchase Agreement or the transactions contemplated hereby.

(b) If, for the purpose of obtaining a judgment or order in any court, it is necessary to convert a sum due hereunder to Purchaser from U.S. dollars into another currency, the Issuer has agreed, and Purchaser by holding any Notes will be deemed to have agreed, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which, in accordance with normal banking procedures, Purchaser could purchase U.S. dollars with such other currency in the Borough of Manhattan, The City of New York on the Business Day preceding the day on which final judgment is given.

ARTICLE XIV
COUNTERPARTS

Section 14.1 Counterparts. This Note Purchase Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same Note Purchase Agreement.

ARTICLE XV
TABLE OF CONTENTS AND HEADINGS

Section 15.1 Table of Contents and Headings. The Table of Contents and headings of the Articles and Sections of this Note Purchase Agreement have been inserted for convenience of reference only, are not to be considered a part hereof and shall in no way modify or restrict any of the terms or provisions hereof.

ARTICLE XVI
TAX DISCLOSURE

Section 16.1 Tax Disclosure. Notwithstanding anything expressed or implied to the contrary herein, the Purchaser and its respective employees, representatives and agents may disclose to any and all Persons, without limitation of any kind, the tax treatment and the tax structure of the transactions contemplated by this Note Purchase Agreement and the agreements and instruments referred to herein and all materials of any kind (including opinions or other tax analyses) that are provided to the Purchaser relating to such tax treatment and tax structure;

provided, however, that neither the Purchaser nor any employee, representative or other agent thereof shall disclose any other information that is not relevant to understanding the tax treatment and tax structure of such transactions (including the identity of any party and any information that could lead another to determine the identity of any party) or any other information to the extent that such disclosure could reasonably result in a violation of any federal or state securities law. For these purposes, the tax treatment of the transactions contemplated by this Note Purchase Agreement and the agreements and instruments referred to herein means the purported or claimed U.S. federal or state tax treatment of such transactions. Moreover, the tax structure of the transactions contemplated by this Note Purchase Agreement and the agreements and instruments referred to herein includes any fact that may be relevant to understanding the purported or claimed U.S. federal or state tax treatment of such transactions.

ARTICLE XVII
MISCELLANEOUS

Section 17.1 Limited Recourse. Each of the parties hereto accepts that the enforceability against the Issuer of the obligations of the Issuer hereunder shall be limited to the assets of the Issuer, whether tangible or intangible, real or personal (including the Collateral) and the proceeds thereof, other than as provided for in the other Transaction Documents. Once all such assets have been realized upon and such assets (and proceeds thereof) have been applied in accordance with Article III of the Indenture, any outstanding obligations of the Issuer shall be extinguished. Each of the parties hereto further agrees that it shall take no action against any employee, director, officer or administrator of the Issuer or the Trustee in relation to this Note Purchase Agreement, other than as provided for in the other Transaction Documents; provided, that nothing herein shall limit the Issuer (or its permitted successors or assigns, including any party hereto that becomes such a successor or assign) from pursuing claims, if any, against any such person. The provisions of this Section 17.1 shall survive termination of this Note Purchase Agreement; provided, further, that the foregoing shall not in any way limit, impair or otherwise affect any rights of any party to proceed against any employee, director, officer or administrator of the Issuer (a) for intentional and willful fraud or intentional and willful misrepresentations on the part of or by such employee, director, officer or administrator or (b) for the receipt of any distributions or payments to which the Issuer or any successor in interest is entitled, other than distributions expressly permitted pursuant to the other Transaction Documents.

[SIGNATURE PAGE FOLLOWS]

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

THE ISSUER:

ACCEL 300, LLC

By: kaleo, Inc., its sole Member

By: /s/ T. Spencer Williamson, IV
Name: T. Spencer Williamson, IV
Title: President and Chief Executive Officer

THE PURCHASER:

PDL BIOPHARMA, INC.

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

SCHEDULE 1

Purchaser Notice Information

PDL BioPharma, Inc.
Attention: General Counsel
932 Southwood Blvd.
Incline Village, NV 89451
Telephone: 775-832-8500
Fax: 775-832-8501
Email: general.counsel@pdl.com

PDL BIOPHARMA, INC.

2014/18 Long-Term Incentive Plan

This 2014/18 Long-Term Incentive 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 retaining high performing personnel. This Plan is the fourth long-term incentive plan in a series of long-term incentive plans, each plan overlapping the previous plan and having a subsequent vesting date to provide maximum continuity and retention effects. 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 any and all such powers and discretion to any officer of the Company. The Plan is effective as of January 1, 2014 (the "**Effective Date**"), and will 50% vest and be payable on December 12, 2015 (the "**Initial Vesting Period Date**") and will 16.667% vest and be payable on each of January 12 of 2017, 2018 and 2019 (each a "**Subsequent Vesting Period Date**") upon attainment of specified goals**.** The Plan will terminate when all payments and benefits under the Plan have been made.

1. Eligibility

The employees of the Company set forth in **Exhibit A** (each, a "**Participant**") are eligible to receive a long-term incentive under this Plan. To be eligible for payment, a Participant must be employed by the Company as of the applicable vesting period date or otherwise eligible because of separation from the Company entitling such Participant to acceleration, vesting and payment of the Plan under any outstanding severance agreement.

2. Performance Goals

Long-term incentives under this Plan will vest and are payable on the Initial Vesting Period Date and on applicable Subsequent Vesting Period Dates upon attainment of the Initial Performance Goal or a Subsequent Performance Goal, as applicable on such date. Failure to accomplish a Subsequent Performance Goal shall not affect any payments awarded on the Initial Vesting Period Date. Failure to achieve the Initial Performance Goal will eliminate a Participant's eligibility under the Subsequent Performance Goals.

The Initial Performance Goal is: deployment of $400 million or more in income-generating assets in the two calendar-year period of 2014 and 2015. Upon attainment of the Initial Performance Goal, 50% of the long-term incentives of cash and restricted stock will vest and be payable on the Initial Vesting Period Date.

Each of the Subsequent Performance Goals is: the basket of income-generating assets acquired during the two calendar-year period of 2014 and 2015 generates at least 75% of the projected cash flow for such basket in the calendar year of the applicable Subsequent Vesting Period Date. Upon attainment of a Subsequent Performance Goal, 16.667% of the long-term incentive set forth on **Exhibit A** will vest and be payable as of the applicable Subsequent Vesting Period Date. In the event that a Subsequent Performance Goal is not obtained in any calendar year, such long-term incentive may vest and be payable on the final Subsequent Vesting Period Date if the basket of income-generating assets acquired during the two calendar-year period of 2014 and 2015 generates at least 75% of the total projected cash flow for such basket during the combined calendar years of 2016-18.

3. Incentive

The long-term incentive consists of: (i) a cash payment and (ii) a grant of restricted stock pursuant to the Company's 2005 Equity Incentive Plan. All incentives shall vest and pay on the Initial Vesting Period Date and Subsequent Vesting Period Date, as applicable, subject to compliance with Section 409A of the Internal Revenue Code and except as accelerated by a Change in Control.

Each Participant's incentive as of the Effective Date is set forth in **Exhibit A**.

4. Adjustments

There are circumstances in which adjustments to the Plan may be necessary. The following are examples and are not intended to be an exhaustive list of such circumstances.

Early repayment of debt or buy out of a royalty: PDL acquires an income-generating asset from Company A in early 2014 which is structured as debt requiring repayment of principal and interest in 2015 through 2018. It is part of the basket of 2014-15 income-generating assets against which the Initial and Subsequent Performance Goals under this Plan are measured. Company A is acquired and the debt is fully repaid in June 2015. For purposes of measuring the attainment of the Initial Performance Goal and Subsequent Performance Goals, the income-generating asset of Company A shall be treated as if it generated 100% of the projected income for purposes of attainment of the Initial and Subsequent Performance Goals even though the debt is no longer outstanding during the applicable measurement periods.

Positive or Neutral restructuring of an income-generating asset: PDL provides a loan of $50 million to Company A in 2014. In 2015, PDL modifies the terms of the loan to provide an additional tranche of cash upon attainment of a sales milestone. The restructuring is beneficial to PDL because the asset is performing and the additional amount of the loan allows PDL to deploy more cash into an income-generating asset. Attainment of the Initial and Subsequent Performance Goals is measured against the restructured deal.

Negative restructuring of an income-generating asset: Whether facts or circumstances warrant using a revised projection of cash flow based on the restructuring (as compared to the original projected cash flow) is solely within the discretion of the Committee.

5. Change in Control

Notwithstanding the foregoing, in the event of a Change in Control, (i) the vesting of the restricted stock award, (ii) the payment of any accrued but unpaid dividends or other distributions, plus interest (at the rate set forth above), and (iii) the payment of cash, will accelerate and pay in connection with the Change in Control.

For purposes of this Plan, "**Change in Control**" shall be deemed to have occurred as of the first day after the Effective Date that any one or more of the following conditions is satisfied:

(a) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")), other than a trustee or other fiduciary holding securities of the Company under an employee benefit plan of the Company, becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of (i) the outstanding shares of common stock of the Company or (ii) the combined voting power of the Company's then-outstanding securities entitled to vote generally in the election of directors; or

(b) the Company (i) is party to a merger, consolidation or exchange of securities which results in the holders of voting securities of the Company outstanding immediately prior thereto failing to continue to hold at least 50% of the combined voting power of the voting securities of the Company, the surviving entity or a parent of the surviving entity outstanding immediately after such merger, consolidation or exchange, or (ii) sells or disposes of all or substantially all of the Company's assets (or any transaction or combination of transactions having similar effect is consummated), or (iii) the individuals constituting the Board of Directors immediately prior to such merger, consolidation, exchange, sale or disposition shall cease to constitute at least 50% of the Board of Directors, unless the election of each director who was not a director prior to such merger, consolidation, exchange, sale or disposition was approved by a vote of at least two-thirds of the directors then in office who were directors prior to such merger, consolidation, exchange, sale or disposition.

Notwithstanding the foregoing, a transaction will not be considered a Change in Control unless the transaction qualifies as a "change in control" as defined in Treasury Regulation Section 1.409A-3(i)(5)(i).

6. <u>409A</u>

This Plan is intended to be exempt from the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**"), pursuant to the short term deferral exemption of Code Section 409A, so that none of the payments or benefits under this Plan, or shares of Company common stock issuable pursuant to this Plan, will be subject to the additional tax, penalties or other sanctions imposed under Code Section 409A and this Plan shall in all respects be administered, and any ambiguities herein will be interpreted, to be so exempt. For purposes of Code Section 409A, each payment under this Plan shall be treated as a separate payment. In no event may a Participant, directly or indirectly, designate the calendar year of any payment to be made under this Plan.

7. Miscellaneous

The Company shall withhold all applicable taxes from any payment paid or benefit provided under the Plan, including any federal, state and local taxes.

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 this Plan should be construed as an employment agreement or create any entitlement to any Participant for any incentive payment or benefit hereunder.

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.

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 A

Participant Incentive

Name	Title	Target Cash Payment	Value of Restricted Stock Award
John P. McLaughlin	President and Chief Executive Officer	$2,297,190	$984,510
Peter Garcia	Vice President, Chief Financial Officer	$584,022	$250,295
Christopher L. Stone	Vice President, General Counsel and Secretary	$588,700	$252,300
Danny Hart	Deputy General Counsel and Assistant Secretary	$472,500	$202,500
David Montez	Controller & Chief Accounting Officer	$212,660	$91,140

Exhibit 10.3

FIRST AMENDMENT TO OFFICE LEASE

This First Amendment to Office Lease (the "Amendment"), effective May 27, 2014, is made by and between 932936, LLC, a Nevada limited liability company, whose principal place of business for the purpose of the Amendment is 932 Southwood Blvd., Incline Village, Nevada 89451 ("Landlord"), and PDL BioPharma, Inc., a Delaware corporation, whose principal place of business is 932 Southwood Blvd., Suite 101, Incline Village, Nevada 89451 ("Tenant").

RECITALS

Whereas, Landlord and Tenant entered into that certain Office Lease dated as of March 28, 2012 (the "Lease") and the Term of the Lease is set to expire on May 31, 2014. The capitalized terms used herein and not otherwise defined have the same meanings and definitions as set forth in the Lease.

Whereas, Landlord and Tenant desire to extend the Term of the Lease until May 31, 2016.

Now, Therefore, in consideration of the foregoing, the mutual promises set forth herein, and other good and valuable consideration, the receipt and sufficiency of which the parties hereby acknowledge, the parties agree as follows:

Article 1. Article 3(a) of the Lease shall be replaced as follows and Exhibit A shall be deleted from the Lease:

Term. The term of this Lease ("Term") shall commence on June 1, 2014 ("Commencement Date"), and shall expire May 31, 2016 ("Termination Date"), unless extended by mutual agreement of the parties.

Article 2. The Monthly Rent set forth in Article 4 of the Lease shall be replaced and added to as follows:

Year(s)	Monthly	2-Year Term
1 and 2 (24 Months)	$14,459.62	$347,030.88

Article 3. A new section (a)(3) to Article 11 shall be added as follows:

(3) To assign to Tenant five (5) recreational privilege passes administered by Incline Village Parks & Recreation for use by Tenant's employees, at Tenant's election of the particular employees, during Tenant's occupancy of the Premises.

Article 4. The Lease, except as amended by this Amendment, continues in full force and effect and embodies the entire agreement between the parties and supersedes all prior agreements and understandings relating to the subject matter hereof. The Lease may be further amended or supplemented only by an instrument in writing executed by Landlord and Tenant. This Amendment and the Lease, as amended hereby, shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

Article 5. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of such counterparts shall constitute one instrument. To facilitate execution of this Amendment, the parties may execute and exchange by facsimile or email counterparts of the executed signature pages.

Article 6. This Amendment shall be construed and interpreted in accordance with the laws of the State of Nevada. The provisions of this Amendment shall be construed in accordance with the fair meaning of the language used and shall not be strictly construed against either party.

IN WITNESS HEREOF, the parties have caused this Amendment to be executed on the date set forth above pursuant to proper authority duly granted.

LANDLORD
932936, LLC
A Nevada limited liability company

By: 932936 Management, Inc.
A Nevada Corporation

By: /s/ Sara Skinner
Name: Sara Skinner
Its: President

TENANT
PDL BioPharma, Inc.
A Delaware corporation

By: /s/ John McLaughlin
Name: John McLaughlin
Its: Chief Executive Officer

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.

FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT

FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT (this "***Amendment***"), dated as of June 19, 2014, is entered into by and among WELLSTAT DIAGNOSTICS, LLC, a limited liability company (the "***Borrower***"), PDL BIOPHARMA, INC., a Delaware corporation (the "***Lender***"), and PDL BIOPHARMA, INC., a Delaware corporation (the "***Agent***").

W I T N E S S E T H

WHEREAS, the Borrower, the Lender and the Agent have entered into that certain Amended and Restated Credit Agreement, dated as of August 15, 2013 (as amended, amended and restated, supplemented or otherwise modified from time to time, the "***Credit Agreement***");

WHEREAS, the Borrower acknowledges and admits herein that certain Events of Default have occurred under (i) Section 8.1.3 of the Credit Agreement as a result of Borrower becoming generally unable to pay its debts as they become due, and (ii) Section 8.1.4(a) of the Credit Agreement for Borrower's failure to provide written notice to the Agent and the Lender of any event which could reasonably be expected to have a Material Adverse Effect (collectively, the "***Existing Events of Default***");

WHEREAS, as a condition to (i) the effectiveness of the Letter Agreement (as defined below) between the Agent and the Second Lien Agent and (ii) the Agent's agreement to forbear in its exercise of certain remedies solely in respect of the Existing Events of Default and to the limited extent set forth in the Letter Agreement, the Borrower has requested that the Lender and the Agent agree, and subject to the terms and conditions set forth herein, and the Lender and the Agent do hereby agree, to the amendments and other modifications to the Credit Agreement as set forth herein.

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

ARTICLE I.
DEFINITIONS

1.1 Definitions. Unless otherwise defined herein or the context otherwise requires, terms used in this Amendment, including its preamble and recitals, have the meanings provided in the Credit Agreement, as amended by this Amendment.

ARTICLE II.
AMENDMENTS

2.1 Amendments. Upon satisfaction of the conditions set forth in Article III hereof, the Credit Agreement is hereby amended as follows:

(a) Section 1.1 of the Credit Agreement is hereby amended by adding the following definitions in alphabetical order:

"* * * Sale" has the meaning set forth in the Letter Agreement.

"First Amendment" means the First Amendment to Amended and Restated Credit Agreement, dated as of June 19, 2014, by and among the Borrower, the Lender and the Agent.

"First Amendment Effective Date" has the meaning specified in Article III of the First Amendment.

(b) Section 1.1 of the Credit Agreement is hereby amended by amending and restating the following definitions in their entirety:

"Debt" of any Person means, without duplication, (a) all indebtedness of such Person for borrowed money, (b) all indebtedness evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person as lessee under Capital Leases which have been or should be recorded as liabilities on a balance sheet of such Person in accordance with GAAP, (d) all obligations of such Person to pay the deferred purchase price of property or services (excluding trade accounts payable in the ordinary course of business that have been outstanding for less than 60 calendar days), (e) all indebtedness secured by a Lien on the property of such Person, whether or not such indebtedness shall have been assumed by such Person (with the amount thereof being measured as the fair market value of such property), (f) all obligations, contingent or otherwise, with respect to letters of credit (whether or not drawn), banker's acceptances and surety bonds issued for the account of such Person, (g) all Hedging Obligations of such Person, (h) all Contingent Obligations of such Person, (i) all non-compete payment obligations and earn-out, purchase price adjustment and similar obligations, (j) all obligations of such Person in respect of Disqualified Capital Stock issued by such Person, (k) all indebtedness of the types listed in (a) through (j) and (l) of any partnership of which such Person is a general partner and (l) all obligations of such Person under any synthetic lease transaction, where such obligations are considered borrowed money indebtedness for tax purposes but the transaction is classified as an operating lease in accordance with GAAP.

"Intercreditor Agreement" means that certain Intercreditor Agreement dated as of August 15, 2013 between the Agent and the Second Lien Agent, as amended, amended and restated, supplemented or otherwise modified from time to time, as permitted by, and in accordance with, the terms thereof, and which for the avoidance of doubt shall include the agreements set forth in the Letter Agreement.

"Letter Agreement" means the letter agreement dated as of June 17, 2014 by and between the Agent and the Second Lien Agent a true and correct copy of which is attached hereto as Exhibit "A".

(c) Section 6.9 of the Credit Agreement is hereby amended and restated in its entirety as follows:

"6.9. Chief Restructuring Officer and Investment Banking Advisor.

(a) Chief Restructuring Officer.

(i) The Borrower shall appoint and continuously employ a Chief Restructuring Officer (the "CRO") acceptable to Agent in its sole discretion. The CRO shall be duly appointed and given sole authority with respect to the disbursement of all funds of the Borrower, including the Borrower's operating cash flow, cash contributions set forth in Section 4.1.9 and advances made by Agent or Lender to Borrower. The CRO shall have sole authority to transfer any cash or sums in any of the Borrower's accounts, and shall be authorized by the Borrower to openly and honestly communicate all material information about the Borrower's assets, liabilities, compliance with obligations under the Loan Documents and operational and financial performance to the Agent and its representatives.

(ii) The Borrower agrees to cause the CRO to participate in weekly telephone calls or meetings with the Agent (during reasonable business hours but otherwise at the sole discretion of Agent) to discuss the Borrower's financial condition, including, without limitation, budgets, projections, monthly forecasts, accounts payable and communications with creditors, and such measures as are being taken to ensure that Borrowers expenses and budget are consistent with the Allowed Budget.

(b) Investment Banking Advisor. Not later than July 15, 2014, Borrower shall engage an investment banker to market for sale substantially all of the Borrower's assets and/or seek to obtain debt or equity financing sufficient to continue Borrower's operations and pay all Obligations (the "***Investment Banker***"). Borrower shall cause the Investment Banker retained by the Borrower to participate in weekly telephone calls or meetings to discuss, among other things, potential acquisitions of the Borrower by acquirors or other Persons, investments in the Borrower by new investors and/or sales or other dispositions of any assets of the Loan Parties and shall require the Investment Banker to provide to Agent every letter of intent, offer or expression of interest received by the Investment Banker not later than two business days after receipt thereof."

(d) Section 6 is hereby amended by adding the following Section 6.12 at the end thereof:

"6.12. Additional Capital Contribution. On or prior to the earlier of (i) the date of consummation of the * * * Sale and (ii) sixty (60) days following the First Amendment Effective Date, the Holders shall make a capital contribution to the Borrower in an amount

not less than the greater of $3,000,000 and 100% of the proceeds of the * * * Sale released by the Second Lien Agent from the Second Lien pursuant to the Letter Agreement."

(e) Section 7.4(b) is hereby amended by (i) deleting "and" immediately preceding clause (vii) thereof, (ii) deleting the "." at the end of such paragraph (b) and (iii) inserting the following at the end thereof:

", (viii) notwithstanding any other provision of any of the Loan Documents, including without limitation any guarantee or security agreement, which might otherwise restrict such Dispositions, any sale transaction with respect to * * * yielding net cash proceeds to the Borrower or the Holders in an aggregate amount not less than $* * *, and (ix) the * * * Sale."

(f) Section 7 is hereby amended by adding the following Section 7.17 at the end thereof:

"7.17. Expenses. On or prior to the earlier of (i) the date of consummation of the * * * Sale and (ii) sixty (60) days following the First Amendment Effective Date, and each month thereafter, the Borrower shall present to the Agent a budget showing that operating expenses (including wages, rent, insurance and utilities, but excluding accounts payable existing as of such date) of the Borrower, as set forth in consolidated statements of income or operations delivered to the Agent and the Lender pursuant to Section 6.1.3, do not exceed $* * * per month (the "Allowed Budget"). From such date, Borrower shall ensure that its total operating expenses are maintained within the Allowed Budget, and no exceptions shall be made without the written consent of the Agent. In the event that Borrower receives further cash contributions in excess of that provided for in Section 6.12, Lender agrees to discuss with Borrower whether such cash contributions provide a commercially reasonable basis to revise the Allowed Budget."

ARTICLE III.
CONDITIONS TO EFFECTIVENESS

This Amendment shall be and become effective on the date (the "***First Amendment Effective Date***") all of the conditions set forth in this ARTICLE III shall have been satisfied (or waived by the Agent and the Lender in accordance with Section 10.1 of the Credit Agreement):

3.1 Counterparts. The Agent shall have received counterparts of this Amendment, which shall be collectively executed by each of the Borrower, the Lender and the Agent.

3.2 Letter Agreement. The Agent shall have received evidence that the Letter Agreement has been executed and delivered in form and substance satisfactory to the Agent in the sole discretion of the Agent.

3.3 Second Lien Loan Documents. The Agent shall have received evidence that (i) the amendments to the Second Lien Loan Documents have been executed and delivered in form and substance satisfactory to the Agent in the sole discretion of the Agent and (ii) the Borrower has received an aggregate principal amount of not less than $2,470,090.00 from borrowings pursuant to the Second Lien Credit Agreement.

3.4 Fees and Expenses. The Agent shall have received reimbursement of any costs and expenses (including fees and expenses of counsel to the Agent and the Lender) incurred by it or the Lender relating to this Amendment and the transactions contemplated hereby.

3.5 Representations and Warranties. Other than with respect to the Existing Events of Default, the representations and warranties contained in the Loan Documents are true and correct in all material respects (without duplication of any materiality qualifier contained therein) on and as of the date hereof as if made on the date hereof.

3.6 Event of Default. Other than the Existing Events of Default, no Event of Default shall have occurred and be continuing under the Credit Agreement and no Event of Default shall result from execution and delivery of the Amendment and the consummation of the transactions contemplated herein.

ARTICLE IV.
REPRESENTATIONS AND WARRANTIES

4.1 Representations and Warranties. In order to induce the Agent and the Lender to enter into this Amendment, the Borrower hereby represents and warrants to the Agent and the Lender that as of the date hereof and after giving effect to this Amendment:

(a) The Borrower is a limited liability company validly existing and in good standing under the laws of the State of Delaware. The Borrower is duly authorized to execute and deliver this Amendment and the performance by the Borrower of the Credit Agreement, as amended hereby, has been duly authorized by all necessary action, and the Borrower has all requisite power, authority and legal right to execute, deliver and perform this Amendment and the Credit Agreement, as amended hereby.

(b) The execution, delivery and performance by the Borrower of this Amendment do not and will not (a) require any consent or approval of any Governmental Authority (other than (i) any consent or approval which has been obtained and is in full force and effect and (ii) recordings and filings in connection with the Liens granted to the Agent under the Collateral Documents), (b) conflict with (i) any provision of Applicable Law, (ii) the charter, by-laws, limited liability company agreement, partnership agreement or other organizational documents of any Loan Party or (iii) any agreement, indenture, instrument or other document, or any judgment, order or decree, which is binding upon any Loan Party or any of their respective properties or (c) require, or result in, the creation or imposition of any Lien on any asset of the Borrower or any other Loan Party (other than Liens in favor of the Agent created pursuant to the Collateral Documents).

(c) Each of this Amendment and the Credit Agreement, as amended hereby, is the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, subject to bankruptcy, insolvency and similar laws affecting the enforceability of creditors' rights generally and to general principles of equity.

ARTICLE V.
MISCELLANEOUS

5.1 Loan Document. This Amendment is a Loan Document executed pursuant to the Credit Agreement and shall (unless otherwise expressly indicated therein) be construed, administered and applied in accordance with the terms and provisions of the Credit Agreement.

5.2 Effect of Amendment. Except as expressly set forth herein, this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of, or otherwise affect, the rights and remedies of the parties to the Credit Agreement and shall not alter, modify, amend or in any way affect any of the terms or conditions contained therein, all of which are ratified and affirmed in all respects and shall continue in full force and effect. Nothing herein shall be deemed to entitle the Company to any future consent, to, or waiver, amendment, modification or other change of, any of the terms or conditions contained in the Credit Agreement in similar or different circumstances. Except as expressly stated herein, the Agent and the Lender reserve all rights, privileges and remedies under the Loan Documents. All references in the Credit Agreement and the other Loan Documents to the Credit Agreement shall be deemed to be references to the Credit Agreement as modified hereby.

5.3 Reaffirmation. The Borrower hereby reaffirms its obligations under each Loan Document to which it is a party. The Borrower hereby further ratifies and reaffirms the validity and enforceability of all of the liens and security interests heretofore granted, pursuant to and in connection with the Security Agreement or any other Loan Document, to the Agent, as collateral security for the obligations under the Loan Documents in accordance with their respective terms, and acknowledges that all of such Liens and security interests, and all Collateral heretofore pledged as security for such obligations, continue to be and remain collateral for such obligations from and after the date hereof.

5.4 Counterparts. This Amendment may be executed by the parties hereto in several counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same agreement. Delivery of an executed signature page of this Amendment by facsimile transmission or electronic transmission shall be as effective as delivery of a manually executed counterpart hereof.

5.5 Construction; Captions. Each party hereto hereby acknowledges that all parties hereto participated equally in the negotiation and drafting of this Amendment and that, accordingly, no court construing this Amendment shall construe it more stringently against one party than against the other. The captions and headings of this Amendment are for convenience of reference only and shall not affect the interpretation of this Amendment.

5.6 Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns (as permitted under the Credit Agreement).

5.7 GOVERNING LAW. THIS AMENDMENT, THE RIGHTS AND OBLIGATIONS OF THE PARTIES HERETO, AND ANY CLAIMS OR DISPUTES RELATING THERETO SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (EXCLUDING THE CHOICE OF LAW RULES THEREOF).

5.8 Severability. The illegality or unenforceability of any provision of this Amendment or any instrument or agreement required hereunder shall not in any way affect or impair the legality

or enforceability of the remaining provisions of this Amendment or any instrument or agreement required hereunder.

5.9 Release of Claims. In consideration of the Lender's and the Agent's agreements contained in this Amendment, the Borrower hereby releases and discharges the Lender and the Agent and their affiliates, subsidiaries, successors, assigns, directors, officers, employees, agents, consultants and attorneys (each, a "***Released Person***") of and from any and all other claims, suits, actions, investigations, proceedings or demands, whether based in contract, tort, implied or express warranty, strict liability, criminal or civil statute or common law of any kind or character, known or unknown, which Borrower ever had or now has against the Agent, any Lender or any other Released Person which relates, directly or indirectly, to any acts or omissions of the Agent, any Lender or any other Released Person relating to the Credit Agreement or any other Loan Document on or prior to the date hereof.

5.10 Forbearance Period. Subject to the terms and conditions set forth herein and in the Letter Agreement, solely with respect to the Existing Events of Default, the Agent agrees that it shall refrain from exercising the remedies under the Loan Documents or Applicable Law to the extent and for the period provided under the Letter Agreement, so long as Borrower does not Default under any of the provisions of this Amendment or the Letter Agreement.

5.11 Affirmation. Subject only to the limitations set forth in the Letter Agreement, the Agent shall have the right to enforce its liens on the assets of all parties then liable to Agent, including without limitation the assets of Borrower and the equity in Borrower. Borrower acknowledges and agrees that in order to preserve the value of the assets of Borrower and the value of the equity in Borrower, Agent has the right to enforce its lien on the License Agreement or on the equity in Borrower, in a manner that is intended to comply with the provisions of the ROFR Provisions, and to avoid termination of the License Agreement pursuant to Section 5.3 of the License Agreement. Therefore, Borrower acknowledges and agrees that any steps taken by Agent to comply with such provisions in connection with the enforcement of Agent's lien on the License Agreement and/or the equity of the Borrower, including without limitation contacting the Licensor, are commercially reasonable and Borrower and Holders agree to cooperate fully and completely with any such actions, in either case in connection with a disposition of the Collateral pursuant to the UCC, (along with any back up or explanatory material or analysis related thereto reasonably requested by the Agent). Borrower and Holders agree that it is appropriate for Agent to take the steps set forth in Exhibit "B" hereto, as part of a commercially reasonable sale and that while Agent reserves its right to proceed without taking any or all such steps, Borrower and Holders stipulate and agree that it would be commercially reasonable for the Agent to take each of such steps and if Agent elects to so proceed Borrower and Holders will cooperate with such efforts, provide Agent with all information needed to so proceed and grant on the date hereof to Agent the Power of Attorney attached hereto as Exhibit "C" to take such actions.

5.12 Existing Events of Default. The Loan Parties hereby acknowledge that certain Events of Default have occurred under (i) Section 8.1.3 of the Credit Agreement as a result of Borrower becoming insolvent and generally failing to pay its debts as they become due and this Agreement constitutes a written admission that Borrower is unable to pay its debts as they become due, and

(ii) Section 8.1.4(a) of the Credit Agreement for Borrower's failure to provide written notice to the Agent and the Lender of any event which could reasonably be expected to have a Material Adverse Effect.

[Signature page follows]

Each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

BORROWER:

WELLSTAT DIAGNOSTICS, LLC

By: /s/ Nadine Wohlstadter
Name: Nadine Wohlstadter
Title:

Loan Parties
WELLSTAT BIOCATYLYSIS, LLC

By: /s/ Nadine Wohlstadter
Name: Nadine Wohlstadter
Title:

WELLSTAT BIOLOGICS CORPORATION

By: /s/ Nadine Wohlstadter
Name: Nadine Wohlstadter
Title:
WELLSTAT IMMUNOTHERAPEUTICS, LLC

By: /s/ Nadine Wohlstadter
Name: Nadine Wohlstadter
Title:

WELLSTAT MANAGEMENT COMPANY, LLC

By: /s/ Nadine Wohlstadter
Name: Nadine Wohlstadter
Title:

HYPERION CATALYSIS INTERNATIONAL, a California corporation

By: /s/ Nadine Wohlstadter
Name: Nadine Wohlstadter
Title:

WELLSTAT AVT INVESTMENT LLC

By: /s/ Nadine Wohlstadter
Name: Nadine Wohlstadter
Title:

WELLSTAT THERAPEUTICS CORPROTAION

By: /s/ Nadine Wohlstadter
Name: Nadine Wohlstadter
Title:

WELLSTAT VACINES, LLC

By: /s/ Nadine Wohlstadter
Name: Nadine Wohlstadter
Title:

HEBRON FARMS, INC.

By: /s/ Nadine Wohlstadter
Name: Nadine Wohlstadter
Title:

SJW PROPERTIES, INC.

By: /s/ Nadine Wohlstadter
Name: Nadine Wohlstadter
Title:

HVF, INC.

By: /s/ Nadine Wohlstadter
Name: Nadine Wohlstadter
Title:

NHW, LLC

By: /s/ Nadine Wohlstadter
Name: Nadine Wohlstadter
Title:

DUCK FARM, INC.

By: /s/ Nadine Wohlstadter
Name: Nadine Wohlstadter
Title:

WELLSTAT OPTHALMICS CORPORATION

By: /s/ Nadine Wohlstadter
Name: Nadine Wohlstadter
Title:

WELLSTAT THERAPEUTICS EU LIMITED

By: /s/ Nadine Wohlstadter
Name: Nadine Wohlstadter
Title:

HYPERION CATALYSIS EU LIMITED

By: /s/ Nadine Wohlstadter
Name: Nadine Wohlstadter
Title:

/s/ Nadine Wohlstadter
NADINE WOHLSTADTER

/s/ Samuel J. Wohlstadter
SAMUEL J. WOHLSTADTER

LENDER:

PDL BIOPHARMA, INC.

By: /s/ Christopher L. Stone
Name: Christopher L. Stone
Title: Vice President, General Counsel and Secretary

AGENT:

PDL BIOPHARMA, INC.

By: /s/ Christopher L. Stone
Name: Christopher L. Stone
Title: Vice President, General Counsel and Secretary

AMENDMENT NO. 1 TO CREDIT AGREEMENT, dated as of February 5, 2014 (this "Amendment"), among PDL BIOPHARMA, INC., a Delaware corporation (the "Borrower"), the Lenders party hereto and ROYAL BANK OF CANADA, as administrative agent (in such capacity, the "Administrative Agent") for the Lenders (such capitalized term and, unless otherwise specified, all other capitalized terms not otherwise defined herein shall have the meanings set forth in the Credit Agreement referred to below).

WHEREAS, the Borrower, the Lenders party thereto and the Administrative Agent and the other parties named therein, are party to that certain Credit Agreement, dated as of October 28, 2013 (as amended, amended and restated, supplemented or otherwise modified to (but not including) the date hereof, the "Credit Agreement") pursuant to which the Lenders have made certain extensions of credit available to and on behalf of the Borrower; and

WHEREAS, the Borrower and the Required Lenders party hereto have agreed to amend the Credit Agreement, but only on the terms and conditions herein set forth.

NOW, THEREFORE, in consideration of the premises and covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

Section 1. Credit Agreement Amendments.

Section 1.1. The Credit Agreement is, effective as of the Amendment No. 1 Effective Date (as defined below), hereby amended to delete the stricken text (indicated textually in the same manner as the following example: ~~stricken text~~) and to add the double-underlined text (indicated textually in the same manner as the following example: double-underlined text) as set forth in the pages of the Credit Agreement attached as Exhibit A hereto, except that any Schedule or Exhibit to the Credit Agreement not amended pursuant to the terms of this Amendment or otherwise included as part of said Exhibit A shall remain in effect without any amendment or other modification thereto.

Section 2. Representations and Warranties. The Borrower represents and warrants to the Administrative Agent and the Lenders as of the Amendment No. 1 Effective Date that this Amendment (a) is within the Borrower's corporate or other organizational power and authority; (b) has been duly authorized by all necessary corporate or other organizational action and (c) does not and will not (i) violate the terms of any of the Borrower's Organizational Documents, (ii) result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries, except Liens created under the Loan Documents, (iii) violate any Requirements of Law applicable to the Borrower or any of its Subsidiaries or (iv) violate or result in a default under any loan agreement, indenture or other material agreement or instrument binding upon the Borrower or any of its Subsidiaries or their respective assets, or give rise to a right thereunder to require any payment, repurchase or redemption to be made by the Borrower or any of its Subsidiaries, or give rise to a right of, or result in, termination, cancellation or acceleration of any obligation thereunder. The Borrower further represents and warrants that (a) the representations and warranties of the Borrower set forth in the Loan Documents are true and correct in all material respects (or if qualified by "materiality", "Material Adverse Effect" or similar language, in all respects) on and as of Amendment No. 1 Effective Date with the same effect as though such representations and warranties had been made on and as of the Amendment No. 1 Effective Date and (b) at the time of and immediately after giving effect to this Amendment, no Default or Event of Default has occurred and is continuing. This Amendment has been duly executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower, enforceable against it in accordance with its terms. This Amendment

does not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect and except filings necessary to perfect Liens created under the Loan Documents.

Section 3. Conditions to Effectiveness of Amendment. This Amendment shall become effective on the date (the "Amendment No. 1 Effective Date") on which each of the following conditions are satisfied or waived by each applicable party:

(A) The Administrative Agent shall have received executed signature pages to this Amendment from the Required Lenders and the Borrower;

(B) The representations and warranties of the Borrower set forth in the Loan Documents are true and correct in all material respects (or if qualified by "materiality", "Material Adverse Effect" or similar language, in all respects) on and as of Amendment No. 1 Effective Date with the same effect as though such representations and warranties had been made on and as of the Amendment No. 1 Effective Date;

(C) At the time of and immediately after giving effect to this Amendment, no Default or Event of Default has occurred and is continuing; and

(D) The Borrower shall have paid or caused to be paid all reasonable and documented out-of-pocket costs and expenses incurred by the Administrative Agent and its Affiliates (without duplication) including the reasonable fees, charges and disbursements of legal counsel to the Administrative Agent incurred in connection with this Amendment.

Section 4. Counterparts. This Amendment may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which when so executed and delivered shall be deemed to be an original, but all of which when taken together shall constitute a single instrument. Delivery of an executed counterpart of a signature page of this Amendment by facsimile or other electronic transmission (i.e. a "PDF" or "TIF") shall be effective as delivery of a manually executed counterpart hereof.

Section 5. Applicable Law. **THIS AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.**

Section 6. Headings. The headings of this Amendment are for purposes of reference only and shall not limit or otherwise affect the meaning hereof.

Section 7. Effect of Amendment. Except as expressly set forth herein, this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of or otherwise affect the rights and remedies of the Lenders under the Credit Agreement or any other Loan Document, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other provision of either such agreement or any other Loan Document, and the Borrower acknowledges and agrees that each of the Loan Documents to which it is a party or otherwise bound shall continue in full force and effect and that all of its obligations thereunder shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Amendment. Each and every term, condition, obligation, covenant and agreement contained in the Credit Agreement or any other Loan Document is hereby ratified and reaffirmed in all respects and shall continue in full force and effect. The Borrower ratifies and reaffirms its obligations under the Loan Documents to which it is party and the Liens granted by it pursuant to the Security Documents, which continue to secure the Secured Obligations. From and after the Amendment No. 1 Effective Date, all references to the Credit

Agreement in any Loan Document shall, unless expressly provided otherwise, refer to the Credit Agreement as amended by this Amendment. In entering into this Amendment, each Lender has undertaken its own analysis and has not relied on any other Lender in making its decision to enter into this Amendment. This Amendment constitutes a Loan Document. The Borrower agrees to pay all reasonable and documented out-of-pocket costs and expenses of the Administrative Agent in connection with the preparation, execution, delivery and administration of this Amendment and the other instruments and documents to be delivered hereunder (including, without limitation, the reasonable fees and expenses of counsel for the Administrative Agent) in accordance with the terms of Section 9.03(a) of the Credit Agreement.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

PDL BIOPHARMA, INC.

By: /s/ Peter S. Garcia
Name: Peter S. Garcia
Title: VP and CFO

[Signature Page to Amendment No.1 to Credit Agreement]

ROYAL BANK OF CANADA, as a Lender

By: /s/ Mustafa Topiwalla
Name: Mustafa Topiwalla
Title: Authorized Signatory

[Signature Page to Amendment No.1 to Credit Agreement]

WELLS FARGO BANK, NATIONAL ASSOCIATION, as a Lender

By: /s/ Catherine Hill
Name: Catherine Hill
Title: Assistant Vice President

[Signature Page to Amendment No.1 to Credit Agreement]

Acknowledged and Accepted:

ROYAL BANK OF CANADA, as Administrative Agent

By: /s/ Rodica Dutka
Name: Rodica Dutka
Title: Manager, Agency

[Signature Page to Amendment No.1 to Credit Agreement]

Exhibit A

Credit Agreement Amendments

plus the costs of additions thereto), but without any other adjustment for increases or decreases in value of, or write-ups, write-downs or write-offs with respect to, such Investment after the date of such Investment. For purposes of Section 6.04, if an Investment involves the acquisition of more than one Person, the amount of such Investment shall be allocated among the acquired Persons in accordance with GAAP; provided that pending the final determination of the amounts to be so allocated in accordance with GAAP, such allocation shall be as reasonably determined by a Financial Officer.

"IP Collateral" has the meaning specified in the Collateral Agreement.

"IRS" means the United States Internal Revenue Service.

"Junior Financing" means, collectively, the Existing Notes, any unsecured, junior secured or subordinated Material Indebtedness incurred under Section 6.01(vii), and any Permitted Refinancing thereof.

"Lead Arranger" means RBC Capital Markets and Wells Fargo Securities, LLC, in their respective capacities as Joint Lead Arrangers and Co-Bookrunners.

"Lenders" means the Persons listed on Schedule 2.01 and any other Person that shall have become a party hereto pursuant to an Assignment and Assumption, in each case, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Assumption.

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset and (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset.

"Liquidity" means, on any date, the sum of all cash and other Cash Equivalents of the Loan Parties that are not subject to a Lien (except for Liens permitted under the Collateral Agreement, under Section 6.02(xiv)(A) and under clauses (a) and (f) of the definition of "Permitted Encumbrances").

"Loan Document Obligations" has the meaning assigned to such term in the Collateral Agreement.

"Loan Documents" means (i) this Agreement, (ii) the Guarantee Agreement, (iii) the Collateral Agreement, (iv) the other Security Documents, (v) solely for purposes of Article VII, the Fee Letter and (vi) each document or instrument executed in connection with this Agreement and designated by the Borrower and the Administrative Agent as a "Loan Document".

"Loan Parties" means the Borrower and the Subsidiary Loan Parties.

"Loans" has the meaning specified in Section 2.01.

"Material Adverse Effect" means any event, circumstance or condition that has had, or could reasonably be expected to have, a materially adverse effect on (a) the business, property, assets, financial condition, or results of operations of the Borrower and its Subsidiaries, taken as a whole, (b) the ability of the Borrower and the other Loan Parties, taken as a whole, to perform their payment obligations under the Loan Documents, (c) the rights and remedies of the Administrative Agent and the Lenders under the Loan Documents or (d) a material adverse effect on the Collateral or the Liens

terms of the applicable Third Party Loan document or documents governing the applicable Permitted Royalty Acquisition; and

(l) the settlement or early termination of any Permitted Bond Hedge Transaction and the settlement or early termination of any Permitted Warrant Transaction; provided that the sole consideration paid in connection with such settlement or early termination is common stock of the Borrower and cash in lieu of fractional shares (other than, in the case of an early termination of such Permitted Warrant Transaction, pursuant to customary exceptions (substantially similar to or no more onerous on the Borrower and its Subsidiaries than such exceptions in the warrants with respect to the Existing Notes) to the right of an issuer to settle the relevant close-out amount, cancellation amount or other similar payment obligation in shares);

provided that (a) any Disposition of any property pursuant to this Section 6.05 (except pursuant to Section 6.05(b), (h) and (k) and except for Dispositions by a Loan Party to another Loan Party), shall be for no less than the fair market value of such property at the time of such Disposition and (b) notwithstanding anything in this Section 6.05 to the contrary, the Borrower shall not take any action to Dispose of the Core Assets to any Person other than a Loan Party.

Section 6.06 Restricted Payments; Certain Payments of Indebtedness.

(a) The Borrower will not, nor will it permit any of its Subsidiaries to, declare or make, directly or indirectly, any Restricted Payment, except:

(i) each Subsidiary may make Restricted Payments to the Borrower or any other Subsidiary; provided that if such Subsidiary is a Loan Party, then it can only make a Restricted Payment pursuant to this Section 6.06(a)(i) to another Loan Party;

(ii) the Borrower and each of its Subsidiaries may declare and make dividend payments or other distributions payable solely in the Qualified Equity Interests of such Person; provided that in the case of any such Restricted Payment by a Subsidiary that is not a Wholly Owned Subsidiary of the Borrower, such Restricted Payment is made to the Borrower, any Subsidiary and to each other owner of Equity Interests of such Subsidiary based on their relative ownership interests of the relevant class of Equity Interests;

(iii) the Borrower and each of its Subsidiaries may (A) repurchase for fair value Equity Interests held by former directors, officers, employees and consultants; (B) pay withholding or similar Taxes payable by present or former directors, officers, employees or consultants in respect of their Equity Interests and (C) repurchase Equity Interests deemed to occur upon a cashless exercise of options or warrants;

(iv) Eacheach of the Subsidiaries of the Borrower may make Restricted Payments in cash to the Borrower:

(1) the proceeds of which will be used to pay the Tax liability to the relevant jurisdiction in respect of consolidated, combined, unitary or affiliated returns attributable to the income of the Borrower and/or any Subsidiary; provided that Restricted Payments made pursuant to this

equity) from any issuance of Equity Interests (other than Disqualified Equity Interests) of the Borrower, so long as such Restricted Payment is made within 90 days of the receipt of such net cash proceeds and, with respect to any such Restricted Payments, no Event of Default shall have occurred and be continuing or would result therefrom;

(vi) to the extent constituting Restricted Payments, the Borrower and its Subsidiaries may enter into transactions expressly permitted by Sections 6.03 and 6.04;

(vii) the Borrower or any of its Subsidiaries may (1) pay cash in lieu of fractional shares in connection with any dividend, split or combination thereof or any Permitted Acquisition and (2) (a) solely to the extent permitted under Section 6.06(b), honor any conversion request by a holder of convertible Indebtedness (including any payment of cash in connection withupon such conversion pursuant to the terms of such convertible Indebtedness in an amount not to exceed the sum of (x) the principal amount of such convertible Indebtedness plus (y) any payments received by the Borrower or any of its Subsidiaries pursuant to the exercise, settlement or termination of any related Permitted Bond Hedge Transaction or Permitted Warrant Transaction) and make cash payments in lieu of fractional shares in connection with any such conversion and (b) make payments in connection with a Permitted Bond Hedge Transaction and the settlement of any related Permitted Warrant Transaction (x) by delivery of shares of the Borrower's common stock upon net share settlement thereof or (y) by set-off against the related Permitted Bond Hedge Transaction and payment of an early termination amount thereof in common stock upon any early termination thereof;

(viii) the Borrower or any of its Subsidiaries may make Restricted Payments in order to effectuate payments that at such time are permitted to be made pursuant to Section 6.07(iii), (v), (vi) and (vii);

(ix) the Borrower may declare and pay dividends and distributions within 60 days after the record date therefor, if at the record date, no Event of Default under Section 7.01(a), (b), (h) or (i) shall exist at the time of, or would result from, the making of such payment;

(x) the Borrower may redeem in whole or in part of any of its Equity Interests for another class of its Equity Interests or with proceeds from substantially concurrent equity contributions or issuances of new Equity Interests; provided that such new Equity Interests contain terms and provisions at least as advantageous to the Lenders in all respects material to their interests as those contained in the Equity Interests redeemed thereby; and

(xi) the Borrower may repurchase shares of its common stock in the open market or in private transactions or pay cash dividends on its common stock; provided that on the date of such repurchase or payment (i) no Default has occurred and is continuing or would result therefrom, (ii) the Total Leverage Ratio shall not be greater than 0.25 less than the Total Leverage Ratio in effect on the Effective Date, and (iii) the Administrative Agent shall have received a certificate of a Responsible Officer, in form and substance reasonably satisfactory to the Administrative Agent,

certifying and attaching calculations demonstrating compliance with the requirements of clause (ii) above.

(b) The Borrower will not, nor will it permit any other Subsidiary to, make or pay, directly or indirectly, any payment or other distribution (whether in cash, securities or other property) of or in respect of principal of or interest on any Junior Financing, or any payment or other distribution (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any Junior Financing, or any other payment (including any payment under any Swap Agreement) that has a substantially similar effect to any of the foregoing, except:

(i) payment of regularly scheduled or required interest and principal payments as, in the form of payment and when due in respect of any Indebtedness to the extent such payments in respect of any Junior Financing are permitted by the subordination provisions thereof;

(ii) refinancings, refundings, renewals, modifications or exchanges of Indebtedness to the extent permitted by Section 6.01;

(iii) the conversion or exchange of any Junior Financing to, or for, Equity Interests (other than Disqualified Equity Interests) of the Borrower;

(iv) any conversion of convertible notes, and any payment in respect of a Permitted Bond Hedge Transaction and Permitted Warrant Transaction, into or comprised of common stock of the Borrower and, to the extent otherwise permitted byunder clause (a)(vii)(2v) of this Section 6.06(b), into cash; and

(v) the Borrower may make (A) any payment of cash upon the conversion of any of its convertible Indebtedness pursuant to the terms of such convertible Indebtedness and may make cash payments in lieu of fractional shares in connection with any such conversion and (B) cash or common stock conversion payments, or cash or common stock payments in connection with any exchange offer, to holders of the Existing Notes or any other Junior Financing comprised of convertible debt, and pay the present value of accrued interest on the Existing Notesthereon, in cash at the time of any such conversion thereof, in an aggregate amount not to exceed $25,000,000, so long as, in each of clauses (A) and (B), (x) noDefault under Section 7.01(a) or 7.01(b) or Event of Default shall have occurred and be continuingis continuing or shall occur as a result of any such payment, (y) the Borrower shall be in compliance, on a Pro Forma Basis, with the Financial Performance Covenants, and (z) after giving pro forma effect to each such payment, there shall be at least $15,000,000 of Liquidity.

Section 6.07 Transactions with Affiliates. The Borrower will not, nor will it permit any of its Subsidiaries to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except (i) transactions between or among the Borrower or any of its Subsidiaries (or an entity that becomes a Subsidiary of the Borrower as a result of the transaction); (ii) on terms substantially as favorable to the Borrower or such Subsidiary as would be obtainable by such Person at the time in a comparable arm's-length transaction with a Person other than an Affiliate; (iii) the payment of fees and expenses related to the Transactions; (iv) issuances of Equity Interests (and

(f) the Borrower or any of its Subsidiaries shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable (after giving effect to any applicable grace period);

(g) any eventthe Borrower or any of its Subsidiaries shall fail to observe or perform any term, covenant or condition occurscontained in any Material Indebtedness that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits (with all applicable grace periods having expired) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity, provided that this paragraph (g) shall not apply to (i) secured Indebtedness that becomes due as a result of the sale, transfer or other disposition (including as a result of a casualty or condemnation event) of the property or assets securing such Indebtedness (to the extent such sale, transfer or other disposition is not prohibited under this Agreement), or (ii) termination events or similar events occurring under any Swap Agreement that constitutes Material Indebtedness (it being understood that paragraph (f) of this Section will apply to any failure to make any payment required as a result of any such termination or similar event);

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, court protection, reorganization or other relief in respect the Borrower, any direct or indirect parent of the Borrower, or any Material Subsidiary of the Borrower or its debts, or of a material part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, examiner, sequestrator, conservator or similar official for the Borrower and its Material Subsidiaries or for a material part of its assets, and, in any such case, such proceeding or petition shall continue undismissed or unstayed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) the Borrower or any of its Material Subsidiaries shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, court protection, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in paragraph (h) of this Section, (iii) apply for or consent to the appointment of a receiver, trustee, examiner, custodian, sequestrator, conservator or similar official for the Borrower and its Material Subsidiaries or any of them, or for a material part of their respective assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding or (v) make a general assignment for the benefit of creditors;

(j) one or more enforceable judgments for the payment of money in an aggregate amount in excess of $25,000,000 (to the extent not covered by insurance as to which the insurer has been notified of such judgment or order and has not denied coverage) shall be rendered against the Borrower or any of its Subsidiaries or any direct or indirect parent company of the Borrower or any combination thereof and the same shall remain undischarged for a period of 60 consecutive days during which execution shall not be effectively stayed, or any judgment creditor shall legally attach or levy upon assets of such

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 Six Months Ended June 30, 2014
Earnings:						
Income before income taxes	$ 280,285	$ 150,370	$ 307,428	$ 327,133	$ 401,876	$ 261,660
Add: fixed charges	19,430	43,578	36,153	29,097	24,931	20,414
Earnings	$ 299,715	$ 193,948	$ 343,581	$ 356,230	$ 426,807	$ 282,074
Fixed Charges:						
Interest expense[1]	$ 19,357	$ 43,529	$ 36,102	$ 29,036	$ 24,871	$ 20,383
Estimated interest portion of rent expense[2]	73	49	51	61	60	31
Fixed charges	19,430	$ 43,578	$ 36,153	$ 29,097	$ 24,931	$ 20,414
Ratio of earnings to fixed charges	15.43	4.45	9.50	12.24	17.12	13.82

[1] Interest expense includes amortization of debt discount and expenses.
[2] Represents the estimated portion of operating lease rental expense that is considered by us to be representative of interest and amortization of discount related to indebtedness.

Exhibit 31.1

CERTIFICATIONS

I, John P. McLaughlin, President and Chief Executive Officer, of PDL BioPharma, Inc., certify that:

(1) I have reviewed this Quarterly Report on Form 10-Q of PDL BioPharma, Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 18, 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: August 18, 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 June 30, 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: August 18, 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.