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

FORM 10-Q

(Mark One)
x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2012

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 x 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 x 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 x	*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 x

As of April 26, 2012, there were 139,884,999 shares of the Registrant's Common Stock outstanding.

PDL BIOPHARMA, INC.
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Revenues:		
Royalties	$ 77,344	$ 73,336
License and other	-	10,000
Total revenues	77,344	83,336
Operating expenses:		
General and administrative	6,945	5,779
Operating income	70,399	77,557
Non-operating expense, net		
Interest and other income, net	90	175
Interest expense	(8,700)	(9,154)
Total non-operating expense, net	(8,610)	(8,979)
Income before income taxes	61,789	68,578
Income tax expense	21,605	24,033
Net income	$ 40,184	$ 44,545
Net income per share		
Basic	$ 0.29	$ 0.32
Diluted	$ 0.29	$ 0.25
Cash dividends declared per common share	$ 0.60	$ 0.60
Weighted average shares outstanding		
Basic	139,680	139,640
Diluted	140,204	189,954

See accompanying notes.

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

	Three Months Ended March 31,	
	2012	**2011**
Net income	$ 40,184	$ 44,545
Other comprehensive loss, net of tax		
Unrealized gains (losses) on investments in available-for-sale securities	29	(25)
Unrealized losses on cash flow hedges	(6,677)	(7,784)
Total other comprehensive loss, net of tax	(6,648)	(7,809)
Comprehensive income	$ 33,536	$ 36,736

See accompanying notes.

PDL BIOPHARMA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	March 31, 2012	December 31, 2011
	(unaudited)	(Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 141,368	$ 168,544
Short-term investments	46,010	42,301
Receivables from licensees	-	600
Deferred tax assets	10,749	10,054
Prepaid and other current assets	8,073	12,014
Total current assets	206,200	233,513
Property and equipment, net	27	22
Long-term investments	5,134	17,101
Note receivable	7,426	-
Long-term deferred tax assets	6,646	11,481
Other assets	9,530	7,354
Total assets	$ 234,963	$ 269,471
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 471	$ 528
Accrued legal settlement	-	27,500
Accrued liabilities	79,639	11,609
Current portion of non-recourse notes payable	69,531	93,370
Total current liabilities	149,641	133,007
Convertible notes payable	302,241	316,615
Other long-term liabilities	26,861	24,122
Total liabilities	478,743	473,744
Commitments and contingencies (Note 8)		
Stockholders' deficit:		
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, 250,000 shares authorized; 139,680 and 139,680 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively	1,397	1,397
Additional paid-in capital	(234,793)	(161,750)
Accumulated other comprehensive loss	(8,533)	(1,885)
Accumulated deficit	(1,851)	(42,035)
Total stockholders' deficit	(243,780)	(204,273)
Total liabilities and stockholders' deficit	$ 234,963	$ 269,471

See accompanying notes.

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

	Three Months Ended March 31,	
	2012	**2011**
Cash flows from operating activities		
Net income	$ 40,184	$ 44,545
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Discounts and deferred issuance costs	3,668	2,044
Other amortization and depreciation expense	298	313
Stock-based compensation expense	204	50
Hedge ineffectiveness on foreign exchange contracts	84	-
Deferred taxes	1,961	2
Changes in assets and liabilities:		
Receivables from licensees	600	319
Prepaid and other current assets	1,468	9,333
Other assets	(2,288)	(57)
Accounts payable	(57)	(2,254)
Accrued liabilities	985	(2,447)
Accrued legal settlement	(27,500)	(65,000)
Other long-term liabilities	(1,711)	-
Net cash provided by (used in) operating activities	17,896	(13,152)
Cash flows from investing activities		
Purchases of investments	(5,993)	(48,313)
Maturities of investments	14,000	17,881
Note receivable	(7,425)	-
Acquisition of property and equipment	(8)	-
Net cash provided by (used in) investing activities	574	(30,432)
Cash flows from financing activities		
Repayment of non-recourse notes	(23,839)	(20,311)
Payment of debt issuance costs	(845)	-
Cash dividends paid	(20,962)	(20,966)
Net cash used in financing activities	(45,646)	(41,277)
Net decrease in cash and cash equivalents	(27,176)	(84,861)
Cash and cash equivalents at beginning of the year	168,544	211,574
Cash and cash equivalents at end of period	$ 141,368	$ 126,713

	Three Month Ended March 31,	
	2012	**2011**
Supplemental cash flow information		
Cash paid for income taxes	$ 18,000	$ 14,000
Cash paid for interest	$ 4,980	$ 8,071

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 U.S. generally accepted accounting principles (GAAP) for interim financial information. The financial statements include all adjustments (consisting only of normal recurring adjustments) the management of PDL BioPharma, Inc. (the Company, PDL, we, us or our) 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, 2011, included in our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission. The Condensed Consolidated Balance Sheet at December 31, 2011, has been derived from the audited Consolidated Financial Statements at that date.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of PDL and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Customer Concentration

The percentage of total revenue earned from our licensees' net product sales, which individually accounted for 10% or more of our total revenues, were:

		Three Months Ended March 31,	
Licensee	**Product Name**	**2012**	**2011**
Genentech, Inc. (Genentech)	*Avastin*®	30%	27%
	Herceptin®	33%	30%
	Lucentis®	14%	11%
Elan Corporation, Plc (Elan)	*Tysabri*®	15%	12%

Foreign Currency Hedging

We hedge certain Euro-denominated currency 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. We do not enter into speculative foreign currency transactions. We have designated the Euro forward contracts as cash flow hedges.

At the inception of the hedging relationship and on a quarterly basis, we assess hedge effectiveness. The fair value of the Euro forward contracts is estimated using pricing models with readily observable inputs from actively quoted markets and are disclosed on a gross basis. The aggregate unrealized gain or loss, net of tax, on the effective portion of the hedge is recorded in stockholders' deficit as accumulated other comprehensive loss. Gains or losses on cash flow hedges are recognized as royalty revenue in the same period that the hedged transaction impacts earnings as royalty revenue. The ineffective portion of the change in fair value of the hedge is recognized in the period it occurs as interest and other income, net. Ineffectiveness, if any, resulting from lower than forecasted Euro based royalties is reclassified from other comprehensive loss and charged against earnings.

Comprehensive Income

In accordance with the Financial Accounting Standards Board (FASB) accounting standard update (ASU) 2011-05, we have presented the components of other comprehensive loss in the Condensed Consolidated Statements of Comprehensive Income in our first quarter of 2012. Also in accordance with this ASU, we have applied this guidance retrospectively to all periods presented. The adoption of the guidance was a change to the presentation of other comprehensive income and had no effect on our condensed consolidated financial statements. See Note 13 for our accumulated other comprehensive loss.

Recent Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-11 that requires new disclosures associated with offsetting financial instruments and derivative instruments on the balance sheet that will enable users to evaluate the effect on an entity's financial position. The ASU will be effective for our first quarter of 2013, but is not expected to have a material impact on our financial statements.

2. Net Income per Share

The computation for net income per basic and diluted share was:

(In thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Numerator		
Net income	$ 40,184	$ 44,545
Add back interest expense for convertible notes, net of estimated tax of $15,000 and $686,000 for the three months ended March 31, 2012 and 2011, respectively (see Note 9)	27	1,275
Income used to compute net income per diluted share	$ 40,211	$ 45,820
Denominator		
Total weighted-average shares used to compute net income per basic share	139,680	139,640
Restricted stock outstanding	68	27
Effect of dilutive stock options	15	-
Assumed conversion of Series 2012 Notes	315	-
Assumed conversion of 2012 Notes	-	19,282
Assumed conversion of February 2015 Notes	126	26,005
Weighted-average shares used to compute net income per diluted share	140,204	184,954

We compute net income per basic share using the weighted-average number of shares of common stock outstanding during the period less the weighted-average number of restricted stock shares that are subject to repurchase.

We compute net income per diluted share using the sum of the weighted-average number of common and common equivalent shares outstanding. Common equivalent shares used in the computation of net income per diluted share include shares that may be issued under our restricted stock awards, our 2.875% Convertible Senior Notes due February 15, 2015 (February 2015 Notes), our 2.875% Series 2012 Convertible Notes due February 15, 2015 (Series 2012 Notes), our 3.75% Senior Convertible Notes due May 1, 2015 (May 2015 Notes) and in 2011, our 2.00% Convertible Senior Notes due February 15, 2012 (2012 Notes), on a weighted average basis for the period that the notes were outstanding, including the effect of adding back interest expense, net of tax, and the underlying shares using the if-converted method. Our 2012 Notes were fully retired as of June 30, 2011, and $179.0 million aggregate principal amount of our February 2015 Notes were exchanged for our Series 2012 Notes in the first quarter of 2012.

The weighted-average shares on our Series 2012 Notes include the assumed shares on the premium of the average market price over the conversion price as our Series 2012 Notes are net share settled, with the principal amount settled in cash and the excess settled in our common stock.

We excluded 21.6 million shares of potential dilution for our May 2015 Notes and 18.4 million shares of potential dilution for our warrants because the conversion price and exercise price exceeded the average market price of our common stock. For the periods presented, no stock was issuable upon conversion; therefore, the May 2015 Notes have been excluded for purposes of computing net income per diluted share. These securities could be dilutive in future periods. In addition, we excluded (21.6) million shares for our purchased call options because they will always be anti-dilutive, therefore, will have no effect on diluted net income per share.

For further information related to our convertible notes, see Note 9.

We excluded 0.2 million and 0.3 million, of outstanding stock options from our net income per diluted share calculations for the three months ended March 31, 2012 and 2011, respectively, 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 we paid 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. As of March 31, 2012, and December 31, 2011, we had no Level 3 assets or liabilities.

The following table summarizes assets and liabilities recorded at fair value by classification category:

	March 31, 2012			December 31, 2011		
(In thousands)	**Level 1**	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
Assets:						
Money market funds	$ 131,984	$ -	$ 131,984	$ 163,368	$ -	$ 163,368
Corporate debt securities	-	37,629	37,629	-	44,877	44,877
Commercial paper	-	8,997	8,997	-	8,996	8,996
U.S. government sponsored agency bonds	2,011	-	2,011	2,015	-	2,015
U.S. treasury securities	5,507	-	5,507	5,513	-	5,513
Foreign currency hedge contracts	-	-	-	-	6,838	6,838
Total	$ 139,502	$ 46,626	$ 186,128	$ 170,896	$ 60,711	$ 231,607
Liabilities:						
Foreign currency hedge contracts	$ -	$ 13,300	$ 13,300	$ -	$ 9,783	$ 9,783

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

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

The fair value of commercial paper is estimated based on observable inputs of the comparable securities.

The following table summarizes assets and liabilities that are not recorded at fair value by classification category:

(In thousands)	March 31, 2012		December 31, 2011	
	Carrying Value	Fair Value Level 2	Carrying Value	Fair Value Level 2
Assets:				
Note receivable	$ 7,426	$ 7,428	$ -	$ -
Liabilities:				
Series 2012 Notes	$ 161,211	$ 199,138	$ -	$ -
May 2015 Notes	140,042	161,654	138,952	156,123
February 2015 Notes	988	1,113	177,663	191,475
Non-recourse Notes	69,531	70,922	93,370	95,237
Total	$ 371,772	$ 432,827	$ 409,985	$ 442,835

The fair value of our note receivable was valued using discounted cash flows incorporating expected payments and the interest rate extended on the note. These inputs are corroborated by market data that market participants use in pricing similar receivables.

The fair value of our convertible notes and our Non-recourse Notes, as defined herein, was based on quoted market pricing or dealer quotes of our notes then outstanding.

We do not estimate the fair value of our royalty assets for financial statement reporting purposes.

4. Cash Equivalents and Investments

As of March 31, 2012, and December 31, 2011, we had invested our excess cash balances primarily in money market funds, corporate debt securities, commercial paper, U.S. government sponsored agency bonds and U.S. treasury securities. Our securities are classified as available-for-sale and are carried at estimated fair value, with unrealized gains and losses, net of estimated taxes, reported in accumulated other comprehensive loss in stockholders' deficit. 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.

A summary of our available-for-sale securities at March 31, 2012, and December 31, 2011, is presented below:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2012:				
Money market funds	$ 131,984	$ -	$ -	$ 131,984
Corporate debt securities	37,560	70	(1)	37,629
Commercial paper	8,997	-	-	8,997
U.S. government sponsored agency bonds	2,002	9	-	2,011
U.S. treasury securities	5,496	11	-	5,507
Total	$ 186,039	$ 90	$ (1)	$ 186,128
December 31, 2011:				
Money market funds	$ 163,368	$ -	$ -	$ 163,368
Corporate debt securities	44,863	57	(43)	44,877
Commercial paper	8,997	-	(1)	8,996
U.S. government sponsored agency bonds	2,003	12	-	2,015
U.S. treasury securities	5,494	19	-	5,513
Total	$ 224,725	$ 88	$ (44)	$ 224,769

Classification on Condensed Consolidated Balance Sheets:	March 31, 2012	December 31, 2011
(In thousands)		
Cash equivalents	$ 134,984	$ 165,367
Short-term investments	46,010	42,301
Long-term investments	5,134	17,101
Total	$ 186,128	$ 224,769

We did not recognize any gains or losses on sales of available-for-sale securities for the three months ended March 31, 2012 and 2011, respectively.

A summary of our portfolio of available-for-sale debt securities by contractual maturity at March 31, 2012, and December 31, 2011, is presented below:

Available-For-Sale Debt Securities by Contractual Maturity	March 31, 2012		December 31, 2011	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than one year	$ 48,922	$ 49,010	$ 44,262	$ 44,300
Greater than one year but less than five years	5,133	5,134	17,095	17,101
Total	$ 54,055	$ 54,144	$ 61,357	$ 61,401

The net unrealized gain on investments, included in other comprehensive loss, net of tax, was approximately $58,000 as of March 31, 2012. 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 March 31, 2012, because our investments in a loss position at March 31, 2012, were less than $1,000, net of tax.

5. Foreign Currency Hedging

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 2013.

The foreign currency exchange contracts used to hedge royalty revenues based on underlying Euro-denominated sales are designated 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.

The notional amounts, Euro exchange rates, fair values of our Euro forward contracts at March 31, 2012, and Euro forward and option contracts at December 31, 2011, designated as cash flow hedges were:

Euro Forward Contracts

			March 31, 2012 (in thousands)		December 31, 2011 (in thousands)	
Currency	Settlement Price ($ per Eurodollar)	Type	Notional Amount	Fair Value	Notional Amount	Fair Value
Euro	1.400	Sell Euro	$ -	$ -	$ 25,150	$ 1,837
Euro	1.200	Sell Euro	-	-	117,941	(9,783)
Euro	1.230	Sell Euro	120,889	(9,915)	-	-
Euro	1.300	Sell Euro	128,700	(3,385)	-	-
Total			$ 249,589	$ (13,300)	$ 143,091	$ (7,946)

Euro Option Contracts

Currency	Strike Price ($ per Eurodollar)	Type	Notional Amount	Fair Value	Notional Amount	Fair Value
Euro	1.510	Purchased call option	$ -	$ -	$ 27,126	$ -
Euro	1.315	Purchased call option	-	-	129,244	5,001
Total			$ -	$ -	$ 156,370	$ 5,001

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

Cash Flow Hedge	Location	Fair Value (In thousands) March 31, 2012	December 31, 2011
Euro contracts	Prepaid and other current assets	$ -	$ 1,837
Euro contracts	Accrued liabilities	9,915	4,134
Euro contracts	Other long-term liabilities	3,385	648

The effect of derivative instruments designated as cash flow hedges in our Condensed Consolidated Statements of Income and our Condensed Consolidated Statements of Comprehensive Income were:

(In thousands)	Three Months Ended March 31, 2012	March 31, 2011
Net loss recognized in OCL, net of tax [1]	$ 5,482	$ 6,980
Gain reclassified from accumulated OCL into royalty revenue, net of tax [2]	1,195	804
Net loss recognized in interest and other income, net [3]	84	-
Amount excluded from effectiveness testing	-	-

[1] Net change in the fair value of the effective portion of cash flow hedges classified in other comprehensive loss (OCL)
[2] Effective portion classified as royalty revenue
[3] Ineffective portion classified as interest and other income, net

For the three months ended March 31, 2012, we recognized a loss of approximately $55,000, net of tax, associated with the ineffectiveness of the modified 2012 foreign exchange hedge. There was no ineffectiveness related to forecasted transactions for the three months ended March 31, 2012 and 2011. Approximately $1.9 million, net of tax, is expected to be reclassified from other comprehensive loss against earnings in the next 12 months.

6. Note Receivable

In March 2012, the Company executed a $7.5 million two-year senior secured note receivable. In addition to interest, the note gives PDL certain rights to negotiate for certain royalty assets. The note was recorded net of origination fees that are accreted to the note receivable as interest income using the interest method. The note bears interest at 10% per annum, with interest due semi-annually and final interest due at maturity together with the principal. The Company has not assigned a risk grade to the receivable or recorded an allowance for credit loss as PDL anticipates all payments will be received in full when due. No impairment has been recorded as the payments on the note are current. For fair value information related to our note receivable, see Note 3.

7. Accrued Liabilities

(In thousands)	March 31, 2012	December 31, 2011
Compensation	$ 1,027	$ 1,341
Interest payable	3,404	3,351
Deferred revenue	-	1,713
Foreign currency hedge	9,915	4,134
Dividend payable	63,029	52
Other	2,264	1,018
Total	$ 79,639	$ 11,609

8. Commitments and Contingencies

Legal Proceedings

Communications with Genentech regarding European SPCs

In August 2010, we received a letter from Genentech, sent on behalf of F. Hoffmann-LaRoche Ltd. (Roche) and Novartis AG (Novartis), asserting that Avastin, Herceptin, Lucentis and Xolair (the Genentech Products) do not infringe the supplementary protection certificates (SPCs) granted to PDL by various countries in Europe for each of the Genentech Products and seeking a response from PDL to these assertions. Genentech did not state what actions, if any, it intends to take with respect to its assertions. PDL's SPCs were granted by the relevant national patent offices in Europe and specifically cover the Genentech Products. The SPCs covering the Genentech Products effectively extend our European patent protection for the '216B Patent generally until December 2014, except that the SPCs for Herceptin will generally expire in July 2014.

Genentech's letter does not suggest that the Genentech Products do not infringe PDL's U.S. patents to the extent that such Genentech Products are made, used or sold in the United States (U.S.-based Sales). Genentech's quarterly royalty payments received after receipt of the letter included royalties generated on all worldwide sales of the Genentech Products.

If Genentech is successful in asserting this position, then under the terms of our license agreements with Genentech, it would not owe us royalties on sales of the Genentech Products that are both manufactured and sold outside of the United States. Royalties on sale of the Genentech Products that are made and sold outside of the United States (ex-U.S.-based Manufacturing and Sales) accounted for approximately 41% of our royalty revenues for the quarter ended March 31, 2012. Based on announcements by Roche regarding moving more manufacturing outside of the United States, we expect this amount to increase in the future.

We believe that the SPCs are enforceable against the Genentech Products, that Genentech's letter violates the terms of the 2003 settlement agreement and that Genentech owes us royalties on sales of the Genentech Products on a worldwide basis. We intend to vigorously assert our SPC-based patent rights.

Nevada Litigation with Genentech, Roche and Novartis in Nevada State Court

In August 2010, we filed a complaint in the Second Judicial District of Nevada, Washoe County, naming Genentech, Roche and Novartis as defendants. We intend to enforce our rights under our 2003 settlement agreement with Genentech and are seeking an order from the court declaring that Genentech is obligated to pay royalties to us on ex-U.S.-based Manufacturing and Sales of the Genentech Products.

The 2003 settlement agreement was entered into as part of a definitive agreement resolving intellectual property disputes between the two companies at that time. The agreement limits Genentech's ability to challenge infringement of our patent rights and waives Genentech's right to challenge the validity of our patent rights. Certain breaches of the 2003 settlement agreement as alleged by our complaint require Genentech to pay us liquidated and other damages of potentially greater than one billion dollars. This amount includes a retroactive royalty rate of 3.75% on past U.S.-based Sales of the Genentech Products and interest, among other items. We may also be entitled to either terminate our license agreements with Genentech or be paid a flat royalty of 3.75% on future U.S.-based Sales of the Genentech Products.

In November 2010, Genentech and Roche filed a motion to dismiss our complaint against them in which we seek to enforce our rights under the 2003 settlement agreement with Genentech. Genentech and Roche's motions to dismiss under Nevada Rule of Civil Procedure 12(b)(5) alleged that all of our claims for relief relating to the 2003 settlement agreement should be dismissed because the 2003 settlement agreement applies only to our U.S. patents. In addition, Roche filed a separate motion to dismiss our complaint under Nevada Rule of Civil Procedure 12(b)(2) on the ground that the Nevada court lacks personal jurisdiction over Roche. On July 7, 2011, the Second Judicial District Court of Nevada ruled in favor of us on the two motions to dismiss filed by Genentech and Roche. The court denied Genentech and Roche's motion to dismiss four of our five claims for relief and, further, denied Roche's separate motion to dismiss for lack of personal jurisdiction. The court dismissed one of our claims that Genentech committed a bad-faith breach of the covenant of good faith and fair dealing stating that, based on the current state of the pleadings, no "special relationship" had been established between Genentech and us as required under Nevada law. On November 1, 2011, the Nevada court issued an order accepting Roche's stipulation of waiver to its personal jurisdiction defense. As a result of the order, Roche is foreclosed from reliance on lack of personal jurisdiction in defending against our claims.

On February 25, 2011, we reached a settlement with Novartis under which, among other things, we agreed to dismiss our claims against Novartis in the action in Nevada state court against Genentech, Roche and Novartis. Genentech and Roche continue to be parties to the Nevada suit.

Lease Guarantee

In connection with the spin-off of Facet Biotech Corporation (Facet) in 2008, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant under the leases, 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 would be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of March 31, 2012, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $108.2 million. We would 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 if Facet were to default. In April 2010, Abbott Laboratories acquired Facet and later renamed the company Abbott Biotherapeutics Corp.

As of March 31, 2012, and December 31, 2011, we had a liability of $10.7 million on our Condensed Consolidated Balance Sheets for the estimated fair value of this guarantee. In future periods, we may increase the recorded liability for this obligation if we conclude that a loss, which is larger than the amount recorded, is both probable and estimable.

9. Convertible Notes and Non-recourse Notes

Description	Maturity Date	Principal Balance Outstanding March 31, 2012	Carrying Value March 31, 2012	Carrying Value December 31, 2011
(In thousands)				
May 2015 Notes	May 1, 2015	$ 155,250	$ 140,042	$ 138,952
Series 2012 Notes	February 15, 2015	179,000	161,211	-
February 2015 Notes	February 15, 2015	1,000	988	177,663
Non-recourse Notes	September 15, 2012	69,531	69,531	93,370
Total carrying value of debt			$ 371,772	$ 409,985

As of March 31, 2012, 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. For fair value information on our convertible notes and Non-recourse Notes, see Note 3.

Series 2012 Notes

In January 2012, we exchanged $169.0 million aggregate principal of our February 2015 Notes for an identical principal amount of new Series 2012 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered for a total cash incentive payment of 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 $10.0 million aggregate principal amount of our February 2015 Notes for an identical principal amount of our Series 2012 Notes.

The terms of the Series 2012 Notes are governed by the indenture dated as of January 5, 2012 (Indenture) 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 semiannually in arrears on February 15 and August 15 of each year. This is the same interest rate that we paid on the February 2015 Notes.

The initial conversion rate of the Series 2012 Notes was 155.396 shares of common stock per $1,000 principal amount, or approximately $6.44 per common share, subject to further adjustment upon certain events including dividend payments. Third party transaction costs of approximately $813,000 related to the exchange transactions have been recognized within general and administrative expense, of which $216,000 was recognized in the first quarter of 2012 and $597,000 was recognized during the year ended December 31, 2011.

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 may be entitled to a make-whole premium in the form of an increase in the conversion rate.

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

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

(In thousands)	**March 31, 2012**
Principal amount of the Series 2012 Notes	$ 179,000
Unamortized discount of liability component	(17,789)
Net carrying value of the Series 2012 Notes	$ 161,211

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

(In thousands)	**For the Three Months Ended March 31, 2012**
Contractual coupon interest	$ 1,263
Amortization of debt issuance costs	271
Amortization of debt discount	1,365
Total	$ 2,899

As of March 31, 2012, our Series 2012 Notes are convertible into 159.098 shares of the Company's common stock per $1,000 of principal amount, or approximately $6.29 per common share, subject to further adjustment upon certain events including dividend payments. As of March 31, 2012, the remaining discount amortization period was 2.9 years.

For the quarter ended December 31, 2011, our common stock price did not exceed the conversion threshold price of $8.37 per common share for at least 20 days during the 30 consecutive trading days ended December 31, 2011. Accordingly the Series 2012 Notes were not convertible at the option of the holder during the quarter ended March 31, 2012. For the quarter ended March 31, 2012, our common stock did not exceed the conversion threshold price of $8.17 for at least 20 days during 30 consecutive trading days ended March 31, 2012. Accordingly the Series 2012 Notes are not convertible at the option of the holder during the quarter ended June 30, 2012. At March 31, 2012, the if-converted value of our Series 2012 Notes exceeded their principal amount by approximately $2.1 million.

May 2015 Notes

Our May 2015 Notes are convertible into 139.2165 shares of the Company's common stock per $1,000 of principal amount, or approximately $7.18 per common share, subject to further adjustment upon certain events including dividend payments. If a conversion occurs, to the extent that the conversion value exceeds the principal amount, the principal amount is due in cash and the difference between the conversion value and the principal amount is due in shares of the Company's common stock. As of March 31, 2012, the remaining discount amortization period was 3.1 years.

The principal amount, carrying value and unamortized discount of our May 2015 Notes were:

(In thousands)	**March 31, 2012**	**December 31, 2011**
Principal amount of the May 2015 Notes	$ 155,250	$ 155,250
Unamortized discount of liability component	(15,208)	(16,298)
Net carrying value of the May 2015 Notes	$ 140,042	$ 138,952

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

(In thousands)	**For the Three Months Ended March 31, 2012**
Contractual coupon interest	$ 1,455
Amortization of debt issuance costs	295
Amortization of debt discount	1,090
Total	$ 2,840

As of March 31, 2012, 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.

Purchased Call Options

The purchased call options cover, subject to anti-dilution and certain other customary adjustments substantially similar to those in our May 2015 Notes, approximately 21.6 million shares of our common stock at a strike price of approximately $7.18, which corresponds to the conversion price of our May 2015 Notes. 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.

Warrants

At March 31, 2012, the outstanding warrants of up to 27.5 million shares of common stock underlying our May 2015 Notes, have a current strike price of approximately $8.45 per share, subject to additional anti-dilution and certain other customary adjustments.

February 2015 Notes

As of March 31, 2012, our February 2015 Notes aggregate principal amount outstanding was $1.0 million after the completion of our exchange transactions for new Series 2012 Notes. As of March 31, 2012, the remaining unamortized issuance costs of $16,000 and the unamortized discount of $12,000 are being amortized to interest expense over the term of our February 2015 Notes, with a remaining amortization period of approximately 2.9 years. As of March 31, 2012, our February 2015 Notes were convertible into 159.098 shares of common stock per $1,000 principal amount or approximately $6.29 per common share.

Non-recourse Notes

As of March 31, 2012, the remaining principal balance was $69.5 million and the remaining unamortized issuance costs of $0.6 million, were included as a component of Prepaid and other current assets on the Condensed Consolidated Balance Sheets. These issuance costs are being amortized to interest expense using the effective interest method with approximately 0.5 years remaining.

10. Stock-Based Compensation

Stock-based compensation expense for directors and employees for the three months ended March 31, 2012 and 2011, was $150,500 and $49,900, respectively. For the three months ended March 31, 2011, there was only stock-based compensation for directors. Additionally, we recorded stock-based award expense for outside consultants of $53,900 for the three months ended March 31, 2012.

11. Cash Dividends

On January 18, 2012, our board of directors declared that the regular quarterly dividends to be paid to our stockholders in 2012 will be $0.15 per share of common stock, payable on March 14, June 14, September 14 and December 14 of 2012 to stockholders of record on March 7, June 7, September 7 and December 7 of 2012, the record dates for each of the dividend payments, respectively.

In connection with the March 14, 2012, dividend payment, the conversion rates for our convertible notes increased as follows:

Convertible Notes	Conversion Rate per $1,000 Principal Amount	Approximate Conversion Price Per Common Share	Effective Date
May 2015 Notes	139.2165	$ 7.18	March 5, 2012
Series 2012 Notes	159.098	$ 6.29	March 5, 2012
February 2015 Notes	159.098	$ 6.29	March 8, 2012

12. Income Taxes

Income tax expense was $21.6 million and $24.0 million for the three months ended March 31, 2012 and 2011, respectively, and was primarily derived by applying the federal statutory rate of 35% to operating income before income taxes.

13. Accumulated Other Comprehensive Loss

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

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

(In thousands)	Unrealized gains on available-for-sale securities	Unrealized losses on cash flow hedges	Total Accumulated Other Comprehensive Loss
Beginning Balance at December 31, 2011	$ 29	$ (1,914)	$ (1,885)
Activity for the three months ended March 31, 2012	29	(6,677)	(6,648)
Ending Balance at March 31, 2012	$ 58	$ (8,591)	$ (8,533)

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 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. Today, PDL is focused on intellectual property asset management, investing in new royalty bearing assets and maximizing the value of its patent portfolio and related assets. We receive royalties based on sales of humanized antibody products marketed today and may also receive royalty payments on additional humanized antibody products launched before final patent expiry in December 2014. Under most of our licensing agreements, we are entitled to receive a flat-rate or tiered royalty based upon our licensees' net sales of covered antibodies.

We continuously evaluate alternatives to increase return for our stockholders, for example, purchasing new royalty generating assets, buying back or redeeming our convertible notes, repurchasing our common stock, selling the company and paying dividends. 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

Declaration of 2012 Regular Quarterly Dividends and March 14, 2012, Dividend Payment

On January 18, 2012, our board of directors declared that the regular quarterly dividends to be paid to our stockholders in 2012 will be $0.15 per share of common stock, payable on March 14, June 14, September 14 and December 14 of 2012 to stockholders of record on March 7, June 7, September 7 and December 7 of 2012, the record dates for each of the dividend payments, respectively. On March 14, 2012, we paid the first quarterly dividend to our stockholders totaling $21.0 million using earnings generated in the first quarter of 2012 and cash on hand.

Convertible Notes

In our continued efforts to restructure the Company's capital and reduce the potential dilution associated with our convertible notes, in January 2012, we exchanged $169.0 million aggregate principal amount, of our 2.875% Convertible Senior Notes due February 15, 2015 (February 2015 Notes), for an identical principal amount of new 2.875% Series 2012 Convertible Senior Notes due February 15, 2015 (Series 2012 Notes), plus a cash payment of $5.00 for each $1,000 principal amount tendered for a total cash incentive payment of approximately $0.8 million. In February 2012, we entered into separate privately negotiated exchange agreements under which we exchanged an additional $10.0 million aggregate principal amount of our February 2015 Notes for an identical principal amount of our Series 2012 Notes. As of March 31, 2012, $1.0 million of our February 2015 Notes and $179.0 million of our Series 2012 Notes were outstanding. Our Series 2012 Notes net share settle, meaning upon a conversion, the principal amount would be paid in cash, and the excess, if any, would be settled in shares of the Company's common stock. The effect of issuing $179.0 million aggregate principal of our Series 2012 Notes with the net share settle feature in exchange for our February 2015 Notes was the reduction of 27.8 million shares of potential dilution to our stockholders.

Effect of March 14, 2012, Dividend Payment on Conversion Rates for the Convertible Notes

In connection with the March 14, 2012, dividend payment, the conversion rates for our convertible notes increased as follows:

Convertible Notes	Conversion Rate per $1,000 Principal Amount	Approximate Conversion Price Per Common Share	Effective Date
May 2015 Notes	139.2165	$ 7.18	March 5, 2012
Series 2012 Notes	159.098	$ 6.29	March 5, 2012
February 2015 Notes	159.098	$ 6.29	March 8, 2012

In connection with a cash dividend, the conversion rates increase based on multiplying the previous conversion rate by a fraction, calculated as follows:

- for the May 2015 Notes, the numerator equals the average closing price of PDL's common stock for the ten consecutive trading days immediately preceding the ex-dividend date, and the denominator of which is such ten day average closing price less the per share dividend amount; and

- for the Series 2012 Notes and February 2015 Notes, the numerator equals the average closing price of PDL's common stock for the five consecutive trading days immediately preceding the ex-dividend date, and the denominator of which is such five day average closing price less the per share dividend amount.

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.

The following is a list of our U.S. patents within our Queen et al. patent portfolio:

Application Number	Filing Date	Patent Number	Issue Date	Expiration Date
08/477,728	06/07/95	5,585,089	12/17/96	06/25/13
08/474,040	06/07/95	5,693,761	12/02/97	12/02/14
08/487,200	06/07/95	5,693,762	12/02/97	06/25/13
08/484,537	06/07/95	6,180,370	01/30/01	06/25/13

Our U.S. Patent No. 5,693,761 patent (‘761 patent), which is the last to expire of our U.S. patents, 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.

The European Patent No. 0 451 216B (‘216B Patent) expired in Europe in December 2009. We have been granted Supplementary Protection Certificates (SPCs) for the Avastin®, Herceptin®, Lucentis®, Xolair® and Tysabri® products in many of the jurisdictions in the European Union in connection with the ‘216B Patent. These SPCs effectively extend our patent protection with respect to these products generally until December 2014, except that the SPCs for Herceptin will generally expire in July 2014. Because SPCs are granted on a jurisdiction-by-jurisdiction basis, the duration of the extension varies slightly in certain jurisdictions. We may still be eligible for royalties notwithstanding the unavailability of SPC protection if the relevant royalty-bearing humanized antibody product is also made, used, sold or offered for sale in or imported from a jurisdiction in which we have an unexpired Queen et al. patent such as the United States.

Licensing Agreements

We have entered into licensing agreements with numerous entities that are independently developing or have developed humanized antibodies under which we have licensed certain rights under our Queen et al. patents to make, use, sell, offer for sale and import humanized antibodies. We receive royalties on net sales of products that are made, used 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 based upon our licensees’ net sales of covered antibodies. Additionally, we receive minimal annual maintenance fees, as well as periodic milestone payments, from licensees of our Queen et al. patents prior to patent expiry. 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.

Licensing Agreements for Marketed Products

In the three months ended March 31, 2012, we received royalties on sales of the seven humanized antibody products listed below, all of which are currently approved for use by the U.S. Food and Drug Administration (FDA) and other regulatory agencies outside the United States.

Licensee	Product Names
Genentech, Inc. (Genentech)	Avastin®
	Herceptin®
	Xolair®
	Lucentis®
Elan Corporation, Plc (Elan)	Tysabri®
Wyeth Pharmaceuticals, Inc. (Wyeth)	Mylotarg®
Chugai Pharmaceutical Co., Ltd. (Chugai)	Actemra®

For the three months ended March 31, 2012 and 2011, we received royalty revenues under license agreements of $77.3 million and $73.3 million, respectively.

In June 2010, after results from a clinical trial raised concerns about the efficacy and safety of Mylotarg®, Pfizer Inc. (Pfizer), the parent company of Wyeth, announced that it will be discontinuing commercial availability of Mylotarg. For the three months ended March 31, 2012 and 2011, our royalties for sales of Mylotarg were insignificant.

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. Our master patent license agreement with Genentech provides for a tiered royalty structure under which the royalty rate Genentech must pay on royalty-bearing products sold in the United States or manufactured in the United States and used or sold anywhere in the world (U.S.-based Sales) in a given calendar year decreases 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 are outlined below:

Genentech Products Made of Sold in the U.S.	Royalty Rate
Net sales up to $1.5 billion	3.0%
Net sales between $1.5 billion and $2.5 billion	2.5%
Net sales between $2.5 billion and $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 will decline as Genentech's U.S.-based Sales increase during that year. Because we receive royalties one quarter in arrears, the average royalty rates for the payments we receive from Genentech for U.S.-based Sales in the second calendar quarter for Genentech's sales from the first calendar quarter have been and are expected to continue to be higher than the average royalty rates for following quarters. The average royalty rates for payments we receive from Genentech are 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 bear royalties at the 1% royalty rate.

With respect to royalty-bearing products that are both manufactured and sold outside of the United States (ex-U.S.-based Manufacturing and Sales), the royalty rate that we receive from Genentech is a fixed rate of 3.0% based on 95% of the underlying gross ex-U.S.-based Manufacturing and Sales. The mix of U.S.-based Sales and ex-U.S.-based Manufacturing and Sales has fluctuated in the past and may continue to fluctuate in future periods, particularly in light of the 2009 acquisition of Genentech by Roche. The percentage of net global sales that were generated outside of the United States and the percentage of net global sales that were ex-U.S.-based Manufacturing and Sales are outlined in the following table:

Manufacturing Split

	Three Months Ended March 31,	
	2012	**2011**
Avastin		
Ex-U.S.-based sales	57%	56%
Ex-U.S.-based Manufacturing and Sales	27%	19%
Herceptin		
Ex-U.S.-based sales	70%	71%
Ex-U.S.-based Manufacturing and Sales	35%	40%
Lucentis		
Ex-U.S.-based sales	60%	57%
Ex-U.S.-based Manufacturing and Sales	0%	0%
Xolair		
Ex-U.S.-based sales	40%	39%
Ex-U.S.-based Manufacturing and Sales	40%	39%

The information in the table above is based on information provided to us by Genentech. We were not provided the reasons for the shift in the manufacturing split between U.S.-based Sales and ex-U.S.-based Manufacturing and Sales.

In the three months ended March 31, 2012 and 2011, PDL received royalties generated from three of Genentech's licensed products that were ex-U.S.-based manufactured and sold: Herceptin, Avastin and Xolair. Roche has announced that there are new plants in Singapore for the production of Avastin and Lucentis. The plants were registered by the FDA to produce bulk Avastin and Lucentis for use in the United States in 2010 and Roche expects the plants to be registered to produce bulk Avastin and Lucentis for use in Europe. 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. Our licensing agreements with Genentech entitle us to royalties following the expiration of our patents with respect to sales of products manufactured prior to patent expiry in jurisdictions providing patent protection.

Elan

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 a4 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. 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.

Wyeth

We entered into a patent license agreement, effective September 1, 1999, under which we granted to Wyeth a license under our Queen et al. patents to make, use and sell antibodies that bind to CD33, an antigen that is found in about 80% of patients with acute myeloid leukemia, and conjugated to a cytotoxic agent. Under the agreement, we are entitled to receive a flat royalty rate in the low single digits based on Wyeth's net sales of the Mylotarg product. The agreement continues until the expiration of the last to expire of our Queen et al. patents but may be terminated (i) by Wyeth 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 June 2010, after results from a recent clinical trial raised concerns about the efficacy and safety of Mylotarg, Pfizer, the parent company of Wyeth, announced that it will be discontinuing commercial availability of Mylotarg.

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

Licensing Agreements for Non-Marketed Products

We have also entered into licensing agreements under which we have licensed certain rights under our Queen et al. patents to make, use and sell certain products in development that have not yet reached commercialization. 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, trastuzumab-DM1 (T-DM1) which is an experimental, antibody-drug conjugate that links Herceptin to a cytotoxic, or cell killing agent, DM1, is being developed by Genentech. This approach is designed to increase the already significant tumor fighting ability of Herceptin by coupling it with an additional cell killing agent that is efficiently and simultaneously delivered to the targeted cancer cells by the antibody. Two additional examples are the Eli Lilly and Company (Lilly) and Wyeth licensed antibodies for the treatment of Alzheimer's disease that are currently in Phase 3 clinical trials. If Lilly's antibody for Alzheimer's disease is approved, we would also 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 2% royalty payable for "know-how" runs for 12.5 years after the product's initial commercialization.

Economic and Industry-wide Factors

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

Critical Accounting Policies and Uses of Estimates

During the three months ended March 31, 2012, 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, 2011, except for the foreign currency hedging presented below.

Foreign Currency Hedging

We hedge certain Euro-denominated currency 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. We do not enter into speculative foreign currency transactions. We have designated the Euro forward contracts as cash flow hedges.

At the inception of the hedging relationship and on a quarterly basis, we assess hedge effectiveness. The fair value of the Euro forward contracts is estimated using pricing models with readily observable inputs from actively quoted markets and are disclosed on a gross basis. The aggregate unrealized gain or loss, net of tax, on the effective portion of the hedge is recorded in stockholders’ deficit as accumulated other comprehensive loss. Gains or losses on cash flow hedges are recognized as royalty revenue in the same period that the hedged transaction impacts earnings as royalty revenue. The ineffective portion of the change in fair value of the hedge due to the modification of the 2012 hedge is recognized in the period it occurs as interest and other income, net. Ineffectiveness, if any, resulting from lower Euro based royalties than forecasted is reclassified from other comprehensive loss and charged against earnings.

Operating Results

Revenues

A summary of our revenues is presented below:

(Dollars in thousands)	Three Months Ended March 31, 2012	2011	Change from Prior Year %
Revenues			
Royalties	$ 77,344	$ 73,336	5%
License and other	-	10,000	-100%
Total revenues	$ 77,344	$ 83,336	-7%

Three Months Ended March 31, 2012, compared to March 31, 2011

Total revenues were $77.3 million and $83.3 million for the three months ended March 31, 2012 and 2011, respectively, and consist of royalty revenues as well as license and other revenues. Additionally, for the three months ended March 31, 2011, our license and other revenues included a one-time $10.0 million payment from our legal settlement with UCB Pharma, S.A. (UCB) resolving all legal disputes between the two companies, including those relating the UCB’s pegylated humanized antibody fragment, Cimzia®, and PDL’s patents known as the Queen et al. patents.

For the three months ended March 31, 2012 and 2011, our royalty revenues consisted of royalties and maintenance fees earned on sales of products under license agreements associated with our Queen et al. patents. Royalty revenue for the three months ended March 31, 2012, is net of the payment made under our February 2011 settlement agreement with Novartis, which is based on a portion of the royalties that the company receives from Lucentis sales made by Novartis outside the United States. The amount paid is less than we receive in royalties on such sales.

Royalty revenues increased 5% for the three months ended March 31, 2012, when compared to the same period in 2011. The growth is primarily driven by increased net sales in the fourth quarter of 2011 of Herceptin, Lucentis, Xolair and Tysabri by our licensees. Net sales of Herceptin, Lucentis, Xolair and Avastin, are subject to a tiered royalty rate for product that is U.S.-based Sales and a flat royalty rate of 3% for product that is ex-U.S.-based Manufacturing and Sales.

- Reported worldwide net sales of Herceptin increased $123.7 million, or 9%, in the fourth quarter of 2011 compared to the same period for the prior year. Roche recently reported that in 2011, Herceptin global sales growth was driven by expanded access in developing countries, increased and improved HER2 testing and continued uptake in HER2-positive stomach cancer. Additionally, Roche reported that sustained double-digit increases were recorded internationally, with strong demand in Latin America and the Asia-Pacific region. Ex-U.S. manufactured and sold Herceptin sales represented 35% of total Herceptin sales in the fourth quarter of 2011 as compared with 40% in the fourth quarter of 2010.

- Reported worldwide net sales of Lucentis increased $191.3 million, or 22%, in the fourth quarter of 2011 compared to the same period for the prior year. Lucentis is approved for the treatment of age-related macular degeneration (AMD) in the United States and in Europe. Lucentis received approval for the treatment of macular edema following retinal vein occlusion (RVO) in June 2010 in the United States and June 2011 in Europe. In January 2011, Lucentis was also approved in Europe for the treatment of visual impairment due to diabetic macular edema. Roche recently reported that strong U.S. sales growth was driven by growth of the AMD market and the new RVO indication. All sales of Lucentis were from inventory produced in the U.S. Reported sales in 2011 increased 15% in the United States and 27% internationally.

- Reported worldwide net sales of Tysabri increased $44.7 million, or 14%, in the fourth quarter of 2011 compared to the same period for the prior year. Tysabri royalties are determined at a flat rate as a percentage of the sales regardless of location of manufacture or sale.

- Reported net sales of Avastin decreased $94.7 million, or 6%, in the fourth quarter of 2011 compared to the same period for the prior year. Roche has recently reported that a significant portion of the decline in sales in the U.S. was due to reimbursement uncertainty regarding the metastatic breast cancer indication, which was revoked by the U.S. Food and Drug Administration in November 2011, and that U.S. market share for all other indications remained stable. In Europe, austerity measures along with lower use of Avastin for breast cancer led to lower sales, but market penetration in colorectal cancer remained stable. The decrease in sales was offset by an increase in royalties due to a shift in ex-US manufactured and sold product with 27% of total sales in the fourth quarter of 2011 generated from ex-US manufactured and sold product compared to 19% in the same period in 2010.

The following table summarizes the percentage of our total revenues earned from our licensees' net product sales, which individually accounted for 10% or more of our total revenues:

		Three Months Ended March 31,	
Licensee	**Product Name**	**2012**	**2011**
Genentech	*Avastin*	30%	27%
	Herceptin	33%	30%
	Lucentis	14%	11%
Elan	*Tysabri*	15%	12%

Foreign currency exchange rates also impact our revenue results. 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, 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. The impact on full year revenue is greatest in the second quarter when we receive the largest amount of royalties because the Genentech tiered royalties are at their highest rate for first quarter sales.

For the quarters ended March 31, 2012 and 2011, we recognized $1.8 million and $1.2 million in royalty revenues from our Euro forward contracts, respectively.

Operating Expenses

(Dollars in thousands)	Three Months Ended March 31, 2012	2011	Change from Prior Year %
Operating expenses			
General and administrative	$ 6,945	$ 5,779	20%

For the three months ended March 31, 2012, compared to March 31, 2011

The increase in operating expenses was primarily driven by expenses related to the Series 2012 Notes exchange transactions, our efforts to acquire new royalty assets, increased use of outside consultants and compensation related expenses with the approval of the 2012 Long-Term Incentive Plan in May 2011.

Individual components of operating expenses comprise:

(Dollars in thousands)	Three Months Ended March 31, 2012	2011	Change from Prior Year %
Operating expenses:			
General and administrative			
Compensation and benefits	$ 1,124	$ 942	19%
Legal fees	3,529	3,495	1%
Professional services	1,029	568	81%
Stock-based compensation	204	50	308%
All other	1,059	724	46%
Total general and administrative	$ 6,945	$ 5,779	20%

Non-operating Expense, Net

A summary of our non-operating expense, net, is presented below:

(Dollars in thousands)	Three Months Ended March 31, 2012	2011	Change from Prior Year %
Interest and other income, net	$ 90	$ 175	-49%
Interest expense	(8,700)	(9,154)	-5%
Total non-operating expense, net	$ (8,610)	$ (8,979)	-4%

For the three months ended March 31, 2012, compared to March 31, 2011

Non-operating expense, net, decreased primarily due to lower interest expense as a result of our $114.4 million reduction in the principal balance of our Non-recourse Notes at March 31, 2012, compared to March 31, 2011, offset, in part, by increased interest expense on our May 2015 Notes and our Series 2012 Notes. This increase in interest consisted primarily of $2.5 million related to non-cash interest expense as we were required to compute interest using similar non-convertible instruments in accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion.

Income Taxes

Income tax expense for the three months ended March 31, 2012 and 2011, was $21.6 million and $24.0 million, respectively, and was primarily derived by applying the federal statutory income tax rate of 35% to operating income before income taxes.

Net Income per Share

Net income per share for the three months ended March 31, 2012 and 2011, was:

	Three Months Ended March 31,	
	2012	**2011**
Net income per basic share	$ 0.29	$ 0.32
Net income per diluted share	$ 0.29	$ 0.25

Net income for the first quarter of 2012 was $40.2 million, or $0.29 per diluted share, as compared with net income of $44.5 million, or $0.25 per diluted share, for the same period of 2011. First quarter net income per diluted share is higher in 2012 because we eliminated 44.8 million potentially dilutive shares from the diluted earnings per share calculation by restructuring two of our convertible notes in 2011 and early 2012 to "net share settle."

Non-GAAP Net Income per Share

We are presenting net income per share in conformance with GAAP and also on a non-GAAP basis for the three months ended March 31, 2012 and 2011, because management believes that presenting this non-GAAP information enhances investors’ understanding of how management assesses the performance of the Company’s business. For example, our Series 2012 Notes and our May 2015 Notes include non-cash interest expense due to the required accounting treatment for the net share settlement feature of convertible debt that affects comparability between the quarters presented. We do not use these non-GAAP measures for compensation determinations. Non-GAAP financial information is not prepared under a comprehensive set of accounting rules and should only be used to supplement an understanding of the Company’s net income as reported under GAAP. The effect of the non-GAAP adjustments to net income per diluted share for the three months ended March 31, 2012, increases net income per diluted share from $0.29 to $0.30. There were no non-GAAP adjustments to net income per diluted share for the three months ended March 31, 2011.

The adjustments comprise:

For the three months ended March 31, 2012, to limit the potential dilution from our February 2015 Notes, we exchanged $179.0 million in aggregate principal of our February 2015 Notes, for an identical amount of Series 2012 Notes. However, our Series 2012 Notes include a net settlement feature, which required us, in accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, to separately account for the liability component of the instrument in a manner that reflects the market interest rate for a similar nonconvertible instrument during the period of the exchange. As a result, we separated the principal balance of our Series 2012 Notes between the fair value of the debt component and the common stock conversion feature. Using an assumed borrowing rate of 7.3%, the estimated market interest rate for a similar nonconvertible instrument available to us during the period of the exchange, we recorded a total debt discount of $16.8 million, of which $10.9 million was allocated to additional paid-in capital and $5.9 million to deferred tax liability. For the three months ended March 31, 2012, the additional non-cash interest expense attributable to using an implied borrowing rate of 7.3% rather than the stated coupon rate of 2.875% was $1.4 million, or $0.9 million, net of tax. Additionally, the non-cash interest related to our May 2015 Notes for the three months ended March 31, 2012 was $1.1 million or $0.7 million, net of tax.

Excluding the non-cash interest expense of our Series 2012 Notes and May 2015 Notes, net of tax, non-GAAP net income per diluted share was:

	Three Months Ended March 31,	
(In thousands)	2012	2011
Numerator		
Net income	$ 40,184	$ 44,545
Amortization of debt discount on Series 2012 Notes and May 2015 Notes, net of $0.9 million estimated taxes	1,596	-
Non-GAAP net income	41,780	44,545
Add back interest expense for convertible notes, net of estimated tax	27	1,275
Non-GAAP income used to compute non-GAAP net income per diluted share	$ 41,807	$ 45,820
Denominator		
Shares used to compute net income per diluted share	140,204	184,954
Non-GAAP net income per diluted share	$ 0.30	$ 0.25

Liquidity and Capital Resources

We finance our operations primarily through royalty and other license related revenues and public and private placements of debt and equity securities. 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 of $192.5 million and $227.9 million at March 31, 2012, and December 31, 2011, respectively. The $35.4 million decrease was primarily attributable to payment of dividends of $21.0 million, principal repayment on our Non-recourse Notes of $23.8 million, cash advanced on a note receivable of $7.4 million and the $0.8 million incentive payment on our Series 2012 Notes exchange transaction, offset by net cash provided by operating activities of $17.9 million. We believe that cash from future royalty revenues, net of operating expenses, debt service and income taxes, plus cash on hand, will be sufficient to fund our operations over the next several years. The last of our Queen et al. patents expire in December 2014, with the obligation to pay royalties under various license agreements expiring sometime thereafter, and we do not expect to receive any meaningful revenue from the inventories produced prior to the expiration of our Queen et al. patents beyond the first quarter of 2016. As such, we are pursuing the acquisition of new royalty generating assets if we believe we can acquire such royalty assets on terms that allow us to generate a profitable return to our stockholders.

We continuously evaluate alternatives to increase return for our stockholders, for example, purchasing royalty generating assets, buying back our convertible notes, repurchasing our common stock, selling the Company and paying dividends. On January 18, 2012, our board of directors declared regular quarterly dividends of $0.15 per share of common stock, payable on March 14, June 14, September 14 and December 14 of 2012 to stockholders of record on March 7, June 7, September 7 and December 7 of 2012, the record dates for each of the dividend payments, respectively. The first of such dividends was paid on March 14, 2012. As of March 31, 2012, we have accrued $63.0 million for the remaining 2012 dividend payments.

Convertible Notes

Series 2012 Notes

In January 2012, we completed a debt exchange transaction where we exchanged $169.0 million aggregate principal amount of our February 2015 Notes, for an identical principal amount of new Series 2012 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered for a total cash incentive payment of approximately $0.8 million. Additionally, in February 2012, we entered into separate privately negotiated exchange agreements under which we exchanged an additional $10.0 million aggregate principal amount of our February 2015 Notes for an identical principal amount of our Series 2012 Notes. Like our May 2015 Notes, our Series 2012 Notes net share settle. The effect of issuing $179.0 million aggregate principal of our Series 2012 Notes with the net share settle feature in exchange for our February 2015 Notes was the reduction of 27.8 million shares of potential dilution to our stockholders.

Our Series 2012 Notes bear interest at a rate of 2.875% per annum, payable semiannually in arrears on February 15 and August 15 of each year, beginning on February 15, 2012. This is the same interest rate as is payable for the February 2015 Notes. The Series 2012 Notes mature on February 15, 2015, unless earlier repurchased or converted. The Company may not redeem the Series 2012 Notes prior to their stated maturity date. Our Series 2012 Notes are not puttable by the note holders other than in the context of a fundamental change resulting in the reclassification, conversion, exchange or cancellation of our common stock. Such repurchase event or 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.

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.

Upon conversion of Series 2012 Notes, the Company will be required to pay cash and, if applicable, deliver shares of the Company's common stock. Our Series 2012 Notes are convertible into 159.098 shares of the Company's common stock per $1,000 of principal amount or approximately $6.29 per share of our common stock, subject to further adjustment upon certain events including dividend payments. As of March 31, 2012, $179.0 million of our Series 2012 Notes were outstanding and the if-converted value exceeded the principal amount by approximately $2.1 million. However, the stock price at March 31, 2012 did not exceed the threshold price of $8.37 per common share.

May 2015 Notes

Our May 2015 Notes are due May 1, 2015, and are convertible into 139.2165 shares of the Company's common stock per $1,000 of principal amount, or approximately $7.18 per share of our common stock, subject to further adjustment upon certain events including dividend payments. Our May 2015 Notes bear interest at a rate of 3.75% per annum, payable semiannually in arrears on May 1 and November 1 of each year, beginning November 1, 2011. 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.

If a conversion occurs, to the extent that the conversion value exceeds the principal amount, the principal amount is due in cash and the difference between the conversion value and the principal amount is due in shares of the Company's common stock. As of March 31, 2012, $155.3 million of our May 2015 Notes were outstanding.

Our purchased call option transactions with two hedge counterparties entitle the Company to purchase up to 21.6 million shares of the Company's common stock. In addition, the warrants we sold to the hedge counterparties are exercisable, on a cashless basis, for up to 27.5 million shares of the Company's common stock. 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, subject to further adjustment upon certain events including dividends, are approximately $7.18 and $8.45, for the purchased call options and warrants, respectively.

If the share price is above $7.18, 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 $8.45, 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 $8.45. For example, a 10% increase in the share price above $8.45 would result in the issuance of 2.0 million incremental shares upon exercise of the warrants. As our share price continues to increase, additional dilution would occur.

While the purchased call options are expected to reduce the potential equity dilution upon conversion of our May 2015 Notes, prior to conversion or exercise, our May 2015 Notes and the warrants could have a dilutive effect on the Company's earnings per share to the extent that the price of the Company's common stock during a given measurement period exceeds the respective exercise prices of those instruments. As of March 31, 2012, the if-converted amount of our May 2015 Notes was less than the principal amount. The purchased call options and warrants are considered indexed to PDL stock, require net-share settlement, and met all criteria for equity classification at inception and at March 31, 2012.

February 2015 Notes

As of March 31, 2012, $1.0 million of our February 2015 Notes were outstanding and met the criteria for conversion into shares of our common stock. In January and February 2012, we exchanged $179.0 million of our February 2015 Notes for an identical amount of our new Series 2012 Notes. Our February 2015 Notes are due February 15, 2015, and are convertible at any time, at the holders' option, into our common stock at a conversion price of 159.098 shares of common stock per $1,000 principal amount or $6.29 per share of common stock, subject to further adjustment in certain events including dividend payments. Our February 2015 Notes bear interest at a rate of 2.875% per annum, payable semiannually in arrears on February 15 and August 15 of each year. Our February 2015 Notes are senior unsecured debt and are redeemable by us in whole or in part on or after August 15, 2014, at 100% of principal amount. Our February 2015 Notes are not puttable by the note holders other than in the context of a fundamental change resulting in the reclassification, conversion, exchange or cancellation of our common stock. Such repurchase event or 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. The issuance of our February 2015 Notes was not registered under the Securities Act of 1933, as amended, in reliance on exemption from registration thereunder.

Non-recourse Notes

In November 2009, we completed a $300 million securitization transaction whereby we monetized 60% of the net present value of the estimated future five year royalties (the Genentech Royalties) from sales of Avastin, Herceptin, Lucentis, Xolair (the Genentech Products) and future products, if any, under which Genentech may take a license under our related agreements with Genentech. Our Non-recourse Notes due March 15, 2015 (Non-recourse Notes), bear interest at 10.25% per annum, payable quarterly in arrears, and were issued in a non-registered offering by QHP, a Delaware limited liability company, and newly formed, wholly-owned subsidiary of PDL. The Genentech Royalties and other payments, if any, that QHP is entitled to receive under the agreements with Genentech, together with any funds made available from certain accounts of QHP, are the sole source of payment of principal and interest on our Non-recourse Notes, which are secured by a continuing security interest granted by QHP in its rights to receive the Genentech Royalties. Our Non-recourse Notes may be redeemed at any time prior to maturity, in whole or in part, at the option of QHP at a make-whole redemption price. The amount of quarterly repayment of the principal of our Non-recourse Notes will vary based upon the amount of future quarterly Genentech Royalties received. As of March 31, 2012, $69.5 million in aggregate principal of our Non-recourse Notes was outstanding. The anticipated final repayment date of our Non-recourse Notes is September 2012.

Contractual Obligations

As of March 31, 2012, our contractual obligations consisted primarily of our Series 2012, our May 2015 Notes, our February 2015 Notes and our Non-recourse Notes, which in the aggregate totaled $404.8 million in principal. Our Series 2012 Notes, our May 2015 Notes and our February 2015 Notes are not puttable by the note holders other than in the context of a fundamental change as discussed above.

We expect that our debt service obligations over the next several years will consist of interest payments and repayment of our Series 2012 Notes, our May 2015 Notes and our February 2015 Notes. Also our debt service obligations in 2012 include our Non-recourse-Notes, which we expect will be fully retired in the third quarter of 2012. 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.

Note Receivable

In March 2012, we provided cash of approximately $7.4 million through a senior secured note receivable with a two-year term. In addition to interest, the note gives PDL certain rights to negotiate for certain royalty assets. The note was recorded net of origination fees that are accreted to the note receivable as interest income using the interest method. The note bears interest at 10% per annum, with interest due semi-annually and the final interest due at maturity together with the principal. The Company has not assigned a risk grade to the receivable or recorded an allowance for credit loss as PDL anticipates all payments will be received in full when due. No impairment has been recorded as the payments on the note are current.

Lease Guarantee

In connection with the spin-off of Facet Biotech Corporation (Facet) in 2008, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the spin-off date. Should Facet default under its lease obligations, we could be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of March 31, 2012, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $108.2 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. In April 2010, Abbott Laboratories acquired Facet and later renamed the company Abbott Biotherapeutics Corp. We have recorded a liability of $10.7 million on our Condensed Consolidated Balance Sheets as of March 31, 2012, and December 31, 2011, related to this guarantee.

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 is subject to foreign currency exchange risk. For example, in a quarter in which we generate $70 million in royalty revenues, 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. 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 than the rate that was insured 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. We have designated the Euro forward contracts as cash flow hedges. At the inception of the hedging relationship and on a quarterly basis, we assess hedge effectiveness. The aggregate unrealized gain or loss, net of tax, on the effective component of the hedge, is recorded in stockholders' deficit as accumulated other comprehensive loss.

Gains or losses on cash flow hedges are recognized in the same period that the hedged transaction impacts earnings as royalty revenue. The ineffective portion of the change in fair value of the hedge is recognized in the period it occurs as interest and other income, net. Ineffectiveness, if any, resulting from lower than forecasted Euro-based royalties is reclassified from other comprehensive loss as a charge against earnings. For the three months ended March 31, 2012, we recognized a loss of approximately $55,000, net of tax, associated with the ineffectiveness of the modified 2012 foreign exchange hedge. There was no ineffectiveness related to forecasted transactions for the three months ended March 31, 2012 and 2011.

Interest Rate Risk

Our investment portfolio was approximately $186.1 million at March 31, 2012, and $224.8 million at December 31, 2011, and consisted of investments in Rule 2a-7 money market funds, corporate debt securities, commercial paper, U.S. government sponsored agency bonds and U.S. treasury securities. If market interest rates were to have increased by 1%, there would have been no material impact on the fair value of our portfolio.

The fair value of our convertible notes is subject to interest rate risk, market risk and other factors due to the convertible feature. Generally, the fair value of our convertible notes will increase as interest rates fall and/or our common stock price increases, and decrease as interest rates rise and/or our common stock price decreases. The interest and market value changes affect the fair value of our convertible notes, but do not impact our financial position, cash flows, or results of operations due to the fixed nature of the debt obligations. We do not carry our convertible notes at fair value, but present the fair value of the principal amount of our convertible notes for disclosure purposes only. At March 31, 2012, our convertible notes consisted of our May 2015 Notes at a fixed interest rate of 3.75%, our Series 2012 Notes at a fixed rate of 2.875% and our February 2015 Notes at a fixed interest rate of 2.875%. At December 31, 2011, our convertible notes consisted of our May 2015 Notes at a fixed interest rate of 3.75% and our February 2015 Notes at a fixed interest rate of 2.875%.

The fair value of our convertible notes was $361.9 million at March 31, 2012, and $347.6 million at December 31, 2011. The fair value was based on quoted market pricing and dealer quotes. The principal amount of our convertible notes, which consists of the combined debt and equity components, was $335.3 million at March 31, 2012, and December 31, 2011.

The fair value of our Non-recourse Notes was estimated to be $70.9 million at March 31, 2012, and $95.2 million at December 31, 2011, based on available pricing information. Our Non-recourse Notes bear interest at a fixed rate of 10.25% per annum. This obligation is subject to interest rate risk because the fixed interest rates under this obligation may exceed current 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 Acting Chief Financial Officer and Vice President of Finance and Principal Accounting 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 Acting Chief Financial Officer and Vice President of Finance and Principal Accounting Officer have concluded that, as of March 31, 2012, our disclosure controls and procedures were effective to ensure the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Controls

There were no changes in our internal controls over financial reporting during the quarter ended March 31, 2012, 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

Genentech / Roche Matter

Communications with Genentech regarding European SPCs

In August 2010, we received a letter from Genentech, sent on behalf of F. Hoffmann-LaRoche, Ltd. Roche and Novartis AG (Novartis), asserting that the Avastin, Herceptin, Lucentis and Xolair (the Genentech Products) do not infringe the supplementary protection certificates (SPCs) granted to PDL by various countries in Europe for each of the Genentech Products and seeking a response from PDL to these assertions. Genentech did not state what actions, if any, it intends to take with respect to its assertions. PDL's SPCs were granted by the relevant national patent offices in Europe and specifically cover the Genentech Products. The SPCs covering the Genentech Products effectively extend our European patent protection for the European Patent No. 0 451 216B ('216B Patent) generally until December 2014, except that the SPCs for Herceptin will generally expire in July 2014.

Genentech's letter does not suggest that the Genentech Products do not infringe PDL's U.S. patents to the extent that such Genentech Products are U.S.-based Sales. Genentech's quarterly royalty payments received after receipt of the letter have included royalties generated on all worldwide sales of the Genentech Products.

If Genentech is successful in asserting this position, then under the terms of our license agreements with Genentech, it would not owe us royalties on sales of the Genentech Products that are both manufactured and sold outside of the United States. Royalties on sales of the Genentech Products that are ex-U.S.-based Manufacturing and Sales accounted for approximately 41% of our royalty revenues for the quarter ended March 31, 2012. Based on announcements by Roche regarding moving more manufacturing outside of the United States, we expect this amount to increase in the future.

We believe that the SPCs are enforceable against the Genentech Products, that Genentech's letter violates the terms of the 2003 settlement agreement and that Genentech owes us royalties on sales of the Genentech Products on a worldwide basis. We intend to vigorously assert our SPC-based patent rights.

Nevada Litigation with Genentech, Roche and Novartis in Nevada State Court

In August 2010, we filed a complaint in the Second Judicial District of Nevada, Washoe County, naming Genentech, Roche and Novartis as defendants. We intend to enforce our rights under our 2003 settlement agreement with Genentech and are seeking an order from the court declaring that Genentech is obligated to pay royalties to us on ex-U.S.-based Manufacturing and Sales of the Genentech Products.

The 2003 settlement agreement was entered into as part of a definitive agreement resolving intellectual property disputes between the two companies at that time. The agreement limits Genentech's ability to challenge infringement of our patent rights and waives Genentech's right to challenge the validity of our patent rights. Certain breaches of the 2003 settlement agreement as alleged by our complaint require Genentech to pay us liquidated and other damages of potentially greater than one billion dollars. This amount includes a retroactive royalty rate of 3.75% on past U.S.-based Sales of the Genentech Products and interest, among other items. We may also be entitled to either terminate our license agreements with Genentech or be paid a flat royalty of 3.75% on future U.S.-based Sales of the Genentech Products.

In November 2010, Genentech and Roche filed a motion to dismiss our complaint against them in which we seek to enforce our rights under the 2003 settlement agreement with Genentech. Genentech and Roche's motions to dismiss under Nevada Rule of Civil Procedure 12(b)(5) alleged that all of our claims for relief relating to the 2003 settlement agreement should be dismissed because the 2003 settlement agreement applies only to our U.S. patents. In addition, Roche filed a separate motion to dismiss our complaint under Nevada Rule of Civil Procedure 12(b)(2) on the ground that the Nevada court lacks personal jurisdiction over Roche. On July 7, 2011, the Second Judicial District Court of Nevada ruled in favor of us on the two motions to dismiss filed by Genentech and Roche. The court denied Genentech and Roche's motion to dismiss four of our five claims for relief and, further, denied Roche's separate motion to dismiss for lack of personal jurisdiction. The court dismissed one of our claims that Genentech committed a bad-faith breach of the covenant of good faith and fair dealing stating that, based on the current state of the pleadings, no "special relationship" had been established between Genentech and us as required under Nevada law. On November 1, 2011, the Nevada court issued an order accepting Roche's stipulation of waiver to its personal jurisdiction defense. As a result of the order, Roche is foreclosed from reliance on lack of personal jurisdiction in defending against our claims.

On February 25, 2011, we reached a settlement with Novartis under which, among other things, we agreed to dismiss our claims against Novartis in the action in Nevada state court against Genentech, Roche and Novartis. Genentech and Roche continue to be parties to the Nevada suit.

The court has scheduled trial to commence on May 13, 2013. The outcome of this litigation is uncertain and we may not be successful in our allegations.

Other Legal Proceedings

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

ITEM 1A. RISK FACTORS

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, 2011. 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, 2011, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K, as well as other risks and uncertainties, could materially and adversely affect our business, results of operations and financial condition, which in turn could materially and adversely affect the trading price of shares of our common stock. Additional risks not currently known or currently material to us may also harm our business.

ITEM 6. EXHIBITS

10.1*	Lease Agreement between 932936, LLC and the Company, dated April 17, 2012
12.1*	Ratio of Earnings to Fixed Charges
31.1*	Certification of Principal Executive Officer and Acting 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**	Certification by the Principal Executive Officer and Acting Principal Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)
101***	The following materials from Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, formatted in Extensible Business Reporting Language (XBRL) includes: (i) Condensed Consolidated Balance Sheets at March 31, 2012, and December 31, 2011, (ii) Condensed Consolidated Statements of Income for the Three Months Ended March 31, 2012 and 2011, (iii) Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2012 and 2011, (v) Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2012 and 2011, and (iv) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

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* Filed herewith.

** 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.

*** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Exchange Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated; May 3, 2012
PDL BIOPHARMA, INC. (REGISTRANT

/S/ JOHN P. MCLAUGHLIN

John P. McLaughlin
President, Chief Executive Officer and Acting Chief Financial Officer
(Principal Executive Officer and Acting Principal Financial Officer)

/S/ CAROLINE KRUMEL

Caroline Krumel
Vice President Finance
(Principal Accounting Officer)

Exhibit 10.1

OFFICE LEASE

Article 1. Parties. This Office Lease ("Lease") is made and entered into this 28th day of March, 2012, by and between **932936, LLC**, a Nevada Limited Liability Company, whose principal place of business for the purpose of this Lease is 936 Southwood Blvd., Incline Village, Nevada 89450 ("Landlord"), and **PDL BioPharma, Inc.**, a Delaware corporation, whose principal place of business for the purpose of this Lease is 932 Southwood Blvd., Incline Village, NV 89451 ("Tenant").

Article 2. Premises and Common Areas.

(a) **Premises**. Landlord leases to Tenant and Tenant leases from Landlord, including rights to the Common Areas (as hereinafter defined), that certain office space consisting of approximately four thousand eight hundred and twelve (4,812) square feet of rentable area designated as Suites 101, 102, 103 and 200 (the "Premises") in that certain building located at 932 Southwood Blvd, in the City of Incline Village, State of Nevada ("Building"). The Premises, Building and Common Areas are hereinafter sometimes collectively referred to as the "Property."

(b) **Common Areas**. Landlord grants to Tenant and Tenant's employees, agents, contractors, suppliers, shippers, customers and invitees, the non-exclusive right to use the Common Areas with others who are entitled to use the Common Areas including, without limitation, Landlord and their respective employees, agents, contractors, suppliers, shippers, customers and invitees. The term **"Common Areas"** is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Land. The Common Areas shall at all times include at a minimum, but not be limited to, the parking areas, loading and unloading areas, trash areas, driveways, sidewalks, walkways, parkways, landscaped areas, washrooms, restrooms, and elevators, corridors, stairways, passageways, lobbies, common entrances and other similar public areas and access ways.

Article 3. Initial Term and Extension; Condition Precedent.

(a) **Initial Term and Extension.** The initial term of this Lease (**"Term"**) shall commence on June 1, 2012 ("Commencement Date"), and shall expire May 31, 2014 ("Termination Date"), unless sooner terminated or extended pursuant to the attached Exhibit "A".

Article 4. Monthly Rent. Tenant shall pay to Landlord, as monthly rent for the Premises ("Monthly Rent"), and on the first day of each month of the Term hereof, monthly payments as follows:

Year	Monthly	2 Year Term
1 and 2	$14,176.10	$340,226.40

Monthly Rent for any period during the Term hereof which is for less than one (1) month shall be a prorata portion of the Monthly Rent based on a 30 day month. Monthly Rent shall be payable in lawful money of the United States to Landlord at the address stated herein or to such other persons or at such other places as Landlord may designate in writing.

Article 5. Use, Compliance with Law, Condition of Premises.

(a) **Use**. General office use including offices and associate uses thereto, any other lawful uses, including, but not limited to administrative offices and any ot services as may be provided by affiliate companies of Tenant. Tenant covenants and agrees that no smoking or pets (Seeing Eye dogs excluded) shall be permitt in the Premises or the Building and shall make reasonable efforts to require its employees, customers and invitees to comply with such rules.

(b) **<u>Compliance with Law</u>**. Landlord warrants, represents and covenants that as of the Commencement Date, Tenant will be able to use the Premises for general office uses and that the Premises and all other portions of the Property are and shall be, throughout the Term of this Lease, in compliance with all covenants and/or restrictions of record (if any), laws, statutes, building and zoning codes, ordinances, and governmental orders, conditions of approval, rules and regulations (including, but not limited to, Title III of the Americans With Disabilities Act of 1990), as all of the same may be amended and supplemented from time to time (collectively **"Legal Requirements"**) including, without limitation, all Legal Requirements that pertain to the Building structure or any electrical or mechanical systems therein, any matters not specifically assigned as the responsibility of Tenant and all matters involving the common areas of the Building and the Property. Tenant shall comply with all Legal Requirements pertaining to Tenant's use and occupancy of the Premises, but only to the extent such Legal Requirements (i) pertain to Tenant's personal property; (ii) mandate alterations to the interior of the Premises as a result of modifications made to the Premises by Tenant, or (iii) govern Tenant's specific use of the Premises in a manner which differs from that of other tenants in the Building. However, Tenant shall not have any obligation to comply with any Legal Requirements to the extent the Premises when delivered to Tenant do not comply with such Legal Requirements. Landlord will be fully responsible for making all alterations and repairs to the Building and the Premises at its cost.

(c) **<u>Condition of Premises</u>**. Landlord shall deliver the Premises to Tenant in an "as-is" condition. Landlord warrants to Tenant that the existing heating, ventilation and air conditioning systems, roof, elevators, plumbing, fire sprinkler and life safety systems, lighting, electrical systems, if any, in the Premises are or shall be in good operating condition on the Commencement Date of the Lease. Landlord will be fully responsible for making all alterations and repairs to the Building and the Premises at its cost resulting from or necessitated by any condition of the Building or the Premises which is in breach of this representation and warranty by Landlord, or from defects in construction, whether patent or latent. If Tenant identifies any non-compliance with any Landlord warranty contained in this paragraph, Landlord shall promptly after receipt of written notice from Tenant setting forth the nature and extent of such non-compliance, rectify same at Landlord's cost and expense.

Article 6. **<u>Assignment and Subletting</u>.** Tenant shall not voluntarily assign or encumber its interest in this Lease or in the Premises, or sublease all or any part of the Premises, or allow any other person or entity (except Tenant's authorized representatives) to occupy or use all or any part of the Premises, without first obtaining Landlord's consent, which consent Landlord shall not unreasonably withhold, delay or condition. Any assignment, encumbrance or sublease without Landlord's consent, which consent shall not be unreasonably withheld, conditioned or delayed, shall be voidable at Landlord's election. Notwithstanding the foregoing, Tenant shall have the right to assign this Lease and/or sublet any part or all of the Premises, without the Landlord's consent, to any corporation which is controlled directly or indirectly by Tenant, any affiliate, or any entity (including any entity or venture which controls, directly or indirectly, Tenant, or to any of Tenant's joint venture partner(s), partnership(s), or other affiliated entity(s), or to a successor(s) in interest to any part or all of Tenant's business or businesses.

Article 7. **<u>Tenant's Repair and Maintenance Responsibilities</u>.** Except as provided in Article 5 (Use, Compliance with Law, Condition of Premises), Article 8 (Landlord's Repair and Maintenance Responsibilities) and Article 13 (Damage or Destruction), Tenant shall keep the interior, nonstructural portion of the Premises in good repair and maintenance at all times. In no event shall Tenant be responsible for repairs or replacements necessitated by ordinary wear and tear, damage by casualty or condemnation, or damage caused by Landlord or others for which Tenant is not responsible, nor shall Tenant be responsible for the correction or repair of any patent or latent defect in the Premises, or any condition, dilapidation or defect in existence prior to the Commencement Date of this Lease, the repair of which shall be at Landlord's sole cost and expense.

Article 8. Landlord's Repair and Maintenance Responsibilities. Landlord shall keep the entire Property (including within the Premises) in good repair and maintenance (including replacements) at all times, for the proper operation of the Property and for provision of Landlord's services under this Lease in a manner generally consistent with the maintenance and repair (including replacements) of comparable properties in the surrounding area, including, but not limited to, the Common Areas, the Building's windows, roof, foundation, structure and walls, and mechanical and electrical systems, including, but not limited to, the heating, electrical, air conditioning, ventilation and plumbing systems.

Article 9. Tenant's Insurance, Landlord's Insurance, Mutual Release/Waiver of Subrogation, and Indemnities.

(a) Tenant's Insurance. Tenant, at Tenant's sole cost and expense, shall maintain public liability and property damage insurance with a combined single limit per occurrence of One Million Dollars ($1,000,000) and property damage limits of not less than Five Hundred Thousand Dollars ($500,000), insurance against claims for personal injury and property damage against Tenant and its authorized agents, employees and/or representatives arising out of and in connection with Tenant's use and occupancy of the Premises. Tenant shall provide Landlord, prior to the lease Commencement Date, with a certificate evidencing such insurance coverage, naming Landlord as an additional insured thereon.

(b) Landlord's Insurance. Landlord shall maintain commercial general liability insurance throughout the term of the Lease, with a minimum combined single limit of liability of at least Two Million Dollars ($2,000,000) covering injury, death, disability or illness of any person, or damage to property occurring in or about the Building or the Property. In addition, Landlord shall maintain a policy of "All Risks" property insurance covering the Building (including all tenant improvements constructed by Landlord or at Landlord's expense), in an amount equal to not less than the full replacement cost of the Building. Such policies shall, to the extent applicable, meet all the requirements of Tenant's policy under subparagraph (a) above. Tenant shall be named as an additional insured on all policies required to be maintained by Landlord, and Landlord shall, not later than the lease Commencement Date, provide Tenant with a certificate of insurance evidencing such coverage.

(c) Mutual Waiver of Subrogation. Notwithstanding anything to the contrary contained in this Lease, each party (the "**First Party**") hereby releases the other party (the "**Second Party**"), and its partners, officers, directors, members, agents, employees, and servants, from any and all claims, demands, loss, expense, or injury to the Premises or to the furnishings, fixtures, equipment, inventory, or other property in, about, or upon the Premises, which is caused by or results from perils, events, or happenings which are the subject of fire or other casualty insurance carried by the First Party at the time of such loss or which would have been in force had the First Party carried the insurance required hereunder (collectively, the "**Effective Coverage**") irrespective of any negligence on the part of the Second Party that may have contributed to or caused such loss; subject to the following limitations: (i) the Second Party shall not be released from any liability to the extent that such damages are not covered by the insurance recovery under the Effective Coverage or are the result of willful acts by the Second Party, and (ii) the Second Party shall be responsible for reimbursing the First Party for any deductible owed as a result of such damages. Each party shall use commercially reasonable efforts to obtain, if needed, appropriate endorsements to its policies of insurance with respect to the foregoing releases; provided, however, that failure to obtain such endorsements shall not affect the releases hereinabove given.

(d) **Tenant's Indemnity**. Tenant shall indemnify, protect and hold Landlord and its officers, directors, partners, employees, agents, shareholders and affiliates entirely harmless from and against any and all liabilities, claims and/or losses to the extent arising, directly or indirectly, out of (1) any injury to any person occurring (x) within the Premises regardless of the cause, except to the extent caused by the negligence or intentional misconduct of Landlord, Landlord's agents, employees, invitees or contractors, or (y) within the Common Areas to the extent caused by the negligence or intentional misconduct of Tenant, Tenant's agents or employees, or (2) Tenant's breach or default in the performance of any obligation of Tenant under this Lease. If any action or proceeding is brought against Landlord by reason of any such claim, Tenant, upon receipt of written notice from Landlord, shall defend the same, at Tenant's expense. Notwithstanding anything in this Lease to the contrary, the foregoing covenants under this Section 9(d) shall be deemed continuing covenants for the benefit of Landlord and shall survive the expiration of this Lease, but only to the extent that the causes giving rise to Tenant's obligations under this Section 9(d) occur before the expiration of this Lease.

(e) **Landlord's Indemnity**. Landlord shall indemnify, protect and hold Tenant and its officers, directors, employees, agents, shareholders and affiliates entirely harmless from and against any and all liabilities, claims and/or losses of any kind to the extent arising, directly or indirectly, out of (1) any occurrence within the Common Areas regardless of the cause except to the extent caused by the negligence or intentional misconduct of Tenant, Tenant's agents or employees, (2) any occurrence within the Premises to the extent caused by the negligence or intentional misconduct of Landlord, Landlord's agents, employees, invitees or contractors, (3) any breach of Landlord's representations, warranties or covenants under this Lease, or (4) the acts or omissions of Landlord, its authorized representatives, contractors, licensees and/or invitees. If any action or proceeding is brought against Tenant by reason of any such claim, Landlord, upon receipt of written notice from Tenant, shall defend the same, at Landlord's expense. Notwithstanding anything in this Lease to the contrary, the foregoing covenants under this Section 9(e) shall be deemed continuing covenants for the benefit of Tenant and shall survive the expiration of the Lease, but only to the extent that the causes giving rise to Landlord's obligations under this Section 9(e) occur before the expiration of this Lease.

Article 10. Default/Remedies.

(a) **Tenant's Default**. The occurrence of any one or more of the following shall constitute a default hereunder by Tenant:

(i) failure to pay Monthly Rent when due, if the failure continues for ten (10) days after written notice has been received by Tenant from Landlord;

(ii) failure to perform any other provision of this Lease, if such failure to perform is not cured within thirty (30) days after written notice has been received by Tenant from Landlord, provided that, if the failure cannot reasonably be cured within such thirty (30) day period, Tenant shall not be in default of this Lease if Tenant commences to cure the failure within the thirty (30) day period and diligently and in good faith continues to prosecute the curing of the failure; or

(iii) Tenant makes a general assignment of Tenant's assets for the benefit of creditors.

Notices given under this Article must specify the alleged default and the applicable Lease provision(s), and shall demand that Tenant perform the provisions of this Lease or pay the rent that is in arrears, as the case may be, within the applicable period of time.

(b) **Landlord's Remedies.** In the event of any such default by Tenant, Landlord may at any time after expiration of the applicable cure period:

(i) Terminate Tenant's right to possession of the Premises in accordance with and to the extent authorized by applicable laws, in which case this Lease and the Term hereof shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. In such event, Landlord shall be entitled to recover from Tenant:

(1) the worth at the time of award of any unpaid rent which has been earned at the time of such termination; plus

(2) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss Tenant proves could have been reasonably avoided; plus

(3) the worth at the time of award of the amount by which the unpaid rent for the balance of the Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(4) the reasonable cost of recovering possession of the Premises and reasonable expenses of reletting, including reasonable and necessary attorneys' fees.

As used in subparagraphs (i)(1) and (2) above, the "worth at the time of award" is computed by allowing interest at the rate of ten percent (10%) per annum. As used in subparagraph (i)(3) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%);

(ii) to the extent permitted under applicable laws, and then only in accordance with such applicable laws, maintain Tenant's right to possession, in which case this Lease shall continue in effect. In such event, Landlord shall be entitled to enforce all of Landlord's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder; or

(iii) pursue any other remedy now or hereafter available to Landlord under the laws or judicial decisions of the state where the Premises are located. If any installments of rent and/or other monetary obligations of Tenant due under the terms of this Lease are not paid within ten (10) days after written notice from Landlord as to such non-payment, then such unpaid amounts shall bear interest from the date due at the interest rate of ten percent (10%).

In the case of Tenant's default as contemplated herein, Landlord shall in all events mitigate its damages caused by any breach or default of this Lease by Tenant. If the Premises are vacated by Tenant, Landlord shall use its reasonable and good faith efforts to relet the Premises for the remainder of the Lease term for the benefit of Tenant. In no event shall the rights and remedies available to Landlord be available to Landlord unless and until there has been an event of default (which Tenant has not cured within the appropriate cure period) by Tenant under this Lease, and then, only to the extent such right and/or remedy is applicable to such event of default.

(c) Landlord's Default; Tenant's Remedies. In the event of any failure by Landlord to perform any of its obligations hereunder, Tenant (except in the case of an emergency which shall entitle Tenant to take action as required under the circumstances upon concurrent notice to Landlord) shall take no action without having first given Landlord thirty (30) days written notice of any such default. Following such notice and failure by Landlord to cure, Tenant shall have all rights available to it at law or in equity, and shall have the further right to take the necessary actions to perform Landlord's uncured obligations hereunder at Landlord's expense and, at Tenant's election, to either (i) deduct the cost of curing Landlord's obligations from the next due installment of Monthly Rent, or (ii) invoice Landlord for the costs and expenses thereof (including, without limitation, reasonable attorneys' fees and costs), unless Landlord has commenced and diligently performed its uncured obligations hereunder within said thirty (30) day period. Landlord shall remit payment to Tenant within thirty (30) days of receipt of invoice from Tenant. If Landlord fails to remit payment to Tenant within the aforesaid thirty (30) day period, Tenant shall still have the right to offset and deduct said sum from Monthly Rent. If as a result of Landlord's failure to perform any repairs required to be performed by Landlord under this Lease, the Premises, Tenant's parking spaces or any portion thereof, or the direct exterior access to and from the Premises are rendered untenantable such that Tenant cannot reasonably conduct its business from the Premises, then all rent due under this Lease and all other payments payable by Tenant to Landlord under this Lease shall be abated until such repair that Landlord is obligated to make under this Lease has been made and the Premises, parking area or access, as the case may be, has been restored; provided, however, if the Premises, Tenant's parking spaces or any portions thereof or Tenant's direct exterior access to and from the Premises and the parking area remains untenantable for a period of more than thirty (30) consecutive business days or for a total of sixty (60) business days or more in any twelve (12) consecutive calendar months, then Tenant shall be entitled to terminate this Lease upon ten (10) days prior written notice to Landlord.

Article 11. Utilities and Services.

(a) Landlord's Obligations. Landlord covenants and agrees as follows:

(1) To cause public utilities to furnish adequate electricity and water for operating any and all of the facilities serving the Premises.

(2) To furnish Tenant during Tenant's occupancy of the Premises:

(i) hot and cold water at those points of supply provided for general use of tenants in the Building and central heat and air conditioning.

(ii) janitorial service to the Building bi-weekly.

(iii) electrical facilities to provide sufficient power for typewriters, computers and other office equipment twenty-four (24) hours per day, seven (7) days per week.

(iv) regular trash removal services.

(b) Tenant's Obligation to Pay for Utilities. Tenant shall only be responsible to pay for the actual cost of all water, gas, heating, ventilating and air conditioning, light, power and telephone utilities and services supplied and separately metered to the Premises. However, if such costs are not separately metered to the Premises Tenant shall pay a prorata portion based on Tenant's percentage of square footage in the Premises bears to the total square footage in the Building. Tenant shall not obligated to pay for any utilities provided to the Common Areas. Any charges paid by Tenant to Landlord for any of such utilities and services shall not exceed the rates at which the utility company would have charged Tenant for furnishing such utilities. Tenant shall have the right to review and/or audit the charges imposed b Landlord for the services and utilities provided by Landlord.

(c) Interruption. If any utility or other service to the Premises is interrupted, Tenant shall be entitled to an abatement of rent proportionate to the degree to which Tenant's use of the Premises for office purposes is interfered with) until such interruption is cured by Landlord. Landlord shall use diligent and good faith efforts to promptly restore utility service, however, if Landlord fails to restore utility service to the Premises within ten days, Tenant may terminate this Lease upon five days' prior written notice to Landlord.

Article 12. Real Property Taxes. Tenant shall pay a pro rata share of all real property taxes and general and special assessments applicable to the Property pursuant to Articles 23 and 24, below.

Article 13. Damage or Destruction. Should the Property or the Premises be damaged by fire or other casualty, the following shall result:

(a) Should the Premises be rendered unfit for occupancy and not be (in the reasonable judgment of Landlord and Tenant) susceptible of repair within ninety (90) days after the date of such damage, then, at Tenant's election to be tendered in writing to Landlord, this Lease shall terminate as of the date of such damage, or, if the Premises are rendered unfit for occupancy and (in the reasonable judgment of Landlord and Tenant) are not susceptible of repair within one hundred eighty (180) days after the date of such damage, then this Lease shall automatically terminate. In the event of such termination, Tenant shall pay rent hereunder apportioned to the time of such damage and immediately surrender the Premises to Landlord;

(b) Should such damage to the Premises, however, be (in the reasonable judgment of Landlord and Tenant) susceptible of repair within ninety (90) days after such occurrence, Landlord, at Landlord's sole cost and expense, shall enter and promptly make all necessary repairs to restore the Premises to its prior condition.

(c) Damage to the Building, parking areas or Common Areas which affects Tenant's access to the Premises or Tenant's use of the Premises or parking areas shall be treated as damage to the Premises pursuant to subparagraphs (a) and (b) above. In the event of any damage, repair, reconstruction and/or restoration described or initiated under this Article, or any portion thereof including Common Areas, access or parking areas, Tenant shall be entitled to a reduction of all rent from the date of the casualty in proportion to the degree to which Tenant's use of the Premises is impaired during such period of repair until such use is restored.

Article 14. Notices. Whenever in this Lease it shall be required or permitted that notice or demand be given or served by either party to this Lease, such notice or demand shall be given or served in writing and sent to Landlord and Tenant at the addresses set forth below:

Tenant:	PDL BioPharma, Inc. 932 Southwood Blvd. Incline Village, NV 89451 Attention: John McLaughlin
Landlord:	932936, LLC P. O. Box 4742 Incline Village, NV 89450 Attention: Gregory S. Skinner
With copy to:	N/A

All such notices shall be sent by (i) certified or registered mail, return receipt requested, and shall be effective three (3) days after the date of mailing if so sent; (ii) Federal Express or similar overnight courier and shall be effective one (1) day after delivery to Federal Express or similar overnight courier; or (iii) personal service and shall be effective on the same day as such service. Any such address may be changed from time to time by either party serving notices to the other as provided above.

Article 15. Quiet Enjoyment. Landlord warrants that it has the full right and authority to execute and perform pursuant to this Lease, to grant the estate demised herein, and that Tenant, upon payment of rent and performance of the covenants herein contained, shall peaceably and quietly have, hold and enjoy the Premises during the full Term of this Lease and any extensions hereof without interference by Landlord or any parties claiming by or through Landlord.

Article 16. Landlord's Right of Entry. Tenant agrees to permit Landlord, or its agents or representatives, to enter into and upon any part of the Premises during reasonable business hours following Tenant's receipt of at least twenty-four (24) hour prior written notice (except for an emergency, in which event only such notice as is reasonably practical under the circumstances shall be required) for the purpose of inspecting or cleaning the same, or making repairs, alterations or additions thereto which Landlord is obligated to make or which Tenant requests Landlord to make, or exhibiting the Premises to prospective tenants or purchasers; provided, however, that Landlord's right to enter the Premises to show them to prospective tenants shall be limited to the last six (6) months of the Lease Term. In no event shall Landlord's access onto the Premises unreasonably interfere with Tenant's use of the Premises and Landlord shall use its best efforts to minimize any interference with Tenant's business and will take reasonable efforts to protect the privacy of all confidential information.

Article 17. Surrender of Premises. Upon the expiration or termination of this Lease, Tenant shall, at Tenant's expense, (i) remove Tenant's goods and effects and those of persons claiming under Tenant, and (ii) quit and deliver up the Premises peaceably and quietly and in as good order and condition as the same were in on the date the Term of this Lease commenced or were thereafter placed by either Landlord or Tenant. Notwithstanding the foregoing, Tenant shall not be required to remove the Tenant Improvements at the expiration or termination of this Lease. No property of Tenant shall become the property of Landlord at the expiration of the Term unless Landlord shall notify Tenant in writing that Tenant has left property behind and Landlord complies with all applicable laws regarding the storage, disposal, sale or retention of Tenants' property.

Article 18. Signs. Tenant shall be permitted to place a sign at the entry door to the Premises, the design of which sign shall be subject to Landlord's reasonable approval. Tenant is permitted to designate five (5) parking spaces as parking of PDL by placing a sign in front of such parking spaces. Tenant shall not place any other signs on the Property, without Landlord's written approval.

Article 19. Subordination, Non-Disturbance & Attornment.

(a) **Subordination.** At Landlord's election, this Lease may be made subject to and subordinate to all ground or underlying leases and to all mortgages and deeds of trust which may now or hereafter affect the Property of which the Premises form a part (collectively, "Security Device"), provided that, as a condition to any subordination for Tenant's benefit, the holder of any such Security Device shall agree by a duly executed and acknowledged, subordination, non-disturbance and attornment agreement reasonably satisfactory to Tenant ("SNDA"), that such holder recognizes this Lease, and (i) this Lease and Tenant's leasehold interest will not be extinguished or terminated nor possession or rights of Tenant be impaired by the foreclosure of such Security Device or otherwise or by termination of such ground lease or default by Landlord thereunder; (ii) Tenant shall not be named or joined as a party defendant or otherwise in any proceeding for the foreclosure of any such mortgage or to enforce any rights thereunder; (iii) all condemnation awards and payments and all proceeds of insurance paid or payable with respect to the Premises shall be applied and used in the manner set forth in this Lease; and (iv) neither the mortgage nor any other security instrument executed in connection therewith nor any ground lease shall be construed as subjecting in any manner the lien thereof of any trade fixtures, business equipment, signs, or other personal property at any time supplied or installed by Tenant in or on the Premises, regardless of the manner or mode of attachment thereof to the Premises.

(b) **Non-Disturbance, Recognition and Attornment**.

(i) **No Exercise of Mortgage Remedies Against Tenant.** So long as the Lease has not been terminated on account of Tenant's default that has continued beyond applicable cure periods (an "Event of Default"), Mortgagee shall not name or join Tenant as a defendant in any exercise of Mortgagee's Rights and remedies arising upon a default under the Mortgage unless applicable law requires Tenant to be made a part thereto as a condition to proceeding against Landlord or prosecuting such rights and remedies. In the latter case, Mortgagee may join Tenant as a defendant in such action only for such purpose and not to terminate the Lease or otherwise adversely affect Tenant's rights under the Lease or this Agreement in such action.

(ii) **Non-disturbance and Attornment.** If the Lease has not been terminated on account of an Event of Default by Tenant, then, when Successor Landlord takes title to the Property: (a) Successor Landlord shall not terminate or disturb Tenant's possession of Tenant's Premises under the Lease, except in accordance with the terms of the Lease and this Agreement; (b) Successor Landlord shall be bound to Tenant under all the terms and conditions of the Lease (except as provided in this Agreement); Tenant shall recognize and attorn to Successor Landlord as Tenant's direct landlord under the Lease as affected by this Agreement; and (c) the Lease shall continue in full force and effect as a direct lease, in accordance with its terms (except as provided in this Agreement), between Successor Landlord and Tenant.

(iii) **Further Documentation.** The provisions of this Article shall be effective and self-operative without any need for Successor Landlord or Tenant to execute any further documents Tenant and Successor Landlord shall, however, confirm the provisions of this Article in writing upon requests by either of them.

Article 20. **General Conditions.**

(a) **Time of Essence.** Time is of the essence of each provision of this Lease.

(b) **Consent of Parties.** Whenever consent or approval of either party is required, regardless of any reference to the words "sole" or "absolute," such consent shall not be unreasonably withheld or delayed. Whenever this Lease grants Landlord or Tenant the right to take action, exercise discretion, establish rules and regulations or make allocations or other determinations, Landlord and Tenant shall act reasonably and in good faith and take no action which might result in the frustration of the other party's reasonable expectations concerning the benefits to be enjoyed under the Lease.

(c) **Authority**. If either party is a corporation, partnership or other entity, each individual executing this Lease on behalf of such entity represents and warrants that he/she is duly authorized to execute and deliver this Lease on behalf of such entity, and that this Lease is binding upon such entity in accordance with its terms.

(d) **Successors**. Except as otherwise provided in this Lease, this Lease shall be binding upon and inure to the benefit of the parties and their respective heirs, personal representatives, successors and assigns.

(e) **Interpretation of Lease**. This Lease shall be construed and interpreted in accordance with the laws of the State of Nevada. The provisions of this Lease shall be construed in accordance with the fair meaning of the language used and shall not be strictly construed against either party.

(f) **Terms and Headings.** The words "Landlord" and "Tenant" as used herein shall include the plural as well as the singular. Words used in any gender include other genders. The paragraph headings of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part hereof.

(g) **Exhibits.** All exhibits referred to are attached to this Lease and incorporated by reference.

(h) **Integrated Agreement; Modification.** This Lease contains all the agreements of the parties and is intended by the parties to be a final, complete and exclusive statement of their entire agreement with respect to the subject matter of this Lease. This Lease supersedes any and all prior and contemporaneous agreements and understandings of any kind relating to the subject matter of this Lease. There are no other agreements, understandings, representations, warranties, or statements, either oral or in written form, concerning the subject matter of this Lease. No alteration, modification, amendment or interpretation of this Lease shall be binding on the parties unless contained in a writing, which is signed by both parties.

(i) **Severability.** The unenforceability, invalidity or illegality of any provision shall not render the other provisions unenforceable, invalid or illegal and all remaining provisions of this Lease shall remain in full force and effect to the maximum extent permitted by law.

(j) **Professional Fees and Costs.** If either Landlord or Tenant should bring suit against the other with respect to this Lease, then all costs and expenses, including without limitation, reasonable professional fees and costs such as appraisers', accountants' and attorneys' fees and costs, incurred by the party which prevails in such action, whether by final judgment or out of court settlement, shall be paid by the other party, which obligation on the part of the other party shall be deemed to have accrued on the date of the commencement of such action and shall be enforceable whether or not the action is prosecuted to judgment or appeal. As used herein, attorneys' fees and costs shall include, without limitation, reasonable attorneys' fees, costs and expenses incurred in connection with any (i) postjudgment motions; (ii) contempt proceedings; (iii) garnishment, levy, and debtor and third party examination; (iv) discovery; (v) bankruptcy litigation; and (vi) costs of appeal.

(k) [RESERVED]

(l) **Recording.** Tenant may record a short form memorandum of this Lease upon written notice to Landlord.

(m) **Landlord's Covenants.** Landlord covenants, as a material part of the consideration for this Lease, to keep and perform each and all of said terms, covenants and conditions for which Landlord is liable and that this Lease is made upon the condition of such performance.

(n) **Late Charges.** Any late charge shall be the lesser of five percent (5%) of the amount due or Five Hundred Dollars ($500) and shall not be imposed unless Tenant shall fail to pay any sum due within ten (10) days of receipt of written notice from Landlord as to any non-payment. Landlord agrees not to impose any late charge for the first late payment of monthly rent in any calendar year.

(o) **Waiver.** The failure of Tenant to seek redress for violation of, or to insist upon the strict performance of, any term, covenant or condition of the Lease shall not be deemed a waiver of such violation or prevent a subsequent act which would have originally constituted a violation from having all the force and effect of the original violation, nor shall any custom or practice which may become established between the parties in the administration of the terms hereof be deemed a waiver of, or in any way affect, the right of Tenant to insist upon the performance by Landlord of its obligations in strict accordance with said terms. Any payment of rents or other sums hereunder by Tenant shall not be deemed a waiver of any preceding breach by Landlord of any term, covenant or condition of this Lease, regardless of Tenant's knowledge of such preceding breach at the time of payment of such rent or other sums. Further, Tenant does not waive any claim against Landlord arising from any intentional misconduct or negligence by Landlord resulting in any loss to Tenant except to the extent that such loss is to property (rather than injury to persons) and Tenant is fully compensated for such loss by insurance proceeds. To the extent Tenant is waiving its subrogation rights or is required to obtain waivers of subrogation rights with respect to its insurance policies, any such waiver by Tenant is expressly conditioned on such waiver not invalidating Tenant's insurance policies and the availability of waivers of subrogation rights under such insurance policies.

(p) **<u>Landlord’s Lien Waiver</u>.** Landlord hereby waives any statutory or contractual lien, and any rights of distress or distraint, with respect to Tenant's personal property, furniture, fixtures and equipment and agrees to execute and deliver to Tenant upon request a lien waiver confirming Landlord's waiver of such rights in a form acceptable to any Tenant lender requiring such waiver.

(q) **<u>Pets.</u>** No pets are allowed on the Property.

(r) **<u>Smoking</u>.** No smoking is allowed in the Premises, Common Area or Building.

(s) **<u>Brokerage Commissions</u>.** The parties represent and warrant to each other that they have dealt with no brokers, finders, agents or other person in connection with the transaction contemplated hereby to whom a brokerage or other commission or fee may be payable. Each party shall indemnify, defend and hold the other harmless from any claims arising from any breach by the indemnifying party of the representation and warranty in this paragraph.

<u>Article 21</u>. [RESERVED]

<u>Article 22</u>. Security Deposit. Tenant shall deposit with Landlord upon execution hereof the sum of $0.00 as a Security Deposit as security for Tenant’s faithful performance of its obligations under this Lease. Landlord acknowledges that Tenant has previously deposited a security deposit of $11,325.00, which amount Landlord still holds as a security deposit. If Tenant fails to pay Rent, or otherwise Defaults under this Lease, Landlord may use, apply or retain all or any of said Security Deposit for the payment of any amount due Landlord or to reimburse or compensate Landlord for any liability, expense, loss or damage which Landlord may suffer or incur by reason thereof. If Landlord uses or applies all or any portion of the Security Deposit, Tenant shall within 10 days after written request thereof deposit monies with Landlord sufficient to restore said Security Deposit to the full amount required by this Lease. Landlord shall not be required to keep the Security Deposit separate from its general accounts. Within 14 days after the expiration or termination of this Lease, if Landlord elects to apply the Security Deposit only to unpaid Rent, and otherwise within 30 days after the Premises have been vacated. Landlord shall return that portion of the Security Deposit not used or applied by Landlord. No part of the Security Deposit shall be considered to be held in trust, to bear interest or to be prepayment for any monies to be paid by Tenant under this Lease.

<u>Article 23. Common Area Operating Expenses.</u> Tenant shall pay to Landlord during the term hereof, in addition to the Rent, Tenant’s share (as specified in Article 24) of all Common Area Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions: Payment by Tenant may be made on a monthly, or quarterly basis, at Tenant’s choice.

Common Area Operating Expenses include, but are not limited to, maintenance and repair of the Property, the Property share of maintenance, repairs, and snow removal for the common areas shared by 932 and 936 Southwood Boulevard; liability and property insurance for the Property, and Real Property Taxes and Assessments for the Property. Notwithstanding anything to the contrary herein, Tenant shall not be obligated to pay for any utilities provided to the Common Areas and/or any structural repairs to the Building, and Landlord shall be responsible for one hundred percent (100%) of the cost of capital repairs to the Property in excess of Ten Thousand Dollars ($10,000) in any calendar year.

<u>Article 24. Tenant’s Share of Common Expenses.</u> Tenant’s share of the Common Area Operating Expenses shall be 100% of the total expenses defined in Article 23.

<u>Article 25. Parking.</u> Tenant shall be assigned five (5) parking spaces designated for its exclusive use.

IN WITNESS WHEREOF, the respective parties hereto have executed this Lease or caused this Lease to be executed by their duly authorized representatives the day and year set forth in Article 1 above.

"LANDLORD"
932936, LLC, a Nevada limited liability company
By:932936 Management, Inc., a Nevada corporation,
Its: Manager,

By: /s/ Sara Skinner
Name: Sara Skinner
Its: President
Date: 4/17/12

"TENANT"
PDL BioPharma, Inc., a Delaware corporation
By: /s/ John P. McLaughlin
Name: John P. McLaughlin
Its: Chief Executive Officer
Date: 4/17/12

EXHIBIT A

EXTENSION TERM

A. OPTION(S) TO EXTEND:

Landlord hereby grants to Tenant the option to extend the term of the Lease for twenty-four (24) months, which shall commence when the initial term expires upon each and all of the following terms and conditions:

(i) There is no uncured Event of Default at the time of exercise;

(ii) Tenant gives to Landlord, at least sixty (60) days prior to the date that the option period will commence (if exercised), a written notice of the exercise of the option to extend the Lease for said additional term; and

(iii) All of the terms and conditions of the Lease except where specifically modified by this option to extend shall apply; and

(iv) The Monthly Rent for the extension period shall be increased by two per cent (2%) on the anniversary of the Commencement Date.

Exhibit 12.1

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

	For the Years Ended December 31,					For the Three Months Ended March 31,
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Earnings:						
Income before income taxes	$ 191,073	$ 243,334	$ 280,285	$ 150,370	$ 307,428	$ 61,789
Add: fixed charges	16,267	14,285	19,430	43,578	36,153	8,715
Earnings	$ 207,340	$ 257,619	$ 299,715	$ 193,948	$ 343,581	$ 70,504
Fixed Charges:						
Interest expense	$ 16,200	$ 14,219	$ 19,357	$ 43,529	$ 36,102	$ 8,700
Estimated interest portion of rent expense	67	66	73	49	51	15
Fixed charges	$ 16,267	$ 14,285	$ 19,430	$ 43,578	$ 36,153	$ 8,715
Ratio of earnings to fixed charges	12.75	18.03	15.43	4.45	9.50	8.09

Exhibit 31.1

CERTIFICATIONS

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

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

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

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

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

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

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

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

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

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

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

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

Date: May 3, 2012

/s/ John P. McLaughlin

John P. McLaughlin
President, Chief Executive Officer and Acting Chief Financial Officer
(Principal Executive Officer and Acting Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

John P. McLaughlin, President, Chief Executive Officer, and Acting Chief Financial Officer, of PDL BioPharma, Inc. (the "Registrant"), each hereby certifies in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on his or her knowledge:

(1) the Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

A signed original of this written statement required by Section 906 will be provided to the Securities and Exchange Commission or its staff upon request.

Dated: May 3, 2012

/s/ John P. McLaughlin

John P. McLaughlin
President, Chief Executive Officer and Acting Chief Financial Officer
(Principal Executive Officer and Acting Principal Financial Officer)