# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): November 10, 2010

# PDL BioPharma, Inc.

(Exact name of Company as specified in its charter)

000-19756
(Commission File Number)

| Delaware | 94-3023969 |
| --- | --- |
| (State or Other Jurisdiction of Incorporation) | (I.R.S. Employer Identification No.) |

**932 Southwood Boulevard**
**Incline Village, Nevada 89451**
(Address of principal executive offices, with zip code)

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

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the Company under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 2.02 Results of Operations and Financial Condition.**

On November 10, 2010, PDL BioPharma, Inc. (the "Company") issued a press release announcing the financial results for the third quarter and nine months ended September 30, 2010. A copy of this earnings release is attached as Exhibit 99.1 hereto. The Company will host an earnings call and webcast on November 10, 2010 during which the Company will discuss its financial results for the third quarter and nine months ended September 30, 2010.

**Item 7.01 Regulation FD Disclosure.**

On November 10, 2010, the Company distributed to analysts covering or interested in covering the Company's securities a summary of certain information regarding the Company's licensed products, earnings, dividend payments, debt exchange and ongoing litigation (the "Information Sheet") to assist those analysts in valuing the Company's securities. A copy of the Information Sheet is attached hereto as Exhibit 99.2.

*Limitation of Incorporation by Reference*

In accordance with General Instruction B.2. of Form 8-K, the information in this report, including the exhibits, is furnished pursuant to Items 2.02 and 7.01 and shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section.

*Cautionary Statements*

This filing includes "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. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Important factors that could impair the Company's royalty assets or business are disclosed in the "Risk Factors" contained in the Company's 2009 Annual Report on Form 10-K and other periodic reports filed with the Securities and Exchange Commission. All forward-looking statements are expressly qualified in their entirety by such factors. We do not undertake any duty to update any forward-looking statement except as required by law.

**Item 9.01 Financial Statements and Exhibits.**

| Exhibit No. | Description |
|---|---|
| 99.1 | Press Release, dated November 10, 2010 |
| 99.2 | Information Sheet, dated November 10, 2010 |

**SIGNATURES**

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

PDL BIOPHARMA, INC.
(Company)

By: /s/ Christine R. Larson
Christine R. Larson
Vice President and Chief Financial Officer

Dated: November 10, 2010

**EXHIBIT INDEX**

| Exhibit No. | Description |
|---|---|
| 99.1 | Press Release, dated November 10, 2010 |
| 99.2 | Information Sheet, dated November 10, 2010 |

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**PDL BioPharma Announces Third Quarter 2010 Financial Results**

INCLINE VILLAGE, NV, November 10, 2010 – PDL BioPharma, Inc. (PDL) (NASDAQ: PDLI) today reported financial results for the third quarter and nine months ended September 30, 2010.

**Financial Results for the Third Quarter Ended September 30, 2010**
Revenues for the third quarter of 2010 were $86.4 million, a 21 percent increase when compared with $71.4 million for the same period in 2009. Revenue growth for the third quarter of 2010 over the same period in 2009 was primarily driven by increased second quarter 2010 sales by the Company's licensees of Avastin® and Herceptin®, which are marketed by Genentech and Roche; Lucentis®, which is marketed by Genentech and Novartis; and Tysabri®, which is marketed by Elan and Biogen Idec. PDL received royalties for these product sales in the third quarter of 2010.

General and administrative expenses for the third quarter of 2010 were $11.1 million compared with $5.3 million for the third quarter of 2009. Significant expense items in the third quarter of 2010 were legal fees of $8.7 million, compensation and benefits of $1.0 million, professional service fees of $0.5 million and stock-based compensation expense of $0.2 million.

Non-operating expenses were $12.1 million for the third quarter of 2010 compared with $2.6 million for the third quarter of 2009. Included in non-operating expense for 2010 is a loss of $2.4 million associated with the conversion of the Company's 2.75% Convertible Subordinated Notes due 2023 (the 2023 Notes) and interest expense of $9.9 million. In the third quarter of 2009, the Company recorded a gain of $0.3 million on the repurchase of a portion of its 2.00% Convertible Senior Notes due 2012 (the 2012 Notes) and interest expense of $3.1 million. The increase in interest expense is attributable to the 10.25% Non-recourse Notes due 2015 issued in November 2009 (the Non-recourse Notes) that have a current principal balance of $225.0 million.

Net income for the third quarter of 2010 was $40.2 million, or $0.24 per diluted share compared with net income of $46.4 million, or $0.29 per diluted share, for the same period in 2009.

**Financial Results for the Nine Months Ended September 30, 2010**
Revenues for the nine months ended September 30, 2010 were $268.8 million, compared with $259.9 million for the same period in 2009. General and administrative expenses for the nine months ended September 30, 2010 were $29.3 million compared to $15.5 million for the same period in 2009.

Non-operating expenses for the nine months ended September 30, 2010 were $52.4 million compared with $7.7 million for the same period in 2009. Included in non-operating expense for the nine months ended September 30, 2010 are $18.7 million in costs associated with the retirement or conversion of the 2023 Notes. Included in the nine months ended September 30, 2009 are gains associated with the repurchase of a portion of the 2012 Notes of $0.8 million and a portion of the 2023 Notes of $0.7 million.

Net income for the first nine months of 2010 was $116.3 million, or $0.67 per diluted share, compared to $161.1 million, or $0.97 per diluted share for the same period in 2009. Adjusting for gains or losses on retirement or conversion of convertible debt, non-GAAP net income for the nine months ended September 30, 2010 totaled $133.4 million, or $0.77 per diluted share, compared with non-GAAP net income of $160.1 million, or $0.96 per diluted share for the same period in 2009.

Net cash provided by operating activities for the first nine months of 2010 was $154.3 million compared with $132.8 million for the first nine months of 2009. At September 30, 2010, PDL had cash, cash equivalents and short-term investments of $227.2 million compared with $303.2 million at December 31, 2009, a decrease which can be primarily attributed to the retirement of the 2023 Notes, the payment of the April dividend and the $75 million repayment of the Company's Non-recourse Notes partially offset by cash provided by operations.

**Exchange of 2.00% Senior Convertible Notes due 2012**

As previously announced, the Company completed an exchange of $92.0 million in aggregate principal of the 2012 Notes in separate, privately negotiated transactions with the note holders. Pursuant to the exchange transactions, the note holders received $92.0 million in aggregate principal of new 2.875% Convertible Senior Notes due February 15, 2015 (the 2015 Notes). As part of the transaction, the Company also placed an additional $88.0 million in aggregate principal of the 2015 Notes. Following the exchange transactions, $136.0 million of the 2012 Notes remain outstanding. The conversion rate for the 2015 Notes is 140.571 shares of common stock per $1,000 principal amount of the 2015 Notes or $7.11 per share of common stock.

The following summarizes the Company's debt outstanding at December 31, 2009 and at November 1, 2010.

| | Debt Outstanding (In millions) | |
|---|---|---|
| | 11/1/2010 | 12/31/2009 |
| 2.75% Convertible Debt Put Option - August 2010 | $ - | $ 200 |
| 2.00% Convertible Debt Maturity - February 2012 | 136 | 228 |
| 10.25% Securitization Note Expected Maturity - September 2012 | 225 | 300 |
| 2.875% Convertible Debt Maturity - February 2015 | 180 | - |
| Total Debt | $ 541 | $ 728 |

**2010 Dividends**

PDL previously announced that it would pay two special dividends of $0.50 per share each, to its stockholders in 2010. The first special dividend, totaling $59.9 million, was paid on April 1, 2010 to all stockholders of record on March 15, 2010. The second special dividend, totaling $69.8 million, was paid on October 1, 2010 to all stockholders of record on September 15, 2010. PDL does not pay regular dividends.

**Fourth Quarter and Full Year 2010 Revenue Guidance**

As previously announced, PDL will continue to provide revenue guidance for each quarter in the third month of that quarter. Fourth quarter and year-end 2010 revenue guidance will be provided in early December.

**Conference Call Details**

PDL will hold a conference call to discuss financial results at 4:30 p.m. ET today, November 10, 2010.

To access the live conference call via phone, please dial (866) 271-5140 from the United States and Canada or (617) 213-8893 internationally. The conference ID is 98631412. Please dial in approximately 10 minutes prior to the start of the call. A telephone replay will be available beginning approximately one hour after the call through November 17, 2010, and may be accessed by dialing (888) 286-8010 from the United States and Canada or (617) 801-6888 internationally. The replay passcode is 74992654.

To access the live and subsequently archived webcast of the conference call, go to the Company's website at http://www.pdl.com and go to "Company Presentations & Events." Please connect to the website at least 15 minutes prior to the call to allow for any software download that may be necessary.

**About PDL BioPharma**
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. PDL is focused on maximizing the value of its antibody humanization patents and related assets. The Company receives royalties on sales of a number of humanized antibody products marketed by leading pharmaceutical and biotechnology companies today based on patents which expire in late 2014. For more information, please visit www.pdl.com.

NOTE: PDL BioPharma and the PDL BioPharma logo are considered trademarks of PDL BioPharma, Inc.

**Non-GAAP Financial Information**
The Company has presented certain financial information in conformance with generally accepted accounting principles in the U.S. (GAAP) and also on a non-GAAP basis for the three and nine months ended September 30, 2010 and 2009. Management believes that this non-GAAP information is useful for investors taken in conjunction with the Company's GAAP financial statements. 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. A reconciliation between GAAP and non-GAAP financial information is provided in the table on page 5.

**Forward-Looking Statements**
This press release contains forward-looking statements. Each of these forward-looking statements involves risks and uncertainties. Actual results may differ materially from those, express or implied, in these forward-looking statements. Factors that may cause differences between current expectations and actual results include, but are not limited to, the following:

- The expected rate of growth in royalty-bearing product sales by PDL's existing licensees;
- The relative mix of royalty-bearing Genentech products manufactured and sold outside the U.S. versus manufactured or sold in the U.S.;
- The ability of our licensees to receive regulatory approvals to market and launch new royalty-bearing products and whether such products, if launched, will be commercially successful;
- Changes in any of the other assumptions on which PDL's projected royalty revenues are based;
- The outcome of pending litigation or disputes;
- The change in foreign currency exchange rate; and
- The failure of licensees to comply with existing license agreements, including any failure to pay royalties due.

Other factors that may cause PDL's actual results to differ materially from those expressed or implied in the forward-looking statements in this press release are discussed in PDL's filings with the SEC, including the "Risk Factors" section of its annual and quarterly reports filed with the SEC. Copies of PDL's filings with the SEC may be obtained at the "Investors" section of PDL's website at www.pdl.com. PDL expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in PDL's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based for any reason, except as required by law, even as new information becomes available or other events occur in the future. All forward-looking statements in this press release are qualified in their entirety by this cautionary statement.

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Revenues | | | | |
| Royalties | $ 86,442 | $ 71,446 | $ 268,846 | $ 247,147 |
| License and other | - | - | - | 12,785 |
| Total revenues | 86,442 | 71,446 | 268,846 | 259,932 |
| General and administrative expenses | 11,110 | 5,255 | 29,340 | 15,538 |
| Operating income | 75,332 | 66,191 | 239,506 | 244,394 |
| Gain (loss) on retirement or conversion of convertible notes | (2,354) | 323 | (18,681) | 1,518 |
| Interest and other income, net | 167 | 214 | 337 | 860 |
| Interest expense | (9,928) | (3,105) | (34,015) | (10,036) |
| Income before income taxes | 63,217 | 63,623 | 187,147 | 236,736 |
| Income tax expense | 23,028 | 17,217 | 70,813 | 75,636 |
| Net income | $ 40,189 | $ 46,406 | $ 116,334 | $ 161,100 |
| Net income per basic share | $ 0.32 | $ 0.39 | $ 0.95 | $ 1.35 |
| Net income per diluted share | $ 0.24 | $ 0.29 | $ 0.67 | $ 0.97 |
| Cash dividends declared per common share | $ - | $ - | $ 1.00 | $ 1.00 |
| Shares used to compute income per basic share | 127,479 | 119,411 | 122,209 | 119,366 |
| Shares used to compute income per diluted share | 172,217 | 168,576 | 178,448 | 172,248 |

**PDL BIOPHARMA, INC.**
**RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL INFORMATION**
**(Unaudited)**
**(In thousands, except per share amounts)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Net income | $ 40,189 | $ 46,406 | $ 116,334 | $ 161,100 |
| Add back loss (gain) on retirement or conversion of convertible notes | 2,354 | (323) | 18,681 | (1,518) |
| Deduct income tax expense (benefit) on retirement or conversion of convertible notes | - | 113 | (1,590) | 531 |
| Non-GAAP net income | 42,543 | 46,196 | 133,425 | 160,113 |
| Add back interest expense for convertible notes, net of estimated taxes | 987 | 1,681 | 3,982 | 5,444 |
| Non-GAAP net income used to compute non-GAAP net income per diluted share | $ 43,530 | $ 47,877 | $ 137,407 | $ 165,557 |
| Non-GAAP net income per diluted share | $ 0.25 | $ 0.28 | $ 0.77 | $ 0.96 |
| Shares used to compute net income per diluted share | 172,217 | 168,576 | 178,448 | 172,248 |
| Delete shares issued to induce note conversion to common stock [(1)] | (104) | - | (35) | - |
| Shares used to compute non-GAAP net income per diluted share | 172,113 | 168,576 | 178,413 | 172,248 |

(1) The shares used to compute non-GAAP net income per diluted share amounts are the same as the shares used to calculate GAAP net income per diluted share amounts, except the shares for the three and nine months ended September 30, 2010 exclude the weighted average effect of the shares issued as an incentive to induce conversion of the 2023 Notes in August 2010.

**PDL BIOPHARMA, INC.**
**GENERAL AND ADMINISTRATIVE EXPENSE DATA**
**(Unaudited)**
**(In thousands)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Compensation and benefits | $ 965 | $ 821 | $ 2,962 | $ 2,389 |
| Legal expense | 8,660 | 3,063 | 20,821 | 7,436 |
| Other professional services | 535 | 567 | 2,618 | 2,133 |
| Insurance | 185 | 238 | 608 | 754 |
| Depreciation | 14 | 35 | 76 | 957 |
| Stock-based compensation | 166 | 215 | 525 | 617 |
| Other | 585 | 316 | 1,730 | 1,252 |
| Total general and administrative expenses | $ 11,110 | $ 5,255 | $ 29,340 | $ 15,538 |

**PDL BIOPHARMA, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEET DATA**
**(Unaudited)**
**(In thousands)**

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Cash, cash equivalents and short-term investments | $ 227,190 | $ 303,227 |
| Total assets | $ 257,507 | $ 338,411 |
| Convertible notes payable | $ 227,990 | $ 427,998 |
| Non-recourse notes payable | $ 225,041 | $ 300,000 |
| Total stockholders' deficit | $ (304,542) | $ (415,953) |

**PDL BIOPHARMA, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW DATA**
**(Unaudited)**
**(In thousands)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2010 | 2009 |
| Net income | $ 116,334 | $ 161,100 |
| Adjustments to reconcile net income to net cash provided by operating activities | 20,199 | (3,586) |
| Changes in assets and liabilities | 17,780 | (24,710) |
| Net cash provided by operating activities | $ 154,313 | $ 132,804 |

**PDL BIOPHARMA, INC.**
**MIX OF EX-U.S.-BASED SALES AND EX-U.S.-BASED MANUFACTURING AND SALES OF GENENTECH PRODUCTS**
**(Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Avastin | | | | |
| % Ex-U.S.-based Sales | 49% | 46% | 49% | 46% |
| % Ex-U.S.-based-Manufacturing and Sales | 27% | - | 20% | - |
| Herceptin | | | | |
| % Ex-U.S.-based-Sales | 68% | 68% | 70% | 70% |
| % Ex-U.S.-based Manufacturing and Sales | 45% | 47% | 45% | 31% |
| Lucentis | | | | |
| % Ex-U.S.-based Sales | 56% | 55% | 57% | 52% |
| % Ex-U.S.-based Manufacturing and Sales | - | - | - | - |
| Xolair | | | | |
| % Ex-U.S.-based Sales | 34% | 31% | 35% | 28% |
| % Ex-U.S.-based Manufacturing and Sales | 34% | 31% | 35% | 28% |

**PDL BioPharma, Inc.**
**Q3-2010**
**November 10, 2010**

The following document was compiled from public documents for your convenience. This document, together with the Form 10-Q filed yesterday and press release issued today, provides information regarding PDL related to its third quarter 2010 financial and business results.

**Licensed Product Development and Regulatory Updates**

- *ACTEMRA®:* On October 19, 2010, Roche submitted a supplemental Biologics License Application (sBLA) to the FDA and European Medicines Agency (EMA) to extend the license indication of ACTEMRA (RoACTEMRA in Europe) for the treatment of systemic Juvenile Idiopathic Arthritis (sJIA). In addition, on November 7, 2010, Genentech announced positive updated data from a phase 3 study showing that 85% (64/75) children with sJIA receiving ACTEMRA experienced a 30% improvement in the signs and symptoms and an absence of fever after three months of therapy for sJIA compared with 24% (18/37) of children receiving placebo.

- *AVASTIN®:* On October 18, 2010, the National Comprehensive Cancer Network reaffirmed its existing recommendation for the use of Avastin (bevacizumab) in metastatic breast cancer. In addition, in mid-September, the FDA extended the review period for Genentech's sBLA for Avastin in previously untreated advanced HER2-negative breast cancer until December 17, 2010.

- *AVASTIN:* On October 18, 2010, Roche announced that Avastin did not meet its primary endpoint in a study using Avastin plus chemotherapy in the adjuvant treatment of early-stage colon cancer. Avastin is already approved for the treatment of metastatic colon cancer.

- *HERCEPTIN®:* On October 20, 2010, Roche announced that the FDA approved Herceptin (trastuzumab) in combination with chemotherapy for HER2-positive metastatic cancer of the stomach or gastroesophageal junction, for patients who have not received prior treatment. The European Commission approved Herceptin for this indication in January 2010.

- *TEPLIZUMAB:* On October 20, 2010, Eli Lilly announced that teplizumab, a biologic under development for the treatment of individuals with recent-onset type 1 diabetes, did not meet its primary efficacy endpoint in a Phase 3 clinical trial. Enrollment in two other ongoing clinical trials using teplizumab to treat type 1 diabetes was suspended.

- *OCRELIZUMAB:* On October 15, 2010, Genentech and Biogen announced positive results from a Phase 2 study of ocrelizumab in patients with relapsing-remitting multiple sclerosis, showing that ocrelizumab demonstrated a significant reduction in disease activity as measured by brain lesions and relapse rate.

- *LINTUZUMAB:* On September 13, 2010, Seattle Genetics announced that its Phase 2b trial of lintuzumab in older patients with acute myeloid leukemia did not meet its primary endpoint of extending overall survival, and the company plans to discontinue development of this program.

- *TRASTUZUMAB-DM1 (T-DM1):* On August 25, 2010, the FDA issued a Refuse to File letter for accelerated approval of Genentech's T-DM1 BLA. Genentech plans to continue its ongoing Phase 3 registrational trial for this compound and plans to submit a new BLA in mid-2012. On October 13, Roche announced preliminary, six month results from a Phase 3 trial in second line HER2+ breast cancer patients which showed that 48 percent of women treated with T-DM1 had their tumors shrink compared with 41 percent of those taking the combination of Herceptin and Taxotere. Among the women taking the standard therapy, 75 percent had side effects of grade 3 or higher on a 5-point scale, compared with 37 percent of those getting T-DM1.

**PDL BioPharma, Inc.**
**Q3-2010**
**November 10, 2010**

**Non-GAAP Earnings per Share**

An important part of PDL's strategy is the improvement of its capital structure and reducing the dilution associated with its convertible notes. To this end, in the third quarter of 2010, we exchanged an aggregate $61.6 million face value of our 2.75% convertible subordinated notes due in August 2023 (the 2023 Notes) for 11.1 million shares of common stock. Holders received an additional three shares of common stock per $1,000 principal or a conversion rate of 180.1594 shares per $1,000 face amount. Following this transaction, we issued a redemption notice for the remaining $54.3 million principal. As a result, $50.1 million of the outstanding principal was converted to 8.9 million shares of common stock and $4.2 million was redeemed for cash. These transactions resulted in a charge to non-operating expense of $2.4 million net of tax. The effect of these transactions was to reduce net income per diluted share from $0.25 to $0.24. It is important to note that as a result of the above transactions, all 2023 Notes have been retired.

During the third quarter of 2009, we repurchased at market prices $17 million face value of our 2.00% convertible senior notes due in February 2012 (the 2012 Notes) at approximately a three percent discount to face value for total consideration of $16.5 million in cash plus accrued but unpaid interest. This transaction resulted in a gain of $0.2 million net of tax. The effect of this transaction was to increase net income per diluted share from $0.28 to $0.29.

The result of the repurchase transactions reduced the number shares used to compute net income per diluted share on an as-converted basis by 15.6 million shares and 8.1 million shares in 2010 and 2009, respectively.

Excluding these transactions, non-GAAP earnings per share was:

| (In thousands except per share amounts) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Net income | $ 40,189 | $ 46,406 | $ 116,334 | $ 161,100 |
| Add back loss (gain) on retirement or conversion of convertible notes | 2,354 | (323) | 18,681 | (1,518) |
| Deduct income tax expense (benefit) on retirement or conversion of convertible notes | - | 113 | (1,590) | 531 |
| Non-GAAP net income | 42,543 | 46,196 | 133,425 | 160,113 |
| | | | | |
| Add back interest expense for convertible notes, net of estimated taxes | 987 | 1,681 | 3,982 | 5,444 |
| Non-GAAP net income used to compute non-GAAP net income per diluted share | $ 43,530 | $ 47,877 | $ 137,407 | $ 165,557 |
| | | | | |
| Non-GAAP net income per diluted share | $ 0.25 | $ 0.28 | $ 0.77 | $ 0.96 |
| | | | | |
| Shares used to compute net income per diluted share | 172,217 | 168,576 | 178,448 | 172,248 |
| Delete shares issued to induce note conversion to common stock [(1)] | (104) | - | (35) | - |
| Shares used to compute non-GAAP net income per diluted share | 172,113 | 168,576 | 178,413 | 172,248 |

(1) The shares used to compute non-GAAP net income per diluted share amounts are the same as the shares used to calculate GAAP net income per diluted share amounts, except the shares for the three and nine months ended September 30, 2010 exclude the weighted average effect of the shares issued as an incentive to induce conversion of the 2023 Notes in August 2010.

**Special Dividend Payment**

On October 1, 2010, PDL paid the second of two special dividends for 2010, totaling $69.8 million, to all stockholders of record on September 15, 2010.

**2012 Convertible Senior Notes Exchange**

As previously announced, PDL completed an exchange of $92.0 million in aggregate principal of the 2012 Notes in separate, privately negotiated transactions with the note holders. Pursuant to the exchange transactions, the note holders received $92.0 million in aggregate principal of new 2.875% Convertible Senior Notes due February 15, 2015 (the 2015 Notes). As part of the transaction, the Company also placed an additional $88.0 million in aggregate principal of the 2015 Notes. Following the exchange transactions, $136.0 million of the 2012 Notes remain outstanding. The conversion rate for the 2015 Notes is 140.571 shares of common stock per $1,000 principal amount of the 2015 Notes or $7.11 per share of common stock.

The following summarizes the Company's debt outstanding at December 31, 2009 and at November 1, 2010.

| | Debt Outstanding (In millions) | |
|---|---|---|
| | 11/1/2010 | 12/31/2009 |
| 2.75% Convertible Debt Put Option - August 2010 | $ - | $ 200 |
| 2.00% Convertible Debt Maturity - February 2012 | 136 | 228 |
| 10.25% Securitization Note Expected Maturity - September 2012 | 225 | 300 |
| 2.875% Convertible Debt Maturity - February 2015 | 180 | - |
| Total Debt | $ 541 | $ 728 |

**Genentech Update**

In August, PDL received a letter from Genentech, which was sent at the behest of Roche and Novartis, asserting that Avastin®, Herceptin®, Lucentis® and Xolair® do not infringe the supplementary protection certificates (SPCs) granted to PDL by various countries in Europe and asking for PDL's views on the matter. The letter does not describe what actions, if any, Genentech intends to take with respect to its assertions. As background, our SPCs were applied for, and granted by, the relevant national patent offices in Europe and, by their terms, specifically cover the Genentech products by their generic name.

The letter from Genentech refers only to those products that are both made and sold outside the U.S. It does not suggest that the Genentech products do not infringe PDL's U.S. patents which cover products made in the U.S. and sold anywhere in the world. At the end of August, following the receipt of the letter, PDL received its regular quarterly payment from Genentech and it included royalties generated on all worldwide sales of the Genentech products. The next royalty payment is due at the end of November.

It is important to note that management believes 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 their products on a worldwide basis. As such, we intend to vigorously assert our SPC-based patent rights and in August PDL responded to Genentech, stating that it believes that its assertions are without merit and that it disagrees fundamentally with its assertions of non-infringement. There have been discussions between the companies regarding this matter. If we cannot reach a mutually agreeable resolution, we will vigorously enforce our rights, including the rights under the agreements with Genentech and also against Roche and Novartis. To this end, we filed a complaint in Nevada, naming Genentech, Roche and Novartis as defendants.

PDL and Genentech entered into a definitive agreement in 2003 to resolve all intellectual property disputes between the two companies. 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. Specific breaches of this settlement agreement, which were filed in Nevada court by PDL in August, require Genentech to pay us liquidated and other damages of up to $1 billion. This amount is calculated based on a retroactive royalty rate of 3.75% on past sales of the Genentech products that were made in the U.S. and sold anywhere in the world, as well as interest, among other items. In addition, breaches of the 2003 settlement agreement would entitle us to either terminate our license agreements with Genentech or be paid a flat royalty of 3.75% on future sales of Genentech products made in the U.S. and sold anywhere in the world regardless of sales volume.

Today our license agreement states that we receive a tiered royalty rate for sales of product made in the U.S. and sold anywhere in the world. The royalty rate starts at 3% and decreases to 1% on annual, aggregate sales of $4 billion or more. We receive a flat 3% royalty rate on sales of product that is manufactured and sold outside of the U.S.

Specifically in our Nevada complaint, we alleged that the communication received from Genentech in August constitutes a breach of Genentech's obligations under the 2003 settlement agreement. We alleged that Roche and Novartis knowingly interfered with PDL's contractual relationship with Genentech in conscious disregard of PDL's rights. We are seeking a declaratory judgment from the court that Genentech is obligated to pay royalties to PDL on international sales of its products. In addition, we are seeking compensatory damages, including liquidated damages and other monetary remedies set forth in the 2003 settlement agreement, and punitive damages as well as legal fees.

In early November, Genentech and Roche filed a motion to dismiss our complaint for failure to state a claim on which relief can be granted, as they contend that all of our claims for relief relating to the 2003 settlement agreement should be dismissed because that agreement applies only to PDL's U.S. patents. In addition, they have filed a motion to dismiss our complaint on the ground that Nevada lacks personal jurisdiction over Roche. We disagree with these motions and we intend to oppose them. Novartis is expected to provide its response to our complaint in December 2010.

Overall, we would like to resolve this dispute in a manner mutually agreeable to all parties. Litigation can be costly, time consuming and is not without risk. For additional information on this matter, including a redacted version of the 2003 settlement agreement, please see our Form 10-Q filed on November 9, 2010. The 2003 settlement agreement was filed yesterday with our Form 10-Q as Exhibit 10.1.

**Forward-looking Statements**

This document contains forward-looking statements. Each of these forward-looking statements involves risks and uncertainties. Actual results may differ materially from those, express or implied, in these forward-looking statements. Factors that may cause differences between current expectations and actual results include, but are not limited to, the following:

- The expected rate of growth in royalty-bearing product sales by PDL's existing licensees;
- The relative mix of royalty-bearing Genentech products manufactured and sold outside the U.S. versus manufactured or sold in the U.S.;
- The ability of our licensees to receive regulatory approvals to market and launch new royalty-bearing products and whether such products, if launched, will be commercially successful;
- Changes in any of the other assumptions on which PDL's projected royalty revenues are based;

- The outcome of pending litigation or disputes;
- The change in foreign currency exchange rate; and
- The failure of licensees to comply with existing license agreements, including any failure to pay royalties due.

Other factors that may cause PDL's actual results to differ materially from those expressed or implied in the forward-looking statements in this document are discussed in PDL's filings with the SEC, including the "Risk Factors" sections of its annual and quarterly reports filed with the SEC. Copies of PDL's filings with the SEC may be obtained at the "Investors" section of PDL's website at www.pdl.com. PDL expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in PDL's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based for any reason, except as required by law, even as new information becomes available or other events occur in the future. All forward-looking statements in this press release are qualified in their entirety by this cautionary statement.