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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2013
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 000-19756

PDL BioPharma, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**94-3023969**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	**Name of Exchange on which Registered**
Common Stock, par value $0.01 per share	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐
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 (Check one):

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

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒
The aggregate market value of shares of common stock held by non-affiliates of the registrant, based on the closing sale price of a share of common stock on June 28, 2013 (the last business day of the registrant's most recently completed second fiscal quarter, as reported on the NASDAQ Global Select Market, was $1,077,901,101.

As of February 14, 2014, the registrant had outstanding 160,352,201 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant's proxy statement to be delivered to stockholders with respect to the registrant's 2013 Annual Meeting of Stockholders to be filed by the registrant with the U.S. Securities and Exchange Commission (hereinafter referred to as the "Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K. The registrant intends to file its proxy statement within 120 days after its fiscal year end.

PDL BIOPHARMA, INC.

2013 Form 10-K Annual Report

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GLOSSARY OF TERMS AND ABBREVIATIONS

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

Pfizer	Pfizer, Inc.
PLMA	Patent licensing master agreement
Queen et al. patents	PDL's patents in the United States and elsewhere covering the humanization of antibodies
Roche	F. Hoffman LaRoche, Ltd.
Royalty Agreement	Revenue Interests Purchase Agreement between PDL and AxoGen.
SEC	Securities and Exchange Commission
Series 2012 Notes	2.875% Series 2012 Convertible Senior Notes due February 15, 2015
Settlement Agreement	Settlement Agreement amongst Genentech and Roche, dated January 31, 2014
SPCs	Supplementary Protection Certificates
SPC Products	Avastin®, Herceptin®, Lucentis®, Xolair® and Tysabri®
Spin-Off	The spin-off by PDL of Facet
T-DM1	Trastuzumab-DM1
Term Loan	Credit agreement among PDL, the Royal Bank of Canada and lenders thereto, dated October 28, 2013
U.S.-based Sales	Products sold in the United States or manufactured in the United States and used or sold anywhere in the world
UCB	UCB Pharma S.A.
VWAP	Volume weighted average share price
Wellstat Diagnostics	Wellstat Diagnostics, LLC

PART I

Forward-looking Statements

This Annual 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 of filing, 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, and for the reasons described elsewhere in this Annual Report. All forward-looking statements and reasons why results may differ included in this Annual 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.

We own or have rights to certain trademarks, trade names, copyrights and other intellectual property used in our business, including PDL BioPharma and the PDL logo, each of which is considered a registered trademark. All other company names, product names, trade names and trademarks included in this Annual Report are trademarks, registered trademarks or trade names of their respective owners.

ITEM 1. BUSINESS

Overview

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

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

In 2011, PDL initiated a strategy to bring in new income generating assets from the healthcare sector. To accomplish this goal, PDL seeks to provide non-dilutive growth capital and financing solutions to late stage public and private healthcare companies and offers immediate financial monetization of royalty streams to companies, academic institutions and inventors. PDL continues to pursue this strategic initiative for which it has already invested approximately $500 million to date. PDL is focused on the quality of the income generating assets and potential returns on investment.

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

Financial information about our operations, including our revenues and net income for the years ended December 31, 2013, 2012 and 2011, and our total assets as of December 31, 2013 and 2012, is included in our consolidated financial statements and accompanying notes in Item 8, "Financial Statements and Supplementary Data."

2014 Dividends

We currently utilize dividends to increase return for our stockholders. On January 29, 2014, our board of directors declared that the regular quarterly dividends to be paid to our stockholders in 2014 will be $0.15 per share of common stock, payable on March 12, June 12, September 12 and December 12 of 2014 to stockholders of record on March 5, June 5, September 5 and December 5 of 2014, the record dates for each of the dividend payments, respectively. At the beginning of each fiscal year, our board of directors sets the Company's total annual dividend payments for the 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 the dividend.

Intellectual Property

Patents

We have been issued patents in the United States and elsewhere, covering the humanization of antibodies, which we refer to as our Queen et al. patents. Our Queen et al. patents, for which final patent expiry is in December 2014, cover, among other things, humanized antibodies, methods for humanizing antibodies, polynucleotide encoding in humanized antibodies and methods of producing humanized antibodies.

Our U.S. Patent No. 5,693,761 (the '761 Patent), which expires on December 2, 2014, covers methods and materials used in the manufacture of humanized antibodies. In addition to covering methods and materials used in the manufacture of humanized antibodies, coverage under our '761 Patent will typically extend to the use or sale of compositions made with those methods and/or materials.

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

Licensing Agreements

We have entered into licensing agreements under our Queen et al. patents with numerous entities that are independently developing or have developed humanized antibodies. We receive royalties on net sales of products that are made, used and/or sold prior to patent expiry. In general, these agreements cover antibodies targeting antigens specified in the license agreements. Under our licensing agreements, we are entitled to receive a flat-rate or tiered royalty based upon our licensees' net sales of covered antibodies. Before August 15, 2013, we were entitled received a tiered royalty from one of our licensees, Genentech, based upon certain of their net sales of covered antibodies. After August 15, 2013, all of the royalties received from Genentech are based solely upon a flat-rate. We also expect to receive annual maintenance fees from licensees of our Queen et al. patents prior to patent expiry as well as periodic milestone payments. Total annual milestone payments in each of the last several years have been less than 1% of total revenue and we expect this trend will continue through the expiration of the Queen et al. patents.

Our total revenues from U.S. based licensees under our Queen et al. patents were $154.2 million, $133.8 million and $137.3 million for the years ended December 31, 2013, 2012 and 2011, respectively. Our total revenues from foreign based licensees were $277.5 million, $240.7 million and $224.7 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Licensing Agreements for Marketed Products

In the year ended December 31, 2013, we received royalties on Queen et al. patents on sales of the eight humanized antibody products listed below, all of which are currently approved for use by the FDA and other regulatory agencies outside the United States.

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

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

For the years ended December 31, 2013, 2012 and 2011, we received royalty revenues under our license agreements of approximately $441.4 million, $374.5 million and $351.6 million, respectively.

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

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

Genentech

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

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

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

all ex-U.S. sales occurring on or before December 28, 2014. The royalty term for Gazyva remains unchanged from the existing license agreement pertaining thereto.

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

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

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

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

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

Genentech Products Made and Sold ex-U.S.	
Net sales	3.0%

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

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

	Year Ended December 31,		
	2013	2012	2011
Avastin			
Ex-U.S.-based sales	58%	56%	55%
Ex-U.S.-based Manufacturing and Sales	43%	29%	21%
Herceptin			
Ex-U.S.-based sales	68%	69%	71%
Ex-U.S.-based Manufacturing and Sales	40%	37%	35%
Kadcyla			
Ex-U.S.-based sales	2%	0%	0%
Ex-U.S.-based Manufacturing and Sales	0%	0%	0%
Lucentis			
Ex-U.S.-based sales	64%	63%	59%
Ex-U.S.-based Manufacturing and Sales	0%	0%	0%
Perjeta			
Ex-U.S.-based sales	24%	1%	0%
Ex-U.S.-based Manufacturing and Sales	0%	0%	0%
Xolair			
Ex-U.S.-based sales	40%	39%	40%
Ex-U.S.-based Manufacturing and Sales	40%	39%	40%

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

In the years ended December 31, 2013, 2012 and 2011, PDL received royalties from ex-U.S. based Manufacturing and Sales of three of Genentech's licensed products: Herceptin, Avastin and Xolair. Roche, Genentech's parent company, produces Avastin and Herceptin in plants in Basel, Switzerland, and Penzberg, Germany, respectively.

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

On June 8, 2012, Genentech announced that the U.S. Food and Drug Administration approved Perjeta (pertuzumab). Perjeta is approved in combination with Herceptin and docetaxel chemotherapy for the treatment of people with HER2-postive metastatic breast cancer who have not received prior anti-HER2 therapy or chemotherapy for metastatic disease. PDL began receiving royalties generated from Perjeta during the year ended December 31, 2012.

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

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

On February 22, 2013, Genentech announced that the FDA approved Kadcyla for second line treatment of HER2-positive metastatic breast cancer and first line treatment for those patients who relapse within six months following adjuvant therapy. On

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

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

Biogen Idec

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

Chugai

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

Depomed

On October 18, 2013, we entered into a royalty purchase and sale agreement with Depomed, Inc. and its subsidiary, whereby we acquired the rights to receive royalties and milestones payable on sales of Type 2 diabetes products licensed by Depomed in exchange for a $240.5 million cash payment. As the licensor of certain patents, Depomed retains various rights, including the contractual right to audit its licensees and to ensure those licensees are complying with the terms of the underlying license agreement. Depomed retains full responsibility to protect and maintain the intellectual property rights underlying the licenses. In respect of the royalty stream relating to the Glumetza diabetes medication that we acquired from Depomed, which is the royalty right producing the highest revenues from the Depomed acquired royalties, U.S. patent protection for this product is expected to begin to expire in September 2016, and under settlement agreements to which Depomed is a party, certain manufacturers of generic products will be permitted to enter the market starting in February and August 2016.

Licensing Agreements for Non-Marketed Products

We have also entered into licensing agreements under which we have licensed certain rights under our Queen et al. patents to make, use and sell certain products that are not currently marketed. Certain of these development-stage products are currently in Phase 3 clinical trials. With respect to these agreements, we may receive payments based on certain development milestones and annual maintenance fees. We may also receive royalty payments if the licensed products receive marketing approval and are manufactured or generate sales before the expiration of our Queen et al. patents. For example, solanezumab is the Lilly-licensed antibody for the treatment of Alzheimer's disease. If Lilly’s antibody for Alzheimer’s disease is approved, we would be entitled to receive a royalty based on a "know-how" license for technology provided in the design of this antibody. Unlike the royalty for the patent license, the two percent royalty payable for "know-how" runs for 12.5 years after the product's initial commercialization.

Protection of our Intellectual Property

Our intellectual property, namely our Queen et al. patents and related license agreements, are integral to our business and generate nearly all of our revenues. Protection of our intellectual property is key to our success.

Genentech / Roche Matter

Settlement Agreement

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

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

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

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

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

Income Generating Asset Acquisitions

The last of PDL's Queen et al. patents expire in December 2014, with the obligation to pay royalties under the majority of our various license agreements expiring the first quarter of 2016. Consequently, we are acquiring income generating assets if such assets can be acquired on terms that allow us to increase the return to our stockholders. We primarily focus our income generating asset acquisition strategy on commercial stage therapies and devices having strong economic fundamentals and intellectual property protection.

Notes and Other Long-term Receivables

Wellstat Diagnostics Note Receivable and Credit Agreement

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

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

In January 2013, the Company was informed that, as of November 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. PDL sent Wellstat Diagnostics a notice of default on January 22, 2013, and accelerated the amounts owed under the credit agreement. In connection with the notice of default, PDL exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to PDL and applied the funds to amounts due under the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby PDL agreed to refrain from exercising additional remedies for 120 days while Wellstat Diagnostics raised funds to capitalize the business and the parties attempted to negotiate a revised credit agreement. PDL agreed to provide up to $7.9 million to Wellstat Diagnostics to fund the business for the 120-day forbearance period under the terms of the forbearance agreement. Following the conclusion of the June 28 forbearance period, the Company agreed to forbear in its exercise of remedies for additional periods of time to allow the owners and affiliates of Wellstat Diagnostics to complete a pending financing transaction. During such forbearance period, the Company provided approximately $1.3 million to Wellstat Diagnostics to fund ongoing operations of the business. During the year ended December 31, 2013, approximately $8.7 million was advanced pursuant to the forbearance agreement.

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

Except as otherwise described here, the material terms of the amended credit agreement are substantially the same as those of the original credit agreement, including quarterly interest payments at the rate of 5% per annum (payable in cash or in kind). In addition, PDL will receive quarterly royalty payments based on a low double digit royalty rate of Wellstat Diagnostics' net revenues upon successful commercialization. However, pursuant to the amended credit agreement: (i) the principal amount was reset to approximately $44.1 million which was comprised of approximately $33.7 million original loan principal and interest, $1.3 million term loan principal and interest and $9.1 million forbearance principal and interest; (ii) the specified internal rates of return increased; (iii) the default interest rate was increased; (iv) Wellstat Diagnostics' obligation to provide certain financial information increased in frequency to monthly; (v) internal financial controls were strengthened by requiring Wellstat Diagnostics to maintain an independent, third-party financial professional with control over fund disbursements; (vi) the Company waived the existing events of default; and (vii) the owners and affiliates of Wellstat Diagnostics are required to contribute additional capital to Wellstat Diagnostics upon the sale, if any, of an affiliated entity. The restated credit agreement continues to have an ultimate maturity date of December 31, 2021 (but may mature earlier upon certain specified events).

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

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

Merus Labs Note Receivable and Credit Agreement

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

Outstanding borrowings under the July 2012 loan bore interest at the rate of 13.5% per annum and outstanding borrowings as a result of the draw on the letter of credit bore interest at the rate of 14.0% per annum. Merus Labs was required to make four periodic principal payments in respect of the July 2012 loan, with repayment of the remaining principal balance of all loans due on March 31, 2015. The borrowings were subject to mandatory prepayments upon certain asset dispositions or debt issuances as set forth in the credit agreement. Merus Labs made the first of these payments in December 2012 in the amount of $5.0 million, and made the second payment in June 2013 in the amount of $7.5 million. In September 2013, Merus Labs made two additional payments totaling $43.3 million, including the prepayment fee, in order to pay its remaining outstanding balance.

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

AxoGen Royalty Agreement

In October 2012, PDL entered into the Royalty Agreement with AxoGen pursuant to which the Company will receive specified royalties on AxoGen’s net revenues (as defined in the Royalty Agreement) generated by the sale, distribution or other use of AxoGen’s products (assigned interests). The Royalty Agreement has an eight year term and provides PDL with royalties of 9.95% based on AxoGen net revenues, subject to agreed-upon guaranteed quarterly minimum payments of approximately $1.3 to $2.5 million beginning in the fourth quarter of 2014, and the right to require AxoGen to repurchase the Royalty Agreement at the end of the fourth year. AxoGen has been granted certain rights to call the contract in years five through eight. The total consideration PDL paid to AxoGen for the assigned interests was $20.8 million, including the termination of an interim funding of $1.8 million in August 2012. AxoGen was required to use a portion of the proceeds from the Royalty Agreement to pay the outstanding balance under its existing credit facility with a third party. AxoGen plans to use the remainder of the proceeds to support the business plan for its products. The royalty rights are secured by the cash and accounts receivable of AxoGen.

Under the Royalty Agreement, beginning on October 1, 2016, or in the event of the occurrence of a material adverse event or AxoGen's bankruptcy or material breach of the Royalty Agreement, the Company may require AxoGen to repurchase the assigned interests at a price that, together with payments already made by AxoGen, would generate a specified internal rate of return to the Company.

In the event of a change of control, AxoGen must repurchase the assigned interests from the Company for a repurchase price equal to an amount that, together with payments already made by AxoGen, would generate a 32.5% internal rate of return to the Company.

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

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

On August 14, 2013, PDL purchased 1,166,666 shares of AXGN at $3.00 per share, totaling $3.5 million.

Avinger Note Receivable and Royalty Agreement

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

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

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

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

LENSAR Credit Agreement

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

Principal repayment will commence on the thirteenth interest payment date or December 30, 2016. The principal amount outstanding at the commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on October 1, 2018. LENSAR may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The loans are secured by all of the assets of LENSAR.

Durata Credit Agreement

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

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

Direct Flow Medical Credit Agreement

On November 5, 2013, PDL entered into a credit agreement with Direct Flow Medical, in which PDL will provide up to $50.0 million to Direct Flow Medical. Of the $50.0 million available to Direct Flow Medical, an initial $35.0 million (tranche one), net of fees, was provided by the Company at the close of the transaction. Upon the attainment of a specified revenue milestone to be accomplished no later than December 31, 2014 (the tranche two milestone), the Company will loan to Direct Flow Medical an additional $15.0 million, net of fees. Until the occurrence of the tranche two milestone, outstanding borrowings under tranche one bear interest at the rate of 15.5% per annum, payable quarterly in arrears. Upon occurrence of the tranche two milestone, the interest rate of the loans will decrease to 13.5%.

Principal repayment will commence on the twelfth interest payment date, September 30, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on November 5, 2018. Direct Flow Medical may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Direct Flow Medical and any of its subsidiaries.

Paradigm Spine

On February 14, 2014, PDL entered into a credit agreement with Paradigm Spine, LLC, under which PDL made available to Paradigm up to $75 million to be used by Paradigm to refinance its existing credit facility and expand its domestic commercial operations. A portion of the amount available under the agreement in an aggregate principal amount equal to $50 million, net of fees, was funded at the close of the transaction. In the event that certain specified sales and other milestones occur before December 31, 2014, PDL will fund Paradigm between an additional $6.25 million and $12.5 million, at Paradigm's discretion. In the event that additional specified sales and other milestones occur before June 30, 2015, PDL will fund up to an additional $12.5 million also at Paradigm's discretion. Borrowings under the credit agreement bear interest at the rate of 13.0% per annum, payable quarterly in arrears.

Principal repayment will commence on the eleventh interest payment date, September 30, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on February 14, 2019, or, if Paradigm has achieved the first milestone and the additional loan amount is provided to Paradigm, the loans will mature on August 14, 2019. Paradigm may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Paradigm and its domestic subsidiaries and, initially, certain assets of Paradigm's German subsidiaries.

Intangible Assets

Depomed Royalty Purchase and Sales Agreement

On October 18, 2013, PDL entered into a royalty purchase and sale agreement with Depomed, Inc. and Depo DR Sub, LLC, a wholly owned subsidiary of Depomed, whereby the Company acquired the rights to receive royalties and milestones payables on sales of Type 2 diabetes products licensed by Depomed in exchange for a $240.5 million cash payment. The transaction closed simultaneously with the execution of the royalty agreement.

Under the terms of the royalty agreement, the Company will receive all royalty and milestone payments due under license agreements between Depomed and its licensees until the Company has received payments equal to two times the cash payment made to Depomed, after which all net payments received will be shared evenly between the Company and Depomed.

The royalty agreement terminates on the third anniversary following the date upon which the later of the following occurs: (a) October 25, 2021, or (b) at such time as no royalty payments remain payable under any license agreement and each of the license agreements has expired by its terms.

Convertible Notes

Series 2012 Notes

We have actively worked to restructure the Company's capital and reduce the potential dilution associated with our convertible notes. As part of those efforts, in January 2012, we exchanged and subsequently retired $169.0 million aggregate principal amount of our February 2015 Notes for an identical principal amount of our 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. In February 2012, we entered into separate privately negotiated exchange agreements under which we exchanged and subsequently retired an additional $10.0 million aggregate principal amount of our February 2015 Notes for $10.0 million aggregate principal amount of our Series 2012 Notes. In August 2013, the Company entered into a separate privately negotiated exchange agreement under which it retired the final $1.0 million aggregate principal amount of the Company's outstanding February 2015 Notes. Pursuant to the exchange agreement, the holder of the February 2015 Notes received $1.0 million aggregate principal amount of the Company's Series 2012 Notes. Immediately following the exchange, no principal amount of the February 2015 Notes remained outstanding and $180.0 million principal amount of the Series 2012 Notes is outstanding.

Our Series 2012 Notes net share settle, meaning that if a conversion occurs, the principal amount is due in cash, and to the extent that the conversion value exceeds the principal amount, the difference is due in shares of our 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 at the time of the exchange.

On February 5 and 6, 2014, the Company entered into separate, privately negotiated exchange and purchase agreements under which it retired $131.7 million in aggregate principal of the Company's outstanding Series 2012 Notes. The exchange agreements

provided for the issuance, by the Company, of shares of common stock and a cash payment for the Series 2012 Notes being exchanged, and the purchase agreement provided for a cash payment for the Series 2012 Notes being repurchased. The Company issued a total of 20.3 million shares of its common stock and paid an aggregate cash payment of $34.2 million pursuant to the exchange and repurchase agreements.

May 2015 Notes

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

February 2018 Notes

On February 6, 2014, the Company agreed to sell $260.87 million aggregate principal amount of its 4.00% Convertible Senior Notes due February 1, 2018, in an underwritten public offering. The conversion rate of the February 2018 Notes will initially be 109.1048 shares of common stock per $1,000 principal amount of the February 2018 Notes equivalent to an initial conversion price of approximately $9.17 per share of common stock. The conversion rate, subject to increase under certain circumstances, will not be increased in respect of regular quarterly cash dividends paid by us that do not exceed $0.15 per share.

On February 12, 2014, the Company issued $300 million aggregate principal amount of February 2018 Notes, which included $39.13 million aggregate principal amount of February 2018 Notes issued pursuant to the exercise of the underwriters' overallotment option to purchase additional 2018 Notes. In connection with the offering of the February 2018 Notes, PDL entered into privately negotiated convertible note hedge transactions with affiliates of RBC Capital Markets and Well Fargo Securities ("hedge counterparties") and privately negotiated warrant transactions with the hedge counterparties relating to the same number of shares of PDL's common stock.

Effect of December 12, 2013, Dividend Payment on Conversion Rates for the Convertible Notes

In connection with the December 12, 2013, dividend payment, the conversion rates for our convertible notes adjusted as follows:

Convertible Notes	Conversion Rate per $1,000 Principal Amount	Approximate Conversion Price Per Common Share	Effective Date
Series 2012 Notes	182.598	$ 5.48	December 3, 2013
May 2015 Notes	159.9165	$ 6.25	December 3, 2013

Term Loan

On October 28, 2013, PDL entered into the Term loan for $75 million, with a term of one year.

The interest rates per annum applicable to amounts outstanding under the Term Loan are, at the Company's option, either (a) the base rate plus 1.00%, or (b) the Eurodollar rate plus 2.00% per annum. As of December 31, 2013, the interest rate was 2.24%. Interest and principal payments associated with the Term Loan are due on the interest payment dates of January 31, April 30, and July 31 of 2014, with the remaining outstanding balance due on October 28, 2014.

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

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

The Term Loan contains events of default that the Company believes are usual and customary for a senior secured credit agreement.

Major Customers

Our revenues consist almost entirely of royalties. We also receive periodic milestone payments from licensees of our Queen et al. patents and may continue to receive payments if the licensed products in development achieve certain development milestones. In addition, we will 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. In 2013, 2012 and 2011, Genentech accounted for 83%, 85%, and 86% of our revenues, respectively, and Biogen Idec (formerly Elan) accounted for 11%, 13% and 12% of our revenues, respectively.

Employees

As of December 31, 2013, we had less than ten full-time employees managing our intellectual property, our asset acquisitions and other corporate activities as well as providing for certain essential reporting and management functions of a public company. None of our employees are covered by a collective bargaining agreement.

Available Information

We file electronically with the SEC our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that website is www.sec.gov.

We make available free of charge on or through our website at *www.pdl.com* our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and proxy statements, as well as amendments to these reports and statements, as soon as practicable after we have electronically filed such material with, or furnished them to, the SEC. You may also obtain copies of these filings free of charge by calling us at (775) 832-8500. Also, our Audit Committee Charter, Compensation Committee Charter, Nominating and Governance Committee Charter, Litigation Committee Charter, Corporate Governance Guidelines and Code of Business Conduct are also available free of charge on our website or by calling the number listed above.

ITEM 1A. RISK FACTORS

You should carefully consider and evaluate all of the information included and incorporated by reference in this Annual Report, including the risk factors listed below. Any of these risks, 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.

Keep these risk factors in mind when you read forward-looking statements contained in this Annual Report and the documents incorporated by reference in this Annual Report. These statements relate to our expectations about future events and time periods. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “intends,” “plans,” “believes,” “anticipates,” “expects,” “estimates,” “predicts,” “potential,” “continue” or “opportunity,” the negative of these words or words of similar import. Similarly, statements that describe our reserves and our future plans, strategies, intentions, expectations, objectives, goals or prospects are also forward-looking statements. Forward-looking statements involve risks and uncertainties, and future events and circumstances could differ significantly from those anticipated in the forward-looking statements.

We must protect our patent and other intellectual property rights to succeed.

Our success is dependent in significant part on our ability to protect the scope, validity and enforceability of our intellectual property, including our patents, SPCs and license agreements. The scope, validity, enforceability and effective term of patents and SPCs can be highly uncertain and often involve complex legal and factual questions and proceedings. In addition, the legal principles applicable to patents in any given jurisdiction may be altered through changing court precedent and legislative action, and such changes may affect the scope, strength and enforceability of our patent rights or the nature of proceedings which may be brought by us or a third party related to our patent rights. A finding in a proceeding related to our patent rights which narrows the scope or which affects the validity or enforceability of some or all of our patent rights could have a material impact on our ability to continue to collect royalty payments from our licensees or execute new license agreements.

Any of these proceedings could further result in either loss of a patent or loss or reduction in the scope of one or more of the claims of the patent or claims underlying an SPC. These proceedings could be expensive, last several years and result in a significant reduction in the scope or invalidation of our patents. Any limitation in claim scope could reduce our ability to collect royalties or commence enforcement proceedings based on these patents. Moreover, the scope of a patent in one country does not assure similar scope of a patent with similar claims in another country. Also, claim interpretation and infringement laws vary among countries. Additionally, we depend on our license agreements to enforce royalty obligations against our licensees. Any limitations in our ability to enforce, such as limits on the scope of and/or an adverse interpretation of, the various licensee obligations in our licenses and related agreements could reduce our ability to collect royalties based on our license agreements. As a result of these factors, we are unable to predict the extent of our intellectual property protection in any country. For further information, see “Item 3—Legal Proceedings.”

Failure to acquire additional sources of revenue, including royalty revenue, after expiration of our Queen et al. patents may cause us to have insufficient revenues to continue operations.

Substantially all of our revenues consist of royalties from licensees of our Queen et al. patents, which expire in December 2014. Unless we are able to acquire sufficient alternative income-generating assets, such as royalty rights on commercially reasonable terms, we will no longer receive patent-related royalties or other revenues once our Queen et al. licensees have sold all their inventory of licensed product on which they are contractually bound to pay us a royalty. If we are unsuccessful in acquiring sufficient new sources of income, we will likely liquidate our business.

Our common stock may lose value, our common stock could be delisted from NASDAQ and our business may be liquidated due to several factors, including the expiration of our Queen et al. patents, the failure to acquire additional sources of revenue, the payment of dividends or distributions to our stockholders and failure to meet analyst expectations.

Our revenues consist almost entirely of royalties from licensees of our Queen et al. patents, which finally expire in December of 2014. The continued payment of dividends or distributions to our stockholders without other revenue sources and the approaching patent expiration will likely reduce the price of our common stock. If the price of our common stock were to fall below NASDAQ listing standards, our common stock may be delisted. If our common stock were delisted, market liquidity for our common stock could be severely affected and our stockholders’ ability to sell securities in the secondary market could be limited. Delisting from NASDAQ would negatively affect the value of our common stock. Delisting could also have other negative results, including, but not limited to, the potential loss of confidence by employees, the loss of institutional investor interest and fewer business development opportunities.

Our revenues in Europe depend on the validity and enforceability of our SPCs and an adverse judgment would severely reduce our future revenues.

Our ‘216B Patent in Europe was granted in 1996 by the European Patent Office. The ‘216B Patent expired on December 28, 2009. To extend the period of enforceability of the ‘216B Patent against specific products which received marketing approval in Europe as of the expiration date of the ‘216B Patent, we applied for SPCs in various European national patent offices to cover the SPC Products to the extent these products are made and/or sold in Europe. These SPCs generally expire in 2014.

While our SPCs extend the period of enforceability of our ‘216B Patent against the SPC Products, their enforcement will be subject to varying, complex and evolving national requirements and standards relevant to enforcement of patent claims pursuant to SPCs. In the event that our SPCs are challenged in the national patent offices or national courts of the various countries in Europe in which we own granted SPCs, such a challenge could be directed against the validity of the SPC, the validity of the underlying patent claims, whether the product named in the SPC is protected by the underlying patent in accordance with controlling European law and/or whether the SPC was properly granted pursuant to controlling European law. Such a proceeding would involve complex legal and factual questions. In addition, the European Court of Justice has the authority to interpret the SPC regulation and could do so in a manner that materially impacts the enforceability of our SPCs against the SPC Products. As a result of these factors, we are unable to predict the extent of protection afforded by our SPCs.

Based on information provided to us in the quarterly royalty statements from our licensees, the royalties we collect on sales of the SPC Products approximated 43%, 38% and 33% of our royalty revenues for the years ended December 31, 2013, 2012 and 2011. Our inability to collect those royalties would have a material negative impact on our cash flow, our ability to pay dividends in the future and our ability to service our debt obligations. An adverse decision could also encourage challenges to our related Queen et al. patents in other jurisdictions including the United States. For further information, see “Item 3—Legal Proceedings.”

We depend on our licensees for the determination of royalty payments. While we have rights to audit our licensees and borrowers, the independent auditors may have difficulty determining the correct royalty calculation, we may not be able to detect errors and payment calculations may call for retroactive adjustments. We may have to exercise legal remedies to resolve any disputes resulting from the audit.

The royalty payments we receive are determined by our licensees based on their reported sales. Each licensee's calculation of the royalty payments is subject to and dependent upon the adequacy and accuracy of its sales and accounting functions, and errors may occur from time to time in the calculations made by a licensee. Our license and credit agreements provide us the right to audit the calculations and sales data for the associated royalty payments; however, such audits may occur many months following our recognition of the royalty revenue, may require us to adjust our royalty revenues in later periods and may require expense on the part of the Company. Further, our licensees and borrowers may be uncooperative or have insufficient records, which may complicate and delay the audit process.

Although we regularly exercise our royalty audit rights, we rely in the first instance on our licensees to accurately report sales and calculate and pay applicable royalties and, upon exercise of such royalty audit rights, we rely on licensees' cooperation in performing such audits. In the absence of such cooperation, we may be forced to exercise legal remedies to enforce our agreements.

We derive a significant portion of our royalty revenues from Genentech and our future success depends on continued market acceptance of their products and approval of their licensed products that are in development, as well as continued performance by Genentech of its obligations under its agreements with us.

Our revenues consist almost entirely of royalties from licensees of our Queen et al. patents of which the Genentech Products accounted for 83%, 85% and 86% of our revenues for the years ended December 31, 2013, 2012 and 2011, respectively. Our future success, at least prior to the expiration of the Queen et al. patents, depends upon the continued market acceptance of the Genentech Products and upon the ability of Genentech to develop, introduce and deliver products that achieve and sustain market acceptance. We have no control over the sales efforts of Genentech and our other licensees, and our licensees might not be successful. Reductions in the sales volume or average selling price of Genentech Products could have a material adverse effect on our business.

In addition, our business and results of operations also depend on Genentech continuing to perform its obligations under its license agreements with us.

Our licensees, borrowers and royalty-agreement counterparties may be unable to maintain regulatory approvals for currently licensed products, or to obtain regulatory approvals for new products, and they may voluntarily remove currently licensed products from marketing and commercial distribution. Any of such events, whether due to safety issues or other factors, could reduce our revenues.

Our licensees, borrowers and royalty-agreement counterparties are subject to stringent regulation with respect to product safety and efficacy by various international, federal, state and local authorities. Of particular significance are the FDA requirements covering research and development, testing, manufacturing, quality control, labeling and promotion of drugs for human use in the United States. As a result of these requirements, the length of time, the level of expenditures and the laboratory and clinical information required for approval of a biologic license application or new drug application are substantial and can require a number of years. In addition, even if our licensees', borrowers' and royalty-agreement counterparties' products receive regulatory approval, they remain subject to ongoing FDA and other international regulations including, but not limited to, obligations to conduct additional clinical trials or other testing, changes to the product label, new or revised regulatory requirements for manufacturing practices, written advisements to physicians and/or a product recall or withdrawal. Our licensees, borrowers and royalty-agreement counterparties may not maintain necessary regulatory approvals for their existing licensed products or our licensees may not obtain necessary regulatory approvals on a timely basis, if at all, for any of the licensed products our licensees are developing or manufacturing. The occurrence of adverse events reported by any licensee, borrower or royalty-agreement counterparty may result in the revocation of regulatory approvals or decreased sales of the applicable product due to a change in physicians' willingness to prescribe, or patients' willingness to use the applicable product. Our licensees, borrowers and royalty-agreement counterparties could also choose to voluntarily remove their licensed products from marketing and commercial distribution. In any of these cases, our revenues could be materially and adversely affected. For example, in November 2011, the FDA removed the indication for breast cancer from Avastin's label. In 2005, Tysabri, was temporarily suspended and then returned to the market. In such cases, our revenues could be materially and adversely affected.

In addition, the current regulatory framework could change, or additional regulations could arise at any stage during our licensees' product development or marketing which may affect our licensees' ability to obtain or maintain approval of their licensed products. Delays in our licensees receiving regulatory approval for licensed products or their failure to maintain existing regulatory approvals could have a material adverse effect on our business.

Our licensees, borrowers and royalty-agreement counterparties face competition.

Our licensees, borrowers and royalty-agreement counterparties face competition from other pharmaceutical, biotechnology, device and diagnostic companies. The introduction of new competitive products may result in lost market share for our licensees, borrowers and royalty-agreement counterparties, reduced use of their products, lower prices and/or reduced product sales, any of which could reduce our royalty revenues, or the revenues on which we rely to produce the returns on our acquisitions, and have a material adverse effect on our results of operations.

Our current and future acquisitions of other material income generating asset transactions may not produce anticipated revenues, and if such transactions are secured by collateral, we may be, or may become, undersecured by the collateral or such collateral may lose value and we will not be able recuperate our capital expenditures in the acquisition.

We are engaged in a continual review of opportunities to acquire income generating assets, whether royalty based or otherwise, or to acquire companies that hold royalty assets. We currently, and generally at any time, have acquisition opportunities in various stages of active review, including, for example, our engagement of consultants and advisors to analyze particular opportunities, technical, financial and other confidential information, submission of indications of interest and involvement as a bidder in competitive auctions. Many potential acquisition targets do not meet our criteria, and for those that do, we may face significant competition for these acquisitions from other royalty buyers and enterprises. Competition for future asset acquisition opportunities in our markets could increase the price we pay for such assets and could reduce the number of potential acquisition targets. The success of our income generating asset acquisitions is based on our ability to make accurate assumptions regarding the valuation, timing and amount of payments. The failure of any of these acquisitions to produce anticipated revenues may materially and adversely affect our financial condition and results of operations.

Some of these income generating acquisitions expose us to credit risk in the event of default by the counterparty. To mitigate this risk, on occasion, we may obtain a security interest as collateral in the assets of such counterparty. Our credit risk in respect of such counterparty may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount we are due pursuant to the terms of the particular income generating assets. This could occur in circumstances where the original collateral was not sufficient to cover a complete loss (e.g., our interests were only partially secured) or may result from the deterioration in value of the collateral, so that, in either such case, we are unable to recuperate our

full capital outlay. Any such losses resulting therefrom could materially and adversely affect our financial condition and results of operations.

Many of our potential income generating investments are in companies or assets that have limited commercialized revenue-generating products, which may negatively impact our investment returns.

In anticipation of the expiration of our Queen et al. patents, we have made and will likely continue to make investments in income-generating assets, such as loans in exchange for a profit share or royalty streams, in the healthcare industries, many of which investments are in companies that, at the time of investment, have limited or no commercialized revenue-generating products. If the assets are not successfully commercialized, the value of our investments will be negatively affected. The ultimate success of our investments in many of our potential revenue generating assets in these industries will depend on the ability of the counterparty to innovate, develop and commercialize their products, in increasingly competitive and highly regulated markets. Their inability to do so would negatively affect our investment. In addition, in connection with many of our potential income-generating investments, we are dependent, to a large extent, on third parties to enforce certain rights for our benefit. For example, we acquired certain royalty rights from Depomed, which, as the licensor of certain patents, retains various rights, including the contractual right to audit its licensees and to ensure those licensees are complying with the terms of the underlying license agreements. Depomed also retains full responsibility to protect and maintain the intellectual property rights underlying the licenses. While we have contractual rights to require Depomed to take action regarding many of these rights, because Depomed's economic interest in the license agreements is limited, it may not enforce or protect those rights as it otherwise would have had it retained the full economic interest in the payments under the license agreements. Moreover, in respect of the royalty stream relating to the Glumetza diabetes medication that we acquired from Depomed, which is the royalty right producing the highest revenues from the Depomed acquired royalties, U.S. patent protection for this product is expected to begin to expire in September 2016, and under settlement agreements to which Depomed is a party, certain manufacturers of generic products will be permitted to enter the market starting in February and August 2016.

The lack of liquidity in our acquisitions may adversely affect our business and, if we need to sell any of our acquired assets, we may not be able to do so at a favorable price. As a result, we may suffer losses.

We generally acquire in patents, royalty rights and debt instruments that have limited secondary resale markets. The illiquidity of most of our assets may make it difficult for us to dispose of them at a favorable price and, as a result, we may suffer losses if we are required to dispose of any or all such assets in a liquidation or otherwise. In addition, if we liquidate all or a portion of our assets quickly or in connection with a liquidation, we may realize significantly less than the value at which we had previously recorded these assets.

We may use a certain amount of cash from time to time in order to satisfy the obligations relating to our convertible notes. The maturity or conversion of any of our convertible notes may adversely affect our financial condition and operating results, which could adversely affect the amount or timing of dividends to our stockholders.

As of December 31, 2013, $180.0 million in principal remained outstanding under our Series 2012 Notes and $155.3 million in principal remained outstanding under our May 2015 Notes. At maturity, we will have to pay the holders of such notes the full aggregate principal amount of the convertible notes, then outstanding. For example, on February 15, 2015, we will have to pay the full aggregate principal amount of our Series 2012 Notes, $180.0 million as of December 31, 2013.

Holders of the May 2015 Notes and Series 2012 Notes may convert their notes at their option under the following circumstances: (i) during any fiscal quarter commencing after the fiscal quarter ending June 30, 2011, in the case of our May 2015 Notes, and December 31, 2011, in the case of our Series 2012 Notes, 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; (ii) 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; or (iii) upon the occurrence of specified corporate events. The holders of the May 2015 Notes and Series 2012 Notes may convert their notes at their option during the quarter ended March 31, 2014, as the last reported sale price of our common stock for at least 20 trading days in the period of 30 consecutive trading days ending on December 31, 2013, exceeded 130% of the conversion price for the notes. On and after November 1, 2014, in the case of our May 2015 Notes, and August 15, 2014, in the case of our Series 2012 Notes, holders may convert their notes at any time, regardless of the foregoing circumstances. These notes are net-share settled. If one or more holders elect to convert their notes when conversion is permitted, we would be required to make cash payments to satisfy up to the face value of our conversion obligation in respect of each note, which could adversely affect our liquidity. In

addition, even if holders do not elect to convert their May 2015 Notes or Series 2012 Notes, because our May 2015 Notes and Series 2012 Notes are net share settled, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of our May 2015 Notes and Series 2012 Notes as a current rather than long-term liability, which could result in a material reduction of our net working capital.

We may use a certain amount of cash from time to time in order to satisfy these repurchase or other obligations relating to the convertible notes which could adversely affect the amount or timing of any distribution to our stockholders or any income generating transactions. In addition, we may redeem (except in the case of our Series 2012 Notes that are unredeemable by us), repurchase or otherwise acquire the convertible notes in the open market in the future, any of which could adversely affect the amount or timing of any cash distribution to our stockholders.

The conversion or any future exchanges of any of our May 2015 Notes or our Series 2012 Notes into shares of our common stock would have a dilutive effect that could cause our stock price to go down.

Our May 2015 Notes, until November 1, 2014, and our Series 2012 Notes, until August 15, 2014, are convertible into shares of our common stock only if specified conditions are met and thereafter convertible at any time, at the option of the holder. We have reserved shares of our authorized common stock for issuance upon conversion of these convertible notes. Upon conversion, the principal amount is due in cash, and to the extent that the conversion value exceeds the principal amount, the difference is due in shares of common stock. If any or all of these convertible notes are converted into shares of our common stock, our existing stockholders will experience immediate dilution of voting rights and our common stock price may decline. Furthermore, the perception that such dilution could occur may cause the market price of our common stock to decline.

The conversion rate as of December 31, 2013, for our Series 2012 Notes is 182.598 shares of common stock per $1,000 principal amount or a conversion price of approximately $5.48 per share of common stock and the conversion rate for our May 2015 Notes is 159.9165 shares of common stock per $1,000 principal amount, or a conversion price of approximately $6.25 per share of common stock. Because the conversion rates of these convertible notes adjust upward upon the occurrence of certain events, such as a dividend payment, our existing stockholders may experience more dilution if any or all of these convertible notes are converted into shares of our common stock after the adjusted conversion rates became effective.

We entered into purchased call option and warrant transactions in connection with the issuance of our May 2015 Notes and February 2018 Notes that may affect the value of our common stock.

In connection with the issuance of our May 2015 Notes and February 2018 Notes, we entered into purchased call option transactions. Separately, we also entered into warrant transactions at that time. The purchased call option transactions are expected to reduce the potential dilution with respect to our common stock upon conversion of our May 2015 Notes and February 2018 Notes. The warrant transactions could separately have a dilutive effect from the issuance of our common stock pursuant to the warrants.

The purchased call option and warrant transactions are accounted for as an adjustment to our stockholders' equity (deficit). In connection with hedging these transactions, the counterparties to the hedge transactions or their respective affiliates may enter into, or may unwind, various derivative transactions and/or purchase or sell our common stock in secondary market transactions prior to maturity of our May 2015 Notes and February 2018 Notes (and are likely to do so during any cash settlement averaging period related to any conversion of our May 2015 Notes and February 2018 Notes). Such activities could have the effect of decreasing the trading price of our common stock during any cash settlement averaging period related to a conversion of our May 2015 Notes and February 2018 Notes.

In addition, we intend to exercise the purchased call options whenever May 2015 Notes and February 2018 Notes are converted, if ever. In order to unwind their hedge positions with respect to those exercised options, the hedge counterparties or their respective affiliates may sell shares of our common stock in secondary market transactions or unwind various derivative transactions with respect to our common stock during the cash settlement averaging period for the converted notes. The effect, if any, of any of these transactions and activities on the trading price of our common stock will depend, in part, on market conditions and cannot be ascertained at this time, but any of these activities could adversely affect the value of our common stock.

Further, a failure by the hedge counterparties or their respective affiliates (due to bankruptcy or otherwise) to pay or deliver, as the case may be, amounts owed to us under the purchased call option transactions will not reduce the consideration we are required to deliver to a holder upon its conversion of our May 2015 Notes and February 2018 Notes and may result in an increase in dilution with respect to our common stock.

Changes in the third-party reimbursement environment may affect product sales from which we receive royalty revenues.

Sales of products from which we receive royalties and our borrowers generate revenues will depend significantly on the extent to which reimbursement for the cost of such products and related treatments will be available to physicians and patients from various levels of U.S. and international government health authorities, private health insurers and other organizations. Third-party payers and government health administration authorities increasingly attempt to limit and/or regulate the reimbursement of medical products and services, including branded prescription drugs. Changes in government legislation or regulation, such as the Affordable Care Act; the Health Care and Education Reconciliation Act of 2010; the Medicare Improvements for Patients and Providers Act of 2009 and the Medicare, Medicaid and State Children's Health Insurance Program Extension Act of 2007 and changes in formulary or compendia listing or changes in private third-party payers' policies toward reimbursement for such products may reduce reimbursement of the cost of such products to physicians, pharmacies and distributors. Decreases in third-party reimbursement could reduce usage of such products and sales to collaborators, which may have a material adverse effect on our royalties and the revenues of our borrowers. In addition, macroeconomic factors may affect the ability of patients to pay or co-pay for costs or otherwise pay for products from which we generate royalties and our borrowers generate revenues by, for example, decreasing the number of patients covered by insurance policies or increasing costs associated with such policies.

Our revenues, cash flows and operating results will likely fluctuate in future periods.

Our revenues and income may be unpredictable and fluctuate because they depend upon, among other things, the rate of growth of our royalties and the timing of interest and principal payments, as well as early repayment of our notes receivable. To protect unpredictable and fluctuating cash flows, we may need to carry additional cash on our balance sheet at very low interest rates or enter into short-term financings, such as our Term Loan.

Until August 15, 2013, the Genentech agreement provided for a tiered royalty structure. The royalty rate Genentech paid on 95% of the underlying gross U.S.-based Sales in a given calendar year decreased on incremental U.S.-based Sales above certain net sales thresholds. As a result of the tiered royalty structure, Genentech's average annual royalty rate for a given year declined as Genentech's U.S.-based Sales increase during that year. Because we receive royalties one quarter in arrears, the average royalty rate for the payments we received from Genentech in the second calendar quarter, which would be for Genentech's sales from the first calendar quarter, were higher than the average royalty rate for following quarters. The average royalty rate for payments we received from Genentech were generally lowest in the fourth quarter and first calendar quarter of the following year, which would be for Genentech's sales from the third and fourth calendar quarter, when Genentech's U.S.-based Sales bore royalties at a 1% royalty rate. With respect to the ex-U.S.-based Manufacturing and Sales, the royalty rate that we received from Genentech was a fixed rate of 3% 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 fluctuated in the past.

We may experience increases and decreases in our royalty revenues due to fluctuations in foreign currency exchange rates and we may be unsuccessful in our attempts to mitigate this risk.

A material portion of our royalties are calculated based on sales in currencies other than the U.S. dollar. Fluctuations in foreign currency rates, particularly the Euro, relative to the U.S. dollar can significantly affect our revenues and operating results. 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. For example, 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 exchange rates remained unchanged. 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 and when approximately $35 million is based on sales in currencies other than the U.S. dollar, if the U.S. dollar strengthens across all currencies by 10% during the conversion period for that quarter, when compared to the same amount of local currency royalties for the prior year, U.S. dollar converted royalties will be approximately $3.5 million less in the current quarter than in the prior year.

To compensate for Euro currency fluctuations, we hedge Euro currency exposures with Euro forward and option contracts, to offset the risks associated with these Euro currency exposures. We may suspend the use of these contracts from time to time or we may be unsuccessful in our attempt to hedge our Euro currency risk. We will continue to experience foreign currency related fluctuations in our royalty revenues in certain instances when we do not enter into foreign currency exchange contracts or where it is not possible or cost effective to hedge our foreign currency related exposures. Currency related fluctuations in our royalty revenues will vary based on the currency exchange rates associated with these exposures and changes in those rates, whether we have entered into foreign currency exchange contracts to offset these exposures and other factors. All of these factors could

materially impact our results of operations, financial position and cash flows, the timing of which is variable and generally outside of our control.

We must attract, retain and integrate key employees in order to succeed. It may be difficult to recruit, retain and integrate key employees.

To be successful, we must attract, retain and integrate qualified personnel. Our business is intellectual property asset management, investing in income generating assets and maximizing the value of our patent portfolio and related assets, which requires only a small number of employees. Due to the potential short-term nature and remote location of our company, it may be difficult for us to recruit and retain qualified personnel. If we are unsuccessful in attracting, retaining and integrating qualified personnel, our business could be impaired.

Our agreements with Facet may not reflect terms that would have resulted from arm's-length negotiations between unaffiliated third parties.

The agreements associated with the Spin-Off of Facet in December 2008, including the Separation and Distribution Agreement, Tax Sharing and Indemnification Agreement and Cross License Agreement, were negotiated in the context of the Spin-Off while Facet was still part of PDL and, accordingly, may not reflect more favorable terms that may have resulted from arm's-length negotiations between unaffiliated third parties.

We may have obligations for which we may not be able to collect under our indemnification rights from Facet.

Under the terms of the Separation and Distribution agreement with Facet, we and Facet agreed to indemnify the other from and after the Spin-Off with respect to certain indebtedness, liabilities and obligations that were retained by our respective companies. These indemnification obligations could be significant. The ability to satisfy these indemnities, if called upon to do so, will depend upon the future financial strength of each of our companies. We cannot assure you that, if Facet has to indemnify us for any substantial obligations, Facet will have the ability to satisfy those obligations. If Facet does not have the ability to satisfy those obligations, we may be required to satisfy those obligations instead. For example, in connection with the Spin-Off, we entered into amendments to the leases for the facilities in Redwood City, California, which formerly served as our corporate headquarters, 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, the disposition of which could have a material adverse effect on the amount or timing of any distribution to our stockholders. As of December 31, 2013, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $90.2 million. We would also be responsible for lease related payments 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 renamed the company Abbott Biotherapeutics Corp., and in January 2013, Abbott Biotherapeutics Corp. was renamed AbbVie Biotherapeutics, Inc. and spun off from Abbott as a subsidiary of AbbVie Inc. We do not know how Abbott's acquisition of Facet will impact our ability to collect under our indemnification rights or whether Facet's ability to satisfy its obligations will change. In addition, we have limited information rights under the Co-Tenancy Agreement. As a result, we are unable to determine definitively whether Facet continues to occupy the space and whether it has subleased the space to another party. See "Item 2—Properties."

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease approximately 4,800 square feet of office space in Incline Village, Nevada, which serves as our corporate headquarters. The lease expires in May 2014. We may, at our option, extend the term of this lease.

In July 2006, we entered into two leases and a sublease for the facilities in Redwood City, California, which formerly served as our corporate headquarters and cover approximately 450,000 square feet of office space. Under the amendments to the leases entered into in connection with the Spin-Off, Facet was added as a co-tenant under the leases. As a co-tenant, Facet is bound by all of the terms and conditions of the leases. PDL and Facet are jointly and severally liable for all obligations under the leases, including the payment of rental obligations. However, we also entered into a Co-Tenancy Agreement with Facet in connection with the Spin-Off and the lease amendments under which we assigned to Facet all rights under the leases, including, but not

limited to, the right to amend the leases, extend the lease term or terminate the leases, and Facet assumed all of our obligations under the leases. Under the Co-Tenancy Agreement, we also relinquished any right or option to regain possession, use or occupancy of these facilities. Facet agreed to indemnify us for all matters associated with the leases attributable to the period after the Spin-Off date and we agreed to indemnify Facet for all matters associated with the leases attributable to the period before the Spin-Off date. In addition, in connection with the Spin-Off, the sublease was assigned by PDL to Facet. In April 2010, Abbot laboratories acquired Facet and later renamed the entity AbbVie Biotheraputics, Inc. To date, AbbVie has satisfied all obligations under the Redwood City lease.

ITEM 3. LEGAL PROCEEDINGS

Genentech / Roche Matter

Settlement Agreement

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

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

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

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

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

Other Legal Proceedings

In addition, from time to time, we may be 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 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the NASDAQ Global Select Market under the symbol "PDLI." Prices indicated below are the high and low intra-day sales prices per share of our common stock as reported by the NASDAQ Global Select Market for the periods indicated.

	High	Low
2013		
First Quarter	$ 7.58	$ 6.50
Second Quarter	$ 8.48	$ 7.22
Third Quarter	$ 8.45	$ 7.63
Fourth Quarter	$ 10.21	$ 7.52
2012		
First Quarter	$ 6.60	$ 6.00
Second Quarter	$ 6.68	$ 6.03
Third Quarter	$ 7.86	$ 6.49
Fourth Quarter	$ 8.43	$ 6.95

As of February 14, 2014, we had approximately 136 common stockholders of record. Most of our outstanding shares of common stock are held of record by one stockholder, Cede & Co., as nominee for the Depository Trust Company. Many brokers, banks and other institutions hold shares of common stock as nominees for beneficial owners which deposit these shares of common stock in participant accounts at the Depository Trust Company. The actual number of beneficial owners of our stock is likely significantly greater than the number of stockholders of record; however, we are unable to reasonably estimate the total number of beneficial owners.

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.

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

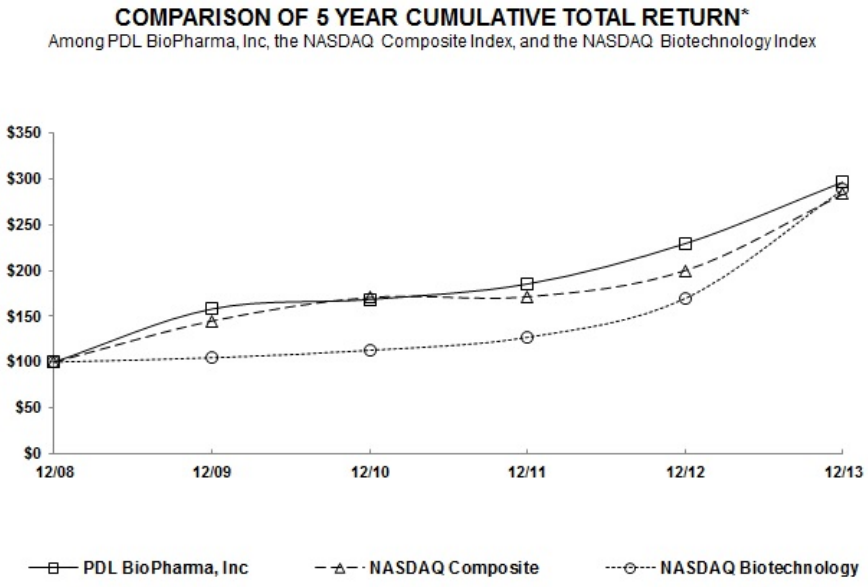
On January 23, 2013, our board of directors declared a regular quarterly dividend of $0.15 per share of common stock. On March 12, June 12, September 12 and December 12 of 2013, we paid quarterly cash dividends of approximately $21.0 million or $0.15 per share to stockholders of record on March 5, June 5, September 5 and December 5 of 2013, the record dates for each of the dividend payments, respectively.

On January 18, 2012, our board of directors declared a regular quarterly dividend of $0.15 per share of common stock. On March 14, June 14, September 14 and December 14 of 2012, we paid quarterly cash dividends of approximately $21.0 million or $0.15 per share 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.

Comparison of Stockholder Returns

The line graph below compares the cumulative total stockholder return on our common stock between December 31, 2008, and December 31, 2013, with the cumulative total return of (i) the NASDAQ Biotechnology Index and (ii) the NASDAQ Composite Index over the same period. This graph assumes that $100.00 was invested on December 31, 2008, in our common stock at the closing sales price for our common stock on that date and at the closing sales price for each index on that date and that all

dividends were reinvested. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns and are not intended to be a forecast.



	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
PDL BioPharma, Inc.	$ 100.00	$ 157.96	$ 168.36	$ 185.28	$ 229.38	$ 296.66
Nasdaq Biotechnology Index	$ 100.00	$ 144.88	$ 170.58	$ 171.30	$ 199.99	$ 283.39
Nasdaq Composite Index	$ 100.00	$ 104.67	$ 112.89	$ 127.04	$ 169.50	$ 288.38

The information in this section shall not be deemed to be “soliciting material” or to be “filed” with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate it by reference in such filing.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial information has been derived from our consolidated financial statements. The information below is not necessarily indicative of the results of future operations and should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and Item 1A, “Risk Factors,” of this Form 10-K and the consolidated financial statements and related notes thereto included in Item 8 of this Form 10-K in order to fully understand factors that may affect the comparability of the information presented below.

Consolidated Statements of Income Data

	For the Years Ended December 31,				
(In thousands, except per share data)	**2013**	**2012**	**2011**	**2010**	**2009**
Revenues:					
Royalties	$ 441,421	$ 374,525	$ 351,641	$ 343,475	$ 305,049
License and other	1,500	—	10,400	1,500	13,135
Total revenues	442,921	374,525	362,041	344,975	318,184
Cost of royalty revenues (amortization of intangible assets)	5,637	—	—	—	—
General and administrative expenses	29,755	25,469	18,338	41,396	21,064
Accrued legal settlement expense	—	—	—	92,500	—
Operating income	407,529	349,056	343,703	211,079	297,120
Non-operating income (expense), net	(5,653)	(21,923)	(36,275)	(60,709)	(16,835)
Income before income taxes	401,876	327,133	307,428	150,370	280,285
Income tax expense	137,346	115,464	108,039	58,496	90,625
Net income	$ 264,530	$ 211,669	$ 199,389	$ 91,874	$ 189,660
Net income per basic share:					
Net income	$ 1.89	$ 1.52	$ 1.43	$ 0.73	$ 1.59
Net income per diluted share:					
Net income	$ 1.66	$ 1.45	$ 1.15	$ 0.54	$ 1.07
Dividends per share:					
Cash dividends declared and paid	$ 0.60	$ 0.60	$ 0.60	$ 1.00	$ 2.67

Consolidated Balance Sheet Data

	December 31,				
(In thousands)	**2013**	**2012**	**2011**	**2010**	**2009**
Cash, cash equivalents, investments and restricted investments	$ 99,540	$ 168,689	$ 227,946	$ 248,229	$ 303,227
Working capital	$ (299,727)	$ 172,511	$ 100,506	$ 90,672	$ 22,320
Total assets	$ 543,955	$ 279,966	$ 269,471	$ 316,666	$ 338,411
Long-term obligations, less current portion	$ 23,042	$ 337,614	$ 340,737	$ 446,857	$ 460,848
Retained earnings (accumulated deficit)	$ 350,151	$ 169,634	$ (42,035)	$ (241,424)	$ (333,298)
Total stockholders’ equity (deficit)	$ 113,489	$ (68,122)	$ (204,273)	$ (324,182)	$ (415,953)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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

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

In 2011, PDL initiated a strategy to bring in new income generating assets from the healthcare sector. To accomplish this goal, PDL seeks to provide non-dilutive growth capital and financing solutions to late stage public and private healthcare companies and offers immediate financial monetization of royalty streams to companies, academic institutions and inventors. PDL continues to pursue this strategic initiative for which it has already invested approximately $500 million to date. PDL is focused on the quality of the income generating assets and potential returns on investment.

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

Recent Developments

Update to Challenges against the Queen et al. Patents in the United States and Europe

Genentech / Roche Matter

Settlement Agreement

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

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

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

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

Notes and Other Long-term Receivables

Wellstat Diagnostics Note Receivable and Credit Agreement

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

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

In January 2013, the Company was informed that, as of November 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. PDL sent Wellstat Diagnostics a notice of default on January 22, 2013, and accelerated the amounts owed under the credit agreement. In connection with the notice of default, PDL exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to PDL and applied the funds to amounts due under the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby PDL agreed to refrain from exercising additional remedies for 120 days while Wellstat Diagnostics raised funds to capitalize the business and the parties attempted to negotiate a revised credit agreement. PDL agreed to provide up to $7.9 million to Wellstat Diagnostics to fund the business for the 120-day forbearance period under the terms of the forbearance agreement. Following the conclusion of the June 28 forbearance period, the Company agreed to forbear in its exercise of remedies for additional periods of time to allow the owners and affiliates of Wellstat Diagnostics to complete a pending financing transaction. During such forbearance period, the Company provided approximately $1.3 million to Wellstat Diagnostics to fund ongoing operations of the business. During the year ended December 31, 2013, approximately $8.7 million was advanced pursuant to the forbearance agreement.

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

Except as otherwise described here, the material terms of the amended credit agreement are substantially the same as those of the original credit agreement, including quarterly interest payments at the rate of 5% per annum (payable in cash or in kind). In addition, PDL to receive quarterly royalty payments based on a low double digit royalty rate of Wellstat Diagnostics' net revenues upon successful commercialization. However, pursuant to the amended credit agreement: (i) the principal amount was reset to approximately $44.1 million which was comprised of approximately $33.7 million original loan principal and interest, $1.3 million term loan principal and interest and $9.1 million forbearance principal and interest; (ii) the specified internal rates of return increased; (iii) the default interest rate was increased; (iv) Wellstat Diagnostics' obligation to provide certain financial information increased in frequency to monthly; (v) internal financial controls were strengthened by requiring Wellstat Diagnostics to maintain an independent, third-party financial professional with control over fund disbursements; (vi) the Company waived the existing events of default; and (vii) the owners and affiliates of Wellstat Diagnostics are required to contribute additional capital to Wellstat Diagnostics upon the sale, if any, of an affiliated entity. The restated credit agreement continues to have an ultimate maturity date of December 31, 2021 (but may mature earlier upon certain specified events).

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

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

At December 31, 2013, and 2012, the carrying value of the note was included in non-current assets.

As of December 31, 2013, the Company determined that its interest in Wellstat Diagnostics represented a variable interest in a Variable Interest Entity since Wellstat Diagnostics' equity was not sufficient to finance its operations without amounts advanced to it under the Company's note and forbearance agreement. However, the Company does not have the power to direct the activities of Wellstat Diagnostics that most significantly impacts Wellstat Diagnostics economic performance and is not the primary beneficiary of Wellstat Diagnostics; therefore, Wellstat Diagnostics is not subject to consolidation.

As of December 31, 2013, the carrying value of all amounts advanced to Wellstat Diagnostics was $47.7 million, which was recorded in notes receivable. As of December 31, 2013, the maximum loss exposure was $47.7 million.

Merus Labs Note Receivable and Credit Agreement

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

Outstanding borrowings under the July 2012 loan bore interest at the rate of 13.5% per annum and outstanding borrowings as a result of the draw on the letter of credit bore interest at the rate of 14.0% per annum. Merus Labs was required to make four periodic principal payments in respect of the July 2012 loan, with repayment of the remaining principal balance of all loans due on March 31, 2015. The borrowings were subject to mandatory prepayments upon certain asset dispositions or debt issuances as set forth in the credit agreement. Merus Labs made the first of these payments in December 2012 in the amount of $5.0 million, and made the second payment in June 2013 in the amount of $7.5 million. In September 2013, Merus Labs made two additional payments totaling $43.3 million, including the prepayment fee, in order to pay its remaining outstanding balance.

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

AxoGen Royalty Agreement

In October 2012, PDL entered into the Royalty Agreement with AxoGen pursuant to which the Company will receive specified royalties on AxoGen's net revenues (as defined in the Royalty Agreement) generated by the sale, distribution or other use of AxoGen's products (assigned interests). The Royalty Agreement has an eight years term and provides PDL with royalties of 9.95% based on AxoGen net revenues, subject to agreed-upon guaranteed quarterly minimum payments of approximately $1.3 to $2.5 million beginning in the fourth quarter of 2014, and the right to require AxoGen to repurchase the Royalty Agreement at the end of the fourth year. AxoGen has been granted certain rights to call the contract in years five through eight. The total consideration PDL paid to AxoGen for the assigned interests was $20.8 million, including the termination of an interim funding of $1.8 million in August 2012. AxoGen was required to use a portion of the proceeds from the Royalty Agreement to pay the outstanding balance under its existing credit facility with a third party. AxoGen plans to use the remainder of the proceeds to support the business plan for its products. The royalty rights are secured by the cash and accounts receivable of AxoGen.

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

In the event of a change of control, AxoGen must repurchase the assigned interests from the Company for a repurchase price equal to an amount that, together with payments already made by AxoGen, would generate a 32.5% internal rate of return to the Company. The Company has concluded that the change of control provision is an embedded derivative that should be bifurcated and separately recorded at its estimated fair value. The estimated fair value of the change of control provision was approximately $1.1 million and $0.6 million as of December 31, 2013 and 2012, respectively. The estimated fair value of this embedded derivative is included in the carrying value of the AxoGen Note Receivable. The Company recognized approximately $0.5 million related to the change in the estimated fair value of embedded derivative during the year ended December 31, 2013.

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

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

On August 14, 2013, PDL purchased 1,166,666 shares of AXGN at $3.00 per share, totaling $3.5 million. The shares are classified as available-for-sale and recorded as short term investments on the consolidated balance sheet. As of December 31, 2013, the shares were valued at $5.2 million, which results in an unrealized gain of $1.7 million and is recorded in other comprehensive income (loss).

Avinger Note Receivable and Royalty Agreement

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

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

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

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

LENSAR Credit Agreement

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

Principal repayment will commence on the thirteenth interest payment date or December 30, 2016. The principal amount outstanding at the commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on October 1, 2018. LENSAR may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The loans are secured by all of the assets of LENSAR.

Durata Credit Agreement

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

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

Direct Flow Medical Credit Agreement

On November 5, 2013, PDL entered into a credit agreement with Direct Flow Medical, in which PDL will provide up to $50.0 million to Direct Flow Medical. Of the $50.0 million available to Direct Flow Medical, an initial $35.0 million (tranche one), net of fees, was provided by the Company at the close of the transaction. Upon the attainment of a specified revenue milestone to be accomplished no later than December 31, 2014 (the tranche two milestone), the Company will loan to Direct Flow Medical an additional $15.0 million, net of fees. Until the occurrence of the tranche two milestone, outstanding borrowings under tranche one bear interest at the rate of 15.5% per annum, payable quarterly in arrears. Upon occurrence of the tranche two milestone, the interest rate of the loans will decrease to 13.5%.

Principal repayment will commence on the twelfth interest payment date, September 30, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on November 5, 2018. Direct Flow Medical may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Direct Flow Medical and any of its subsidiaries.

Paradigm Spine

On February 14, 2014, PDL entered into a credit agreement with Paradigm Spine, LLC, under which PDL made available to Paradigm up to $75 million to be used by Paradigm to refinance its existing credit facility and expand its domestic commercial operations. A portion of the amount available under the agreement in an aggregate principal amount equal to $50 million, net of fees, was funded at the close of the transaction. In the event that certain specified sales and other milestones occur before December 31, 2014, PDL will fund Paradigm between an additional $6.25 million and $12.5 million, at Paradigm's discretion. In the event that additional specified sales and other milestones occur before June 30, 2015, PDL will fund up to an additional $12.5 million also at Paradigm's discretion. Borrowings under the credit agreement bear interest at the rate of 13.0% per annum, payable quarterly in arrears.

Principal repayment will commence on the eleventh interest payment date, September 30, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on February 14, 2019, or, if Paradigm has achieved the first milestone and the additional loan amount is provided to Paradigm, the loans will mature on August 14, 2019. Paradigm may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Paradigm and its domestic subsidiaries and, initially, certain assets of Paradigm's German subsidiaries.

Intangible Assets

Depomed Royalty Purchase and Sales Agreement

On October 18, 2013, PDL entered into a royalty purchase and sale agreement with Depomed, Inc. and Depo DR Sub, LLC, a wholly owned subsidiary of Depomed, whereby the Company acquired the rights to receive royalties and milestones payables on sales of Type 2 diabetes products licensed by Depomed in exchange for a $240.5 million cash payment. The transaction closed simultaneously with the execution of the royalty agreement.

Under the terms of the royalty agreement, the Company will receive all royalty and milestone payments due under license agreements between Depomed and its licensees until the Company has received payments equal to two times the cash payment made to Depomed, after which all net payments received will be shared evenly between the Company and Depomed.

The royalty agreement terminates on the third anniversary following the date upon which the later of the following occurs: (a) October 25, 2021, or (b) at such time as no royalty payments remain payable under any license agreement and each of the license agreements has expired by its terms.

Convertible Notes

Series 2012 Notes

We have actively worked to restructure the Company’s capital and reduce the potential dilution associated with our convertible notes. As part of those efforts, in January 2012, we exchanged and subsequently retired $169.0 million aggregate principal amount of our February 2015 Notes for an identical principal amount of our 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. In February 2012, we entered into separate privately negotiated exchange agreements under which we exchanged and subsequently retired an additional $10.0 million aggregate principal amount of our February 2015 Notes for $10.0 million aggregate principal amount of our Series 2012 Notes. In August 2013, the Company entered into a separate privately negotiated exchange agreement under which it retired the final $1.0 million aggregate principal amount of the Company's outstanding February 2015 Notes. Pursuant to the exchange agreement, the holder of the February 2015 Notes received $1.0 million aggregate principal amount of the Company's Series 2012 Notes. Immediately following the exchange, no principal amount of the February 2015 Notes remained outstanding and $180.0 million principal amount of the Series 2012 Notes is outstanding.

Our Series 2012 Notes net share settle, meaning that if a conversion occurs, the principal amount is due in cash, and to the extent that the conversion value exceeds the principal amount, the difference is due in shares of our 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 at the time of the exchange.

On February 5 and 6, 2014, the Company entered into separate, privately negotiated exchange and purchase agreements under which it retired $131.7 million in aggregate principal of the Company’s outstanding Series 2012 Notes. The exchange agreements provided for the issuance, by the Company, of shares of common stock and a cash payment for the Series 2012 Notes being exchanged, and the purchase agreement provided for a cash payment for the Series 2012 Notes being repurchased. The Company issued a total of 20.3 million shares of its common stock and paid an aggregate cash payment of $34.2 million pursuant to the exchange and repurchase agreements.

May 2015 Notes

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

February 2018 Notes

On February 6, 2014, the Company agreed to sell $260.87 million aggregate principal amount of its 4.00% Convertible Senior Notes due February 1, 2018, in an underwritten public offering. The conversion rate of the February 2018 Notes will initially be 109.1048 shares of common stock per $1,000 principal amount of the February 2018 Notes equivalent to an initial conversion price of approximately $9.17 per share of common stock. The conversion rate, subject to increase under certain circumstances, will not be increased in respect of regular quarterly cash dividends paid by us that do not exceed $0.15 per share.

On February 12, 2014, the Company issued $300 million aggregate principal amount of February 2018 Notes, which included $39.13 million aggregate principal amount of February 2018 Notes issued pursuant to the exercise of the underwriters' overallotment option to purchase additional 2018 Notes. In connection with the offering of the February 2018 Notes, PDL entered into privately negotiated convertible note hedge transactions with affiliates of RBC Capital Markets and Well Fargo Securities ("hedge counterparties") and privately negotiated warrant transactions with the hedge counterparties relating to the same number of shares of PDL's common stock.

Effect of December 12, 2013, Dividend Payment on Conversion Rates for the Convertible Notes

In connection with the December 12, 2013, dividend payment, the conversion rates for our convertible notes adjusted as follows:

Convertible Notes	Conversion Rate per $1,000 Principal Amount	Approximate Conversion Price Per Common Share	Effective Date
Series 2012 Notes	182.598	$ 5.48	December 3, 2013
May 2015 Notes	159.9165	$ 6.25	December 3, 2013

The adjustments were based on the amount of the dividend and the trading price of our stock under the terms of the applicable indenture.

Term Loan

On October 28, 2013, PDL entered into the Term loan for $75 million, with a term of one year.

The interest rates per annum applicable to amounts outstanding under the Term Loan are, at the Company's option, either (a) the base rate plus 1.00%, or (b) the Eurodollar rate plus 2.00% per annum. As of December 31, 2013, the interest rate was 2.24%. Interest and principal payments associated with the Term Loan are due on the interest payment dates of January 31, April 30, and July 31 of 2014, with the remaining outstanding balance due on October 28, 2014.

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

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

The Term Loan contains events of default that the Company believes are usual and customary for a senior secured credit agreement

2014 Dividends

On January 29, 2014, our board of directors declared regular quarterly dividends of $0.15 per share of common stock, payable on March 12, June 12, September 12 and December 12 of 2014 to stockholders of record on March 5, June 5, September 5 and December 5 of 2014, the record dates for each of the dividend payments, respectively. At the beginning of each fiscal year, our board of directors sets the Company's total annual dividend payment for the 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 the dividend.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with GAAP and the Company's discussion and analysis of its financial condition and operating results require the Company's management to make judgments, assumptions and estimates that affect the amounts reported in its consolidated financial statements and accompanying notes. Note 2, "Summary of Significant Accounting Policies" of the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K describes the significant accounting policies and methods used in the preparation of the Company's consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates and such differences may be material.

Management believes the Company's critical accounting policies and estimates are those related to royalty revenues, foreign currency hedging, income taxes, notes receivable, convertible notes, and lease guarantee. Management considers these policies critical because they are both important to the portrayal of the Company's financial condition and operating results, and they require management to make judgments and estimates about inherently uncertain matters.

Royalty Revenues

Patent License Agreements

Under most of our patent license agreements, we receive royalty payments based upon our licensees' net sales of covered products. Generally, under these agreements we receive royalty reports and payments from our licensees approximately one quarter in arrears, generally in the second month of the quarter after the licensee has sold the income generating product or products. We recognize royalty revenues when we can reliably estimate such amounts and collectability is reasonably assured. As such, we generally recognize royalty revenues in the quarter reported to us by our licensees. Therefore, royalty revenues are generally recognized one quarter following the quarter in which sales by our licensees occurred. Under this accounting policy, the royalty revenues we report are not based upon our estimates and are typically reported in the same period in which we receive payment from our licensees.

We may also receive annual license maintenance fees from licensees of our Queen et al. patents prior to patent expiry as well as periodic milestone payments, payable at the election of the licensee, to maintain the license in effect. We have no performance obligations with respect to such fees. Maintenance fees are recognized as they are due and when payment is reasonably assured. Total milestone payments in each of the last several years have been less than 1% of total revenue.

Acquired Royalty Revenues

We receive royalty payments based upon net sales of Depomed's covered products. Generally, under these agreements we receive royalty reports and payments from Depomed approximately one month in arrears. We recognize royalty revenues when we can reliably estimate such amounts and collectability is reasonably assured. As such, we generally recognize royalty revenues in the month reported to us by Depomed. Therefore, royalty revenues are generally recognized one month following the month in which covered product sales occurred. Under this accounting policy, the royalty revenues we report are not based upon our estimates and are typically reported in the same period in which we receive payment from our licensees.

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 risks in our royalty revenues. We do not enter into speculative foreign currency transactions. We designate foreign currency exchange contracts used to hedge royalty revenues based on underlying Euro-denominated sales 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 is 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' equity (deficit) as accumulated other comprehensive income (loss). Gains or losses on cash flow hedges are recognized as an adjustment to royalty revenue in the same period that the hedged transaction impacts earnings. The hedge effectiveness is dependent upon the amounts of future royalties and, if future royalties based on Euro are lower than forecasted, the amount of ineffectiveness would be reported in our Consolidated Statements of Income.

Income Taxes

Our income tax provision is based on income before taxes and is computed using the liability method. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using tax rates projected to be in effect for the year in which the differences are expected to reverse. We record a valuation allowance to reduce our deferred tax assets to the amounts that are more likely than not to be realized. Significant estimates are required in determining our provision for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations, or the expected results from any future tax examinations. Various internal and external factors may have favorable or unfavorable effects on our future provision for income taxes. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, the results of any future tax examinations, changing interpretations of existing tax laws or regulations, changes in estimates of prior years' items, past levels of research and development spending, acquisitions, changes in our corporate structure and state of domicile and changes in overall levels of income before taxes all of which may result in periodic revisions to our provision for income taxes. We accrue tax related interest and penalties associated with uncertain tax positions and include these in income tax expense in the Consolidated Statements of Income. We expect that our effective income tax rate going forward will be approximately 35%.

We apply the provision of ASC 740, which contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

Although we believe we have adequately accrued for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these accruals in light of changing facts and circumstances, such as the closing of a tax audit. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of uncertain tax positions accrual changes to reserves that are considered appropriate, as well as the related net interest settlement of any particular position, could require the use of cash. In addition, we are subject to the continuous examination of our income tax returns by various taxing authorities, including the Internal Revenue Service and U.S. states. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Notes and Other Long-Term Receivables

Notes receivable and loans originated by us are initially recorded at the amount advanced to the borrower. Notes receivable and loan origination and commitment fees, net of certain origination costs, are recorded as an adjustment to the carrying value of the notes receivable and loans and are amortized over the term of the related financial asset under the effective interest method. Certain of our notes receivable and loans require the borrower to make variable payments which are dependent upon the borrower's sales of specific products. We have elected to use the prospective interest method to account for these notes receivable and loans subsequent to their initial recognition. Under this approach, we recognize the impact of any variations from the expected returns in the period when received. From time to time, we will re-evaluate the expected cash flows and may adjust the effective interest rate prospective from the date of assessment, if the impact of such adjustment could be material to our financial statements.

We evaluate the collectability of both interest and principal for each note and loan to determine whether it is impaired. A note or loan is considered to be impaired when, based on current information and events, we determine it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a note or loan is considered to be impaired, the amount of loss is calculated by comparing the carrying value of the financial asset to the value determined by discounting the expected future cash flows at the loan's effective interest rate. If the loan is collateralized and we expect repayment to be provided solely by the collateral, then the amount of loss is calculated by comparing the carrying value of the financial asset to the estimated fair value of the underlying collateral, less expense to sell.

Convertible Notes

In 2014, we issued our February 2018 Notes with a net share settlement feature, meaning that upon any conversion, the principal amount will be settled in cash and the remaining amount, if any, will be settled in shares of our common stock. In accordance with accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we will separate the principal balance between the fair value of the liability component and the common stock conversion feature using a market interest rate for a similar nonconvertible instrument at the date of issuance.

In 2012, we issued our Series 2012 Notes with a net share settlement feature. In accordance with accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we separated the principal balance between the fair value of the liability component and the common stock conversion feature using a market interest rate for a similar nonconvertible instrument at the date of issuance. Using an assumed borrowing rate of 7.3%, an estimated market interest rate for a similar convertible instrument available to us on the date of issuance, 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.

In 2011, we issued our May 2015 Notes with a net share settlement feature. In accordance with accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we separated the principal balance between the fair value of the liability component and the common stock conversion feature using a market interest rate for a similar nonconvertible instrument at the date of issuance. Using an assumed borrowing rate of 7.5%, an estimated market interest rate for a similar convertible instrument available to us on the date of issuance, we recorded a total debt discount of $18.9 million, allocated $12.3 million to additional paid-in capital and $6.6 million to deferred tax liability.

Lease Guarantee

In connection with the Spin-Off, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant 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 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 December 31, 2013, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $90.2 million. In April 2010, Abbot Laboratories acquired Facet and later renamed the entity AbbVie Biotherapeutics, Inc. If AbbVie were to default, we could also be responsible for lease related costs including utilities, property taxes and common area maintenance which may be as much as the actual lease payments.

We recorded a liability of $10.7 million on our Consolidated Balance Sheets as of December 31, 2013 and 2012, for the estimated liability resulting from this guarantee. We prepared a discounted, probability-weighted cash flow analysis to calculate the estimated fair value of the lease guarantee as of the Spin-Off. We were required to make assumptions regarding the probability of Facet’s default on the lease payment, the likelihood of a sublease being executed and the times at which these events could occur. These assumptions are based on information that we received from real estate brokers and the then-current economic conditions, as well as expectations of future economic conditions. The fair value of this lease guarantee was charged to additional paid-in capital upon the Spin-Off and any future adjustments to the carrying value of the obligation will also be recorded in additional paid-in capital. 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.

Summary of 2013, 2012 and 2011 Financial Results

- Our net income for the years ended December 31, 2013, 2012 and 2011 was $264.5 million, $211.7 million and $199.4 million, respectively;

- At December 31, 2013, we had cash, cash equivalents, investments and restricted investments of $99.5 million as compared with $168.7 million at December 31, 2012; and

- At December 31, 2013, we had $430.5 million in total liabilities as compared with $348.1 million at December 31, 2012.

Revenues

Revenues were $442.9 million, $374.5 million and $362.0 million for the years ended December 31, 2013, 2012 and 2011, respectively, and consist of royalty revenues as well as in 2013 and 2011 other license related revenues. During the years ended December 31, 2013, 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, and during the year ended December 31, 2013, royalty revenues also included $11.2 million in royalties associated with the first two months of recorded royalties from U.S. sales of Glumetza from our Depomed royalty purchase agreement. Over this same time period, our other license related revenues primarily consisted of milestone payments from licensees under our patent license agreements as well as a $10.0 million payment in 2011 from our legal settlement with UCB. Our revenues consist primarily of royalty revenues, which represent more than 95% of total revenues for each of the past three years. Revenues for the years ended December 31, 2013, 2012 and 2011, are net of the payments made under our February 2011 settlement agreement with Novartis, which is based on a portion of the royalties that the company receives from Lucentis sales made by Novartis outside the United States.

A summary of our revenues for the years ended December 31, 2013, 2012 and 2011, is presented below:

(Dollars in thousands)	2013	2012	Change from Prior Year %	2011	Change from Prior Year %
Revenues					
Royalties	$ 441,421	$ 374,525	18%	$ 351,641	7%
License and other	1,500	—	N/M	10,400	N/M
Total revenues	$ 442,921	$ 374,525	18%	$ 362,041	3%

N/M = Not meaningful

In the year ended December 31, 2013, we received on Queen et al. patent royalties on sales of the eight humanized antibody products listed below, all of which are currently approved for use by the FDA and other regulatory agencies outside the United States. The licensees with commercial products as of December 31, 2013, are listed below:

Licensee	Product Names
Genentech	Avastin
	Herceptin
	Xolair
	Lucentis
	Perjeta
	Kadcyla
Biogen Idec[1]	Tysabri
Chugai	Actemra

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

Under our agreements for the license of rights under our Queen et al. patents, we received a flat-rate or tiered royalty based upon our licensees' net sales of covered products. Royalty payments are generally due one quarter in arrears, that is, generally in the second month of the quarter after the licensee has sold the royalty-bearing product. Until the August 15, 2013, effective date of

the Settlement Agreement, our agreement with Genentech provided for a tiered royalty structure under which the royalty rates Genentech must pay on the U.S.-based Sales in a given calendar year decreased on incremental U.S.-based Sales above certain sales thresholds based on 95% of the underlying gross U.S.-based Sales. As a result of the tiered royalty structure, Genentech's average annual royalty rate for a given year declined as Genentech's U.S.-based Sales increased during that year. Because we received royalties in arrears, the average royalty rate for the payments we received from Genentech in our second calendar quarter for Genentech's sales from the first calendar quarter. The average royalty rate for payments we received from Genentech are generally lowest in our fourth and first calendar quarters for Genentech's sales from the third and fourth calendar quarters when more of Genentech's U.S.-based Sales bore royalties at the 1% royalty rate. In 2013, the blended rate for the full year of royalties from Genentech products was a approximately 1.9%.

The net sales thresholds and the applicable royalty rates for Genentech's U.S.-based Sales recognized by us prior to the Settlement Agreement are outlined below:

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

With respect to the ex-U.S.-based Manufacturing and Sales, prior to August 15, 2013, the royalty rate that we received from Genentech was a fixed rate of 3% 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. The mix of net ex-U.S.-based Sales and net ex-U.S.-based Manufacturing and Sales for the Genentech Products, as outlined below, is based on information provided to us by Genentech. We were not provided the reasons for the fluctuations in the manufacturing split between U.S.-based Sales and ex-U.S.-based Manufacturing and Sales.

	Year Ended December 31,		
	2013	**2012**	**2011**
Avastin			
Ex-U.S.-based sales	58%	56%	55%
Ex-U.S.-based Manufacturing and Sales	43%	29%	21%
Herceptin			
Ex-U.S.-based sales	68%	69%	71%
Ex-U.S.-based Manufacturing and Sales	40%	37%	35%
Kadcyla			
Ex-U.S.-based sales	2%	0%	0%
Ex-U.S.-based Manufacturing and Sales	0%	0%	0%
Lucentis			
Ex-U.S.-based sales	64%	63%	59%
Ex-U.S.-based Manufacturing and Sales	0%	0%	0%
Perjeta			
Ex-U.S.-based sales	24%	1%	0%
Ex-U.S.-based Manufacturing and Sales	0%	0%	0%
Xolair			
Ex-U.S.-based sales	40%	39%	40%
Ex-U.S.-based Manufacturing and Sales	40%	39%	40%

For the year ended December 31, 2013, compared to December 31, 2012

Royalty revenues increased 18% for the year ended December 31, 2013, when compared to the same period in 2012. The growth is primarily driven by increased net sales of Avastin, Herceptin, Lucentis, Xolair and Actemra by our licensees, along with the

addition of the royalty payments from the Company's purchase of Depomed's diabetes-related royalties. Net sales of Avastin, Herceptin, Lucentis and Xolair 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 net sales of Avastin increased $0.6 billion or 10% compared to the same period for the prior year.
- Reported net sales of Herceptin increased $0.4 billion or 6% compared to the same period for the prior year.
- Reported Lucentis sales increased $0.4 billion or 10% compared to the same period for the prior year.
- Reported Xolair sales increased $0.2 billion or 14% compared to the same period for the prior year.

For the year ended December 31, 2012, compared to December 31, 2011

Royalty revenues increased 7% for the year ended December 31, 2012, when compared to the same period in 2011. The growth is primarily driven by increased net sales of Lucentis, Herceptin, Xolair and Tysabri by our licensees. Net sales of Avastin, Herceptin, Lucentis, and Xolair were 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 net sales of Herceptin increased $0.4 billion or 7% compared to the same period for the prior year.
- Reported Lucentis sales increased $0.4 billion or 11% compared to the same period for the prior year.
- Reported sales of Tysabri increased $0.1 billion or 8% compared to the same period for the prior year. Tysabri royalties are determined at a flat rate as a percent of the sales regardless of location of manufacture or sale.
- Reported net sales of Avastin increased $0.1 billion or 1% compared to the same period for the prior year.

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 for the years ended December 31, 2013, 2012 and 2011:

		Year Ended December 31,		
Licensee	**Product Name**	**2013**	**2012**	**2011**
Genentech	*Avastin*	33%	32%	31%
	Herceptin	32%	34%	33%
	Lucentis	10%	12%	15%
Elan	*Tysabri*	11%	13%	12%

Foreign currency exchange rates also impact our reported revenues. More than 50% of our licensees' product sales are in currencies other than U.S. dollars; as such, our revenues may fluctuate due to changes in foreign currency exchange rates and are subject to foreign currency exchange risk. While foreign currency conversion terms vary by license agreement, generally most agreements require that royalties first be calculated in the currency of sale and then converted into U.S. dollars using the average daily exchange rates for that currency for a specified period at the end of the calendar quarter. Accordingly, when the U.S. dollar weakens against other currencies, the converted amount is greater than it would have been had the U.S. dollar not weakened. For example, in a quarter in which we generate $70 million in royalty revenues, and when approximately $35 million is based on sales in currencies other than U.S. dollar, if the U.S. dollar strengthens across all currencies by ten percent during the conversion period for that quarter, when compared to the same amount of local currency royalties for the prior year, U.S. dollar converted royalties will be approximately $3.5 million less in the current quarter than in the prior year quarter. 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 year ended December 31, 2013, we hedged certain Euro-denominated currency exposures related to our licensees' product sales with Euro forward contracts. We designate foreign currency exchange contracts used to hedge royalty revenues based on underlying Euro-denominated sales as cash flow hedges. The aggregate unrealized gain or loss, net of tax, on the effective portion of the hedge is recorded in stockholders' equity (deficit) as accumulated other comprehensive income (loss). Gains or losses on cash flow hedges are recognized as an adjustment to royalty revenue in the same period that the hedged transaction impacts

earnings. For the years ended December 31, 2013, 2012 and 2011, we recognized ($2.3) million, ($2.9) million and $1.0 million in royalty revenues from our Euro contracts, respectively.

Operating Expenses

A summary of our operating expenses for the years ended December 31, 2013, 2012 and 2011, is presented below:

(Dollars in thousands, except for percentages)	2013	2012	Change from Prior Year %	2011	Change from Prior Year %
Cost of royalty revenues (amortization of intangible asset)	$ 5,637	$ —	N/M	$ —	N/M
Percentage of total revenues	1%	0%		0%	
General and administrative	$ 29,755	$ 25,469	17%	$ 18,338	39%
Percentage of total revenues	7%	7%		5%	
Total operating expenses	$ 35,392	$ 25,469	39%	$ 18,338	39%
Percentage of total revenues	8%	7%		5%	

N/M = Not meaningful

For the year ended December 31, 2013, compared to December 31, 2012

The increase in operating expenses was a result of the additional of cost of royalty revenues of $5.6 million in the fourth quarter of 2013 related to two months of amortization of the intangible assets acquired as part of the Royalty Purchase Agreement with Depomed, an increase in general and administrative expenses related to professional services of $2.4 million mostly related to our efforts to acquire income generating assets, a $1.1 million increase in legal expenses mostly related to litigation and a $1.0 million increase in compensation related expenses.

For the year ended December 31, 2012, compared to December 31, 2011

The increase in operating expenses was a result of increased legal expenses of $3.7 million mostly related to litigation, a $1.4 million increase in professional services related to our efforts to acquire income generating assets and a $1.4 million increase in compensation related expenses.

Non-operating Expense, Net

A summary of our non-operating expense, net, for the years ended December 31, 2013, 2012 and 2011, is presented below:

(Dollars in thousands)	2013	2012	Change from Prior Year %	2011	Change from Prior Year %
Loss on retirement or conversion of convertible notes	$ —	$ —	N/M	$ (766)	N/M
Interest and other income, net	19,218	7,113	170 %	593	1,099 %
Interest expense	(24,871)	(29,036)	(14)%	(36,102)	(20)%
Total non-operating expense, net	$ (5,653)	$ (21,923)	(74)%	$ (36,275)	(40)%

N/M = Not meaningful

For the year ended December 31, 2013, compared to December 31, 2012

Non-operating expense, net, decreased primarily due to lower interest expense as a result of our Non-recourse Notes being fully repaid during 2012 and increased interest income from our notes receivable, offset, in part, by increased interest expense on our Series 2012 Notes and May 2015 Notes. The approximate $12.1 million increase in interest income to $19.2 million is a result of the increase in loans to late stage healthcare companies as part of our strategy to acquire income generating assets. The increase in

interest expense consisted primarily of non-cash interest expense as we were required to compute interest expense using the interest rate for similar nonconvertible instruments in accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion. Non-cash interest expense, in accordance with the accounting guidance, for the Series 2012 Notes, May 2015 Notes and our term loan was $11.2 million for the year ended December 31, 2013, and for the Series 2012 and May 2015 Notes was $10.2 million for the year ended December 31, 2012.

For the year ended December 31, 2012, compared to December 31, 2011

Non-operating expense, net, decreased primarily due to lower interest expense as a result of our quarterly repayment of the principal balance of our Non-recourse Notes and increased interest income from our Notes Receivable, offset, in part, by increased interest expense on our Series 2012 Notes and our May 2015 Notes. The increase in interest expense consisted primarily of non-cash interest expense as we were required to compute interest expense using the interest rate for similar nonconvertible instruments in accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion. Non-cash interest expense, in accordance with the accounting guidance, for the Series 2012 Notes and May 2015 Notes was $10.2 million for the year ended December 31, 2012 , and for the May 2015 Notes, February 2015 Notes and 2012 Notes was $3.9 million for the year ended December 31, 2011.

Income Taxes

Income tax expense for the year ended December 31, 2013, was $137.3 million, which resulted primarily from applying the federal statutory income tax rate to income before income taxes. Income tax expense for the year ended December 31, 2012, was $115.5 million, which resulted primarily from applying the federal statutory income tax rate to income before income taxes. Income tax expense for the year ended December 31, 2011, was $108.0 million, which resulted primarily from applying the federal statutory income tax rate to income before income taxes and adjusting for a portion of the loss on the retirement or conversion of our 2023 Notes that was not tax deductible.

During the year ended December 31, 2013, as a result of the evaluation of our uncertain tax positions, we increased the unrecognized tax benefits by $5.5 million primarily related to state items and decreased the unrecognized tax benefits by $5.7 million due to expiration of statute of limitations for our tax attributes. The Company expects its unrecognized tax benefits to decrease by $6.5 million due to the expiration of statute of limitations within the next twelve months, of which $6.5 million would affect the effective tax rate. During the year ended December 31, 2012, we recorded no change in our liability associated with uncertain tax positions. The future impact of the unrecognized tax benefits of $32.4 million, if recognized, comprises $9.3 million which would affect the effective tax rate and $23.1 million which would result in adjustments to deferred tax assets and corresponding adjustments to the valuation allowance.

Estimated interest and penalties associated with unrecognized tax benefits increased our income tax expense in the Consolidated Statements of Income by $0.7 million during the year ended December 31, 2013, increased income tax expense by $0.2 million during the year ended December 31, 2012, and increased income tax expense by $0.5 million during the year ended December 31, 2011. Although the timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year, except as noted above, we do not anticipate any material change to the amount of our unrecognized tax benefit over the next twelve months.

As of December 31, 2013, we had net deferred tax assets in excess of our deferred tax liabilities of approximately $7.1 million. We recorded a valuation allowance to reduce our deferred tax assets to amounts that are more likely than not to be realized. As of December 31, 2013, we had a valuation allowance of $5.4 million, primarily related to net operating loss carry forwards and research and development tax credits.

Net Income per Share

Net income per share for the years ended December 31, 2013, 2012 and 2011, is presented below:

	Year Ended December 31,		
	2013	**2012**	**2011**
Net income per basic share	$ 1.89	$ 1.52	$ 1.43
Net income per diluted share	$ 1.66	$ 1.45	$ 1.15

Liquidity and Capital Resources

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

We had cash, cash equivalents and investments in the aggregate of $99.5 million and $148.7 million, excluding restricted investments, at December 31, 2013 and 2012, respectively. The decrease was primarily attributable to the purchase of the Depomed intangible asset of $241.3 million, cash advanced on notes receivable of $148.7 million, payment of dividends of $84.0 million, offset in part by net cash provided by operating activities of $270.9 million and repayment of notes receivable of $58.1 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 expires 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 our Queen et al. patents beyond the first quarter of 2016.

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

Notes and Other Long-term Receivables

Wellstat Diagnostics Note Receivable and Credit Agreement

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

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

In January 2013, the Company was informed that, as of November 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. PDL sent Wellstat Diagnostics a notice of default on January 22, 2013, and accelerated the amounts owed under the credit agreement. In connection with the notice of default, PDL exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to PDL and applied the funds to amounts due under the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby PDL agreed to refrain from exercising additional remedies for 120 days while Wellstat Diagnostics raised funds to capitalize the business and the parties attempted to negotiate a revised credit agreement. PDL agreed to provide up to $7.9 million to Wellstat Diagnostics to fund the business for the 120-day forbearance period under the terms of the forbearance agreement. Following the conclusion of the June 28 forbearance period, the Company agreed to forbear in its exercise of remedies for additional periods of time to allow the owners and affiliates of Wellstat Diagnostics to complete a pending financing transaction. During such forbearance period, the Company provided approximately $1.3 million to Wellstat Diagnostics to fund ongoing operations of the business. During the year ended December 31, 2013, approximately $8.7 million was advanced pursuant to the forbearance agreement.

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

Except as otherwise described here, the material terms of the amended credit agreement are substantially the same as those of the original credit agreement, including quarterly interest payments at the rate of 5% per annum (payable in cash or in kind). In

addition, PDL to receive quarterly royalty payments based on a low double digit royalty rate of Wellstat Diagnostics' net revenues upon successful commercialization. However, pursuant to the amended credit agreement: (i) the principal amount was reset to approximately $44.1 million which was comprised of approximately $33.7 million original loan principal and interest, $1.3 million term loan principal and interest and $9.1 million forbearance principal and interest; (ii) the specified internal rates of return increased; (iii) the default interest rate was increased; (iv) Wellstat Diagnostics' obligation to provide certain financial information increased in frequency to monthly; (v) internal financial controls were strengthened by requiring Wellstat Diagnostics to maintain an independent, third-party financial professional with control over fund disbursements; (vi) the Company waived the existing events of default; and (vii) the owners and affiliates of Wellstat Diagnostics are required to contribute additional capital to Wellstat Diagnostics upon the sale, if any, of an affiliated entity. The restated credit agreement continues to have an ultimate maturity date of December 31, 2021 (but may mature earlier upon certain specified events).

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

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

At December 31, 2013, and 2012, the carrying value of the note was included in non-current assets.

As of December 31, 2013, the Company determined that its interest in Wellstat Diagnostics represented a variable interest in a Variable Interest Entity since Wellstat Diagnostics' equity was not sufficient to finance its operations without amounts advanced to it under the Company's note and forbearance agreement. However, the Company does not have the power to direct the activities of Wellstat Diagnostics that most significantly impacts Wellstat Diagnostics's economic performance and is not the primary beneficiary of Wellstat Diagnostics; therefore, Wellstat Diagnostics is not subject to consolidation.

As of December 31, 2013, the carrying value of all amounts advanced to Wellstat Diagnostics was $47.7 million, which was recorded in notes receivable. As of December 31, 2013, the maximum loss exposure was $47.7 million.

Merus Labs Note Receivable and Credit Agreement

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

Outstanding borrowings under the July 2012 loan bore interest at the rate of 13.5% per annum and outstanding borrowings as a result of the draw on the letter of credit bore interest at the rate of 14.0% per annum. Merus Labs was required to make four periodic principal payments in respect of the July 2012 loan, with repayment of the remaining principal balance of all loans due on March 31, 2015. The borrowings were subject to mandatory prepayments upon certain asset dispositions or debt issuances as set forth in the credit agreement. Merus Labs made the first of these payments in December 2012 in the amount of $5.0 million, and made the second payment in June 2013 in the amount of $7.5 million. In September 2013, Merus Labs made two additional payments totaling $43.3 million, including the prepayment fee, in order to pay its remaining outstanding balance.

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

AxoGen Royalty Agreement

In October 2012, PDL entered into the Royalty Agreement with AxoGen pursuant to which the Company will receive specified royalties on AxoGen’s net revenues (as defined in the Royalty Agreement) generated by the sale, distribution or other use of AxoGen’s products (assigned interests). The Royalty Agreement has an eight year term and provides PDL with royalties of 9.95% based on AxoGen net revenues, subject to agreed-upon guaranteed quarterly minimum payments of approximately $1.3 to $2.5 million beginning in the fourth quarter of 2014, and the right to require AxoGen to repurchase the Royalty Agreement at the end of the fourth year. AxoGen has been granted certain rights to call the contract in years five through eight. The total consideration PDL paid to AxoGen for the assigned interests was $20.8 million, including the termination of an interim funding of $1.8 million in August 2012. AxoGen was required to use a portion of the proceeds from the Royalty Agreement to pay the outstanding balance under its existing credit facility with a third party. AxoGen plans to use the remainder of the proceeds to support the business plan for its products. The royalty rights are secured by the cash and accounts receivable of AxoGen.

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

In the event of a change of control, AxoGen must repurchase the assigned interests from the Company for a repurchase price equal to an amount that, together with payments already made by AxoGen, would generate a 32.5% internal rate of return to the Company. The Company has concluded that the change of control provision is an embedded derivative that should be bifurcated and separately recorded at its estimated fair value. The estimated fair value of the change of control provision was approximately $1.1 million and $0.6 million as of December 31, 2013, and December 31, 2012, respectively. The estimated fair value of this embedded derivative is included in the carrying value of the AxoGen Note Receivable. The Company recognized approximately $0.5 million related to the change in the estimated fair value of embedded derivative during the year ended December 31, 2013.

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

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

On August 14, 2013, PDL purchased 1,166,666 shares of AXGN at $3.00 per share, totaling $3.5 million. The shares are classified as available-for-sale and recorded as short term investments on the consolidated balance sheet. As of December 31, 2013, the shares were valued at $5.2 million, which results in an unrealized gain of $1.7 million and is recorded in other comprehensive income (loss).

Avinger Note Receivable and Royalty Agreement

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

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

In connection with entering into the credit agreement, the Company will receive a low, single-digit royalty on Avinger's net revenues through April 2018. Avinger may prepay the outstanding principal and accrued interest on the notes receivable at any

time. If Avinger repays the notes receivable prior to April 2018, the royalty on Avinger's net revenues will be reduced by 50% and will be subject to certain minimum payments from the prepayment date through April 2018.

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

LENSAR Credit Agreement

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

Principal repayment will commence on the thirteenth interest payment date or December 30, 2016. The principal amount outstanding at the commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on October 1, 2018. LENSAR may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The loans are secured by all of the assets of LENSAR.

Durata Credit Agreement

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

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

Direct Flow Credit Agreement

On November 5, 2013, PDL entered into a credit agreement with Direct Flow Medical, in which PDL will provide up to $50.0 million to Direct Flow Medical. Of the $50.0 million available to Direct Flow Medical, an initial $35.0 million (tranche one), net of fees, was provided by the Company at the close of the transaction. Upon the attainment of a specified revenue milestone to be accomplished no later than December 31, 2014 (the tranche two milestone), the Company will loan to Direct Flow Medical an additional $15.0 million, net of fees. Until the occurrence of the tranche two milestone, outstanding borrowings under tranche one bear interest at the rate of 15.5% per annum, payable quarterly in arrears. Upon occurrence of the tranche two milestone, the interest rate of the loans will decrease to 13.5%.

Principal repayment will commence on the twelfth interest payment date, September 30, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on November 5, 2018. Direct Flow Medical may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Direct Flow Medical and any of its subsidiaries.

Intangible Assets

Depomed Royalty Purchase and Sales Agreement

On October 18, 2013, PDL entered into a royalty purchase and sale agreement with Depomed, Inc. and Depo DR Sub, LLC, a wholly owned subsidiary of Depomed, whereby the Company acquired the rights to receive royalties and milestones payables on sales of Type 2 diabetes products licensed by Depomed in exchange for a $240.5 million cash payment. The transaction closed simultaneously with the execution of the royalty agreement.

Under the terms of the royalty agreement, the Company will receive all royalty and milestone payments due under license agreements between Depomed and its licensees until the Company has received payments equal to two times the cash payment made to Depomed, after which all net payments received will be shared evenly between the Company and Depomed.

The royalty agreement terminates on the third anniversary following the date upon which the later of the following occurs: (a) October 25, 2021, or (b) at such time as no royalty payments remain payable under any license agreement and each of the license agreements has expired by its terms.

Convertible Notes

Series 2012 Notes

We have actively worked to restructure the Company’s capital and reduce the potential dilution associated with our convertible notes. As part of those efforts, in January 2012, we exchanged and subsequently retired $169.0 million aggregate principal amount of our February 2015 Notes for an identical principal amount of our 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. In February 2012, we entered into separate privately negotiated exchange agreements under which we exchanged and subsequently retired an additional $10.0 million aggregate principal amount of our February 2015 Notes for $10.0 million aggregate principal amount of our Series 2012 Notes. In August 2013, the Company entered into a separate privately negotiated exchange agreement under which it retired the final $1.0 million aggregate principal amount of the Company's outstanding February 2015 Notes. Pursuant to the exchange agreement, the holder of the February 2015 Notes received $1.0 million aggregate principal amount of the Company's Series 2012 Notes. Immediately following the exchange, no principal amount of the February 2015 Notes remained outstanding and $180.0 million principal amount of the Series 2012 Notes is outstanding.

Our Series 2012 Notes net share settle, meaning that if a conversion occurs, the principal amount is due in cash, and to the extent that the conversion value exceeds the principal amount, the difference is due in shares of our 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 at the time of the exchange.

On February 5 and 6, 2014, the Company entered into separate, privately negotiated exchange and purchase agreements under which it retired $131.7 million in aggregate principal of the Company’s outstanding Series 2012 Notes. The exchange agreements provided for the issuance, by the Company, of shares of common stock and a cash payment for the Series 2012 Notes being exchanged, and the purchase agreement provided for a cash payment for the Series 2012 Notes being repurchased. The Company issued a total of 20.3 million shares of its common stock and paid an aggregate cash payment of $34.2 million pursuant to the exchange and repurchase agreements.

May 2015 Notes

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

February 2018 Notes

On February 6, 2014, the Company agreed to sell $260.87 million aggregate principal amount of its 4.00% Convertible Senior Notes due February 1, 2018, in an underwritten public offering. The conversion rate of the February 2018 Notes will initially be 109.1048 shares of common stock per $1,000 principal amount of the February 2018 Notes equivalent to an initial conversion price of approximately $9.17 per share of common stock. The conversion rate, subject to increase under certain circumstances, will not be increased in respect of regular quarterly cash dividends paid by us that do not exceed $0.15 per share.

On February 12, 2014, the Company issued $300 million aggregate principal amount of February 2018 Notes, which included $39.13 million aggregate principal amount of February 2018 Notes issued pursuant to the exercise of the underwriters' overallotment option to purchase additional February 2018 Notes. In connection with the offering of the February 2018 Notes, we entered into privately negotiated convertible note hedge transactions with affiliates of RBC Capital Markets and Well Fargo Securities ("hedge counterparties") and privately negotiated warrant transactions with the hedge counterparties relating to the same number of shares of PDL's common stock.

Off-Balance Sheet Arrangements

As of December 31, 2013, we did not have any off-balance sheet arrangements, as defined under SEC Regulation S-K Item 303(a)(4)(ii).

Contractual Obligations

Convertible Notes

As of December 31, 2013, our contractual obligations consisted primarily of our Series 2012 Notes and our May 2015 Notes, which in the aggregate totaled $335.3 million in principal. Our Series 2012 and our May 2015 Notes are not puttable by the note holders other than in the context of a fundamental change.

We expect that our debt service obligations over the next several years will consist of interest payments and repayment of our Series 2012 Notes and our May 2015 Notes. We may further seek to exchange, repurchase or otherwise acquire the convertible notes in the open market in the future which could adversely affect the amount or timing of any distributions to our stockholders. We would make such exchanges or repurchases only if we deemed it to be in our stockholders' best interest. We may finance such repurchases with cash on hand and/or with public or private equity or debt financings if we deem such financings are available on favorable terms.

See Note 21 for subsequent event transactions related to convertible notes.

Term Loan

As of December 31, 2013, our contractual obligation for our term loan total $75.0 million in principal. Interest and principal payments under the credit agreement are due on the interest payment dates of January 31, April 30, and July 31 of 2014, with the remaining outstanding balance due on October 28, 2014.

Notes Receivable and Other Long Term Receivables

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

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

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

On November 5, 2013, PDL entered into a credit agreement with Direct Flow Medical, in which PDL will provide up to $50.0 million to Direct Flow Medical. Of the $50.0 million available to Direct Flow Medical, an initial $35.0 million, net of fees, was provided by the company at the close of the transaction. Upon the attainment of a specified revenue milestone to be accomplished no later than December 31, 2014, the Company will loan to Direct Flow Medical an additional $15.0 million, net of fees.

Material contractual obligations including interest under lease and debt agreements for the next five years and thereafter are:

		Payments Due by Period			
		Less Than		More than	
(In thousands)		1 Year	1-3 Years	3 Years	Total
Operating leases	(1)	$ 102	$ 32	$ —	$ 134
Convertible notes	(2)	10,997	337,823	—	348,820
Term Loan	(3)	75,768	—	—	75,768
Notes receivable	(4)	70,000	15,000	—	85,000
Total contractual obligations		$ 156,867	$ 352,855	$ —	$ 509,722

(1) Amounts represent the lease for our headquarters in Incline Village, Nevada and operating leases for office equipment.
(2) Amounts represent principal and cash interest payments due on the convertible notes.
(3) Amounts represent principal and cash interest payments due on the term loan.
(4) Amounts represent tranche to be paid upon future actions as described above.

See Note 21 for subsequent event transactions related to convertible notes.

Lease Guarantee

In connection with the Spin-Off of Facet, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. 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. In April 2010, Abbott acquired Facet and later renamed the entity AbbVie Biotherapeutics, Inc. As of December 31, 2013, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $90.2 million, and has not been included in the table above. If AbbVie were to default, we could also be responsible for lease related costs including utilities, property taxes and common area maintenance which may be as much as the actual lease payments. We have recorded a liability of $10.7 million on our Consolidated Balance Sheets as of December 31, 2013 and 2012, related to this guarantee.

Indemnification

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

ITEM 7A. 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, and when approximately $35 million is based on sales in currencies other than the U.S. dollar, if the U.S. dollar strengthens across all currencies by 10% during the conversion period for that quarter, when compared to the same amount of local currency royalties for the prior year, U.S. dollar converted royalties will be approximately $3.5 million less in that current quarter sales, assuming that the currency risk in such forecasted sales was not hedged.

We hedge Euro-denominated risk exposures related to our licensees' product sales with Euro forward contracts, and in 2011, Euro forward and option contracts. In general, these contracts are intended to offset the underlying Euro market risk in our royalty revenues. Our current contracts extend through the fourth quarter of 2014 and are all classified for accounting purposes as cash flow hedges. We continue to monitor the change in the Euro exchange rate and regularly purchase additional forward contracts to achieve hedged rates that approximate the average exchange rate of the Euro over the year, which we anticipate will better offset potential changes in exchange rates than simply entering into larger contracts at a single point in time.

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

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

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

			December 31, 2013		December 31, 2012	
Euro Forward Contracts			*(in thousands)*		*(in thousands)*	
Currency	**Settlement Price ($ per Euro)**	**Type**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Euro	1.230	Sell Euro	$ —	$ —	$ 27,553	$ (2,036)
Euro	1.240	Sell Euro	10,850	(1,207)	10,850	(726)
Euro	1.270	Sell Euro	44,450	(3,760)	44,450	(1,950)
Euro	1.281	Sell Euro	36,814	(2,785)	36,814	(1,331)
Euro	1.300	Sell Euro	19,500	(1,119)	91,000	(1,538)
Total			$ 111,614	$ (8,871)	$ 210,667	$ (7,581)

Interest Rate Risk

Our investment portfolio was approximately $91.2 million at December 31, 2013, and $140.8 million at December 31, 2012, and consisted of investments in Rule 2a-7 money market funds and a corporate security at December 31, 2013, and Rule 2a-7 money

market funds, certificates of deposit and corporate debt securities at December 31, 2012. If market interest rates were to have increased by 1% in either of these years, there would have been no material impact on the fair value of our portfolio.

The aggregate fair value of our convertible notes was estimated to be $490.0 million at December 31, 2013, and $410.5 million at December 31, 2012, based on available pricing information. At December 31, 2013, our convertible notes consisted of our Series 2012 Notes, with a fixed interest rate of 2.875% and our May 2015 Notes, with a fixed interest rate of 3.75%. At December 31, 2012, our convertible notes consisted of our Series 2012 Notes, with a fixed interest rate of 2.875%, May 2015 Notes, with a fixed interest rate of 3.75% and our February 2015 Notes, with a fixed interest rate of 2.875%. These obligations are subject to interest rate risk because the fixed interest rates under these obligations may exceed current interest rates.

The fair value of our term loan was estimated to be $75.0 million at December 31, 2013, based on available pricing information. No amounts were outstanding under the term loan at December 31, 2012. The interest rates per annum applicable to amounts outstanding under the Term Loan are, at the Company's option, either (a) the base rate plus 1.00% , or (b) the Eurodollar rate plus 2.00% per annum. Interest and principal payments under the credit agreement are due on the interest payment dates of January 31, April 30, and July 31 of 2014, with the remaining outstanding balance due on October 28, 2014. These obligations are subject to interest rate risk because the variable interest rate may increase in future periods.

The following table presents information about our material debt obligations that are sensitive to changes in interest rates. The table presents principal amounts and related weighted-average interest rates by year of expected maturity for our debt obligations or the earliest year in which the holders may put the debt to us. Our convertible notes may be converted to common stock prior to the maturity date.

(In thousands)	**2014**	**2015**	**Total**	**Fair Value**
Convertible notes				
Variable Rate	$ 75,000	$ —	$ 75,000	$ 75,000
Fixed Rate	335,250	—	335,250	489,954 (1)
Total	$ 410,250	$ —	$ 410,250	$ 564,954
Average Interest Rate	2.68%	—%		

(1) The fair value of the remaining payments under our convertible notes and term loan were estimated based on the trading value of these notes at December 31, 2013.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PDL BIOPHARMA, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	December 31,	
	2013	**2012**
Assets		
Current assets:		
Cash and cash equivalents	$ 94,302	$ 131,212
Restricted investment	—	20,000
Short-term investments	5,238	17,477
Receivables from licensees	300	366
Deferred tax assets	377	1,613
Notes receivable	13	7,504
Prepaid and other current assets	7,467	4,813
Total current assets	107,697	182,985
Property and equipment, net	41	59
Notes and other receivables, long-term	193,840	85,704
Long-term deferred tax assets	6,700	4,552
Other assets	—	6,666
Intangible assets	235,677	—
Total assets	$ 543,955	$ 279,966
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 287	$ 1,074
Accrued liabilities	11,857	9,400
Term loan payable	74,397	—
Convertible notes payable	320,883	—
Total current liabilities	407,424	10,474
Convertible notes payable	—	309,952
Other long-term liabilities	23,042	27,662
Total liabilities	430,466	348,088
Commitments and contingencies (Note 12)		
Stockholders' equity (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, 350,000 shares authorized; 139,935 and 139,816 shares issued and outstanding at December 31, 2013 and 2012, respectively	1,399	1,398
Additional paid-in capital	(233,173)	(234,066)
Accumulated other comprehensive loss	(4,888)	(5,088)
Retained earnings	350,151	169,634
Total stockholders' equity (deficit)	113,489	(68,122)
Total liabilities and stockholders' equity (deficit)	$ 543,955	$ 279,966

See accompanying notes.

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

	Year Ended December 31,		
	2013	**2012**	**2011**
Revenues:			
Royalties	$ 441,421	$ 374,525	$ 351,641
License and other	1,500	—	10,400
Total revenues	442,921	374,525	362,041
Operating expenses:			
Cost of royalty revenues (amortization of intangible assets)	5,637	—	—
General and administrative	29,755	25,469	18,338
Total operating expenses	35,392	25,469	18,338
Operating income	407,529	349,056	343,703
Non-operating expense, net			
Loss on retirement or conversion of convertible notes	—	—	(766)
Interest and other income, net	19,218	7,113	593
Interest expense	(24,871)	(29,036)	(36,102)
Total non-operating expense, net	(5,653)	(21,923)	(36,275)
Income before income taxes	401,876	327,133	307,428
Income tax expense	137,346	115,464	108,039
Net income	$ 264,530	$ 211,669	$ 199,389
Net income per share			
Basic	$ 1.89	$ 1.52	$ 1.43
Diluted	$ 1.66	$ 1.45	$ 1.15
Weighted average shares outstanding			
Basic	139,842	139,711	139,663
Diluted	159,343	146,403	177,441
Cash dividends declared per common share	$ 0.60	$ 0.60	$ 0.60

See accompanying notes.

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

	Year Ended December 31,		
	2013	**2012**	**2011**
Net income	$ 264,530	$ 211,669	$ 199,389
Other comprehensive income (loss), net of tax			
Unrealized gains (losses) on investments in available-for-sale securities[a]	1,122	(22)	30
Unrealized gains (losses) on cash flow hedges[b]	(922)	(3,181)	(5,134)
Total other comprehensive income (loss), net of tax	200	(3,203)	(5,104)
Comprehensive income	$ 264,730	$ 208,466	$ 194,285

[a] Net of tax of $604, ($12) and $16 for the years ended December 31, 2013, 2012 and 2011, respectively.
[b] Net of tax of ($496), ($1,713) and ($2,764) for the years ended December 31, 2013, 2012 and 2011, respectively.

See accompanying notes.

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

	Year Ended December 31,		
	2013	**2012**	**2011**
Cash flows from operating activities			
Net income	$ 264,530	$ 211,669	$ 199,389
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of convertible notes and term loan offering costs	13,320	12,481	5,386
Amortization of intangible assets	5,637	—	—
Amortization of non-recourse notes offering costs	—	1,226	4,533
Other amortization, depreciation and accretion of embedded derivative	(404)	946	1,405
Loss on retirement or conversion of convertible notes	—	—	766
Hedge ineffectiveness on foreign exchange contracts	(11)	(257)	—
Stock-based compensation expense	872	937	387
Tax expense from stock-based compensation arrangements	—	—	(120)
Net excess tax benefit from stock-based compensation	(22)	(27)	—
Deferred income taxes	(999)	11,338	31,217
Changes in assets and liabilities:			
Receivables from licensees	66	234	(131)
Prepaid and other current assets	442	4,138	(199)
Accrued interest on notes receivable	(9,585)	(2,882)	—
Other assets	1,409	(1,162)	(6,639)
Accounts payable	(787)	546	(2,012)
Accrued legal settlement	—	(27,500)	(37,500)
Accrued liabilities	(1,447)	62	239
Other long-term liabilities	(2,131)	(1,533)	(26,939)
Net cash provided by operating activities	270,890	210,216	169,782
Cash flows from investing activities			
Purchases of investments	(9,875)	(29,898)	(74,744)
Maturities of investments	43,780	50,831	50,696
Purchase of intangible assets	(241,314)	—	—
Issuance of notes receivable	(148,708)	(95,300)	—
Repayment of notes receivable	58,134	5,000	—
Purchase of property and equipment	(2)	(51)	—
Net cash used in investing activities	(297,985)	(69,418)	(24,048)
Cash flows from financing activities			
Proceeds from term loan	74,169	—	—
Retirement of convertible notes	—	—	(133,851)
Repayment of non-recourse notes	—	(93,370)	(110,900)
Payment of debt issuance costs	—	(845)	—
Net proceeds from the issuance of convertible notes	—	—	149,712
Purchase of call options	—	—	(20,765)
Proceeds from issuance of warrants	—	—	10,868
Cash dividends paid	(84,006)	(83,942)	(83,828)
Excess tax benefit from stock-based compensation	22	27	—
Net cash used in financing activities	(9,815)	(178,130)	(188,764)
Net decrease in cash and cash equivalents	(36,910)	(37,332)	(43,030)
Cash and cash equivalents at beginning of the year	131,212	168,544	211,574
Cash and cash equivalents at end the year	$ 94,302	$ 131,212	$ 168,544

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

	Year Ended December 31,		
	2013	2012	2011
Supplemental cash flow information			
Cash paid for income taxes	$ 139,000	$ 99,000	$ 83,000
Cash paid for interest	$ 10,997	$ 15,754	$ 25,627

See accompanying notes

PDL BIOPHARMA, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
	Shares	Amount				
Balance at December 31, 2010	139,640,152	$ 1,396	$ (87,373)	$ (241,424)	$ 3,219	$ (324,182)
Issuance of common stock under employee benefit plans	39,600	1	—	—	—	1
Issuance of convertible debt	—	—	11,870	—	—	11,870
Purchase of purchased call options, net of tax	—	—	(13,522)	—	—	(13,522)
Proceeds from the sale of warrants	—	—	10,868	—	—	10,868
Stock-based compensation expense	—	—	387	—	—	387
Tax expense from stock options	—	—	(120)	—	—	(120)
Dividends declared	—	—	(83,860)	—	—	(83,860)
Comprehensive income:						
Net income	—	—	—	199,389	—	199,389
Change in unrealized gains and losses on investments in available-for-sale securities, net of tax	—	—	—	—	30	30
Changes in unrealized gains and losses on cash flow hedges, net of tax	—	—	—	—	(5,134)	(5,134)
Total comprehensive income						194,285
Balance at December 31, 2011	139,679,752	1,397	(161,750)	(42,035)	(1,885)	(204,273)
Issuance of common stock under employee benefit plans	136,507	1	(1)	—	—	—
Issuance of convertible debt	—	—	10,692	—	—	10,692
Stock-based compensation expense	—	—	937	—	—	937
Dividends declared	—	—	(83,944)	—	—	(83,944)
Comprehensive income:						
Net income	—	—	—	211,669	—	211,669
Change in unrealized gains and losses on investments in available-for-sale securities, net of tax	—	—	—	—	(22)	(22)
Changes in unrealized gains and losses on cash flow hedges, net of tax	—	—	—	—	(3,181)	(3,181)
Total comprehensive income						208,466
Balance at December 31, 2012	139,816,259	1,398	(234,066)	169,634	(5,088)	(68,122)
Issuance of common stock under employee benefit plans	118,310	1	(1)	—	—	—
Stock-based compensation expense	—	—	872	—	—	872
Tax benefit from stock options	—	—	22	—	—	22
Dividends declared	—	—	—	(84,013)	—	(84,013)
Comprehensive income:						
Net income	—	—	—	264,530	—	264,530
Change in unrealized gains and losses on investments in available-for-sale securities, net of tax	—	—	—	—	1,122	1,122
Changes in unrealized gains and losses on cash flow hedges, net of tax	—	—	—	—	(922)	(922)
Total comprehensive income						264,730
Balance at December 31, 2013	139,934,569	$ 1,399	$ (233,173)	$ 350,151	$ (4,888)	$ 113,489

See accompanying notes.

1. Organization and Business

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

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

In 2011, PDL initiated a strategy to bring in new income generating assets from the healthcare sector. To accomplish this goal, PDL seeks to provide non-dilutive growth capital and financing solutions to late stage public and private healthcare companies and offers immediate financial monetization of royalty streams to companies, academic institutions and inventors. PDL continues to pursue this strategic initiative for which it has already invested approximately $500 million to date. PDL is focused on the quality of the income generating assets and potential returns on investment.

In the year ended December 31, 2013, we received Queen et al. patent royalties on sales of the eight humanized antibody products listed below, all of which are currently approved for use by the FDA and other regulatory agencies outside the United States.

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

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

We have also entered into licensing agreements under which we have licensed certain rights under our patents for development-stage products that have not yet reached commercialization including products that are currently in Phase 3 clinical trials.

Until December 2008, our business included biotechnology operations which were focused on the discovery and development of novel antibodies which we spun off to Facet Biotech Corporation. In April 2010, Abbott Laboratories acquired Facet and later renamed the company Abbott Biotherapeutics Corp., and in January 2013, Abbott Biotherapeutics, Corp. was renamed AbbVie Biotherapeutics, Inc. and spun off from Abbott as a subsidiary of AbbVie Inc.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and under the rules and regulations of the Securities and Exchange Commission.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, QHP Royalty Sub LLC. All material intercompany balances and transactions are eliminated in consolidation.

Management Estimates

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

Segment Disclosures

Our chief operating decision-maker consists of our executive management. Our chief operating decision-maker reviews our operating results and operating plans and makes resource allocation decisions on a company-wide basis; therefore, we operate as one segment.

Cash Equivalents and Investments

We consider all highly liquid investments with initial maturities of three months or less at the date of purchase to be cash equivalents. We place our cash and cash equivalents with high credit quality financial institutions and, by policy, limit the amount of credit exposure in any one financial instrument. Available-for-sale securities are reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income (loss). See Note 5.

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.

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

Notes and Other Long-Term Receivables

Notes receivable and loans originated by us are initially recorded at the amount advanced to the borrower. Notes receivable and loan origination and commitment fees, net of certain origination costs, are recorded as an adjustment to the carrying value of the notes receivable and loans and are amortized over the term of the related financial asset using the effective interest rate method. Certain of our notes receivable and loans require the borrower to make variable payments which are dependent upon the borrower's sales of specific products. We have elected to use the prospective interest method to account for these notes receivable and loans subsequent to their initial recognition. Under this approach, we recognize the impact of any variations from the expected returns in the period when received. From time to time, we will re-evaluate the expected cash flows and may adjust the effective interest rate with effect prospective from the date of assessment, if the impact of such adjustment could be material to our financial statements. Determining the initial effective interest rates and subsequent re-assessment of the effective interest rates

for notes receivable and loans with variable cash flows requires judgment and is based on significant assumptions related to estimates of the amounts and timing of future product sales by the borrowers.

We evaluate the collectability of both interest and principal for each note receivable and loan to determine whether it is impaired. A note receivable or loan is considered to be impaired when, based on current information and events, we determine it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a note receivable or loan is considered to be impaired, the amount of loss is calculated by comparing the carrying value of the financial asset to the value determined by discounting the expected future cash flows at the loan's effective interest rate or to the estimated fair value of the underlying collateral, less costs to sell, if the loan is collateralized and we expect repayment to be provided solely by the collateral. Impairment assessments require significant judgments and are based on significant assumptions related to the borrower's credit risk, financial performance, expected sales, and fair value of the collateral.

Intangible Assets

Amortization of definite-lived intangible royalty assets is computed using a units of production method over the estimated useful lives of the assets. The related amortization is recognized as a cost of royalty revenues. Identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference.

Foreign Currency Hedging

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

We hedge certain Euro-denominated currency exposures related to our licensees' product sales with Euro forward contracts. In general, these contracts are intended to offset the underlying Euro market risk in our royalty revenues. These contracts extend through the fourth quarter of 2014. We designate foreign currency exchange contracts used to hedge royalty revenues based on underlying Euro-denominated sales 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 contracts is estimated using pricing models with readily observable inputs from actively quoted markets and is disclosed on a gross basis. The aggregate unrealized gain or loss, net of tax, on the effective component of the hedge is recorded in stockholders' equity (deficit) as accumulated other comprehensive income (loss). Gains or losses on cash flow hedges are recognized as an adjustment to royalty revenue in the same period that the hedged transaction impacts earnings as royalty revenue. Any gain or loss on the ineffective portions is reported in other income in the period the ineffectiveness occurs.

During the third quarter of 2012, we de-designated and terminated a portion of our cash flow hedges. The gain realized was reclassified from other comprehensive income (loss) to other income in the third quarter. See Note 6 for additional information on our foreign currency hedge transactions.

Revenue Recognition

Licensed Royalty Revenues

Under most of our patent license agreements, we receive royalty payments based upon our licensees' net sales of covered products. Generally, under these agreements we receive royalty reports from our licensees approximately one quarter in arrears, that is, generally in the second month of the quarter after the licensee has sold the royalty-bearing product. We recognize royalty revenues when we can reliably estimate such amounts and collectability is reasonably assured. As such, we generally recognize royalty revenues in the quarter reported to us by our licensees, that is, royalty revenues are generally recognized one quarter following the quarter in which sales by our licensees occurred. Under this accounting policy, the royalty revenues we report are not based upon our estimates and such royalty revenues are typically reported in the same period in which we receive payment from our licensees.

We may also receive annual maintenance fees from licensees of our Queen et al. patents prior to patent expiry as well as periodic milestone payments. We have no performance obligations with respect to such fees. Maintenance fees are recognized as they are due and when payment is reasonably assured. Total annual milestone payments in each of the last several years have been less than 1% of total revenue.

Acquired Royalty Revenues

We receive royalty payments based upon Depomed's licensees' net sales of covered products. Generally, under these agreement we receive royalty reports from Depomed approximately one month in arrears, that is, generally in the month after Depomed's licensee has sold the royalty-bearing product. We recognize royalty revenues when we can reliably estimate such amounts and collectability is reasonably assured. As such, we generally recognize royalty revenues in the month reported to us by Depomed, that is, royalty revenues are generally recognized one month following the month in which sales by Depomed's licensees occurred. Under this accounting policy, the royalty revenues we report are not based upon our estimates and such royalty revenues are typically reported in the same period in which we receive payment from Depomed licensees.

Comprehensive Income (Loss)

Comprehensive income (loss) comprises net income adjusted for other comprehensive income (loss), using the specific identification method, which includes the changes in unrealized gains and losses on cash flow hedges and changes in unrealized gains and losses on our investments in available-for-sale securities, all net of tax, which are excluded from our net income.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization were computed using the straight-line method over the following estimated useful lives:

Leasehold improvements	Shorter of asset life or term of lease
Computer and office equipment	3 years
Furniture and fixtures	7 years

3. Net Income per Share

	Year Ended December 31,		
(In thousands, except per share amounts)	**2013**	**2012**	**2011**
Numerator			
Net income	$ 264,530	$ 211,669	$ 199,389
Add back interest expense for convertible notes, net of estimated tax of $13,000, $25,000 and $3.0 million, for the years ended December 31, 2013, 2012 and 2011, respectively	25	46	5,544
Income used to compute net income per diluted share	$ 264,555	$ 211,715	$ 204,933
Denominator			
Total weighted-average shares used to compute net income per basic share	139,842	139,711	139,663
Effect of dilutive stock options	83	95	13
Restricted stock awards	20	17	25
Assumed conversion of Series 2012 notes	12,373	4,944	—
Assumed conversion of 2012 notes	—	—	9,790
Assumed conversion of February 2015 notes	106	631	27,950
Assumed conversion of May 2015 notes	6,919	1,005	—
Shares used to compute net income per diluted share	159,343	146,403	177,441
Net income per basic share	$ 1.89	$ 1.52	$ 1.43
Net income per diluted share	$ 1.66	$ 1.45	$ 1.15

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 stock options and restricted stock awards, our Series 2012 Notes and our May 2015 Notes on a weighted average basis for the period that the notes were outstanding, including the effect of adding back interest expense and the underlying shares using the if converted method. In the first quarter of 2012, $179.0 million aggregate principal of our February 2015 Notes was

exchanged for our Series 2012 Notes, and in the third quarter of 2013, $1.0 million aggregate principal of our February 2015 Notes was exchanged for our Series 2012 Notes, and the February 2015 Notes were retired.

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

We excluded from our calculations of net income per diluted share 21.1 million and 19.6 million shares for the years ended December 31, 2013 and 2012, respectively, for our warrants issued in 2011, because the exercise price of the warrants exceeded the average market price of our common stock and thus, for the periods presented, no stock was issuable upon conversion. These securities could be dilutive in future periods. Our purchased call options, issued in 2011, will always be anti-dilutive and therefore 24.8 million and 23.0 million shares were excluded from our calculations of net income per diluted share for the years ended December 31, 2013 and 2012, respectively, because they have no effect on diluted net income per share. For information related to the conversion rates on our convertible debt, see Note 13.

For the years ended December 31, 2013, 2012 and 2011, we excluded approximately 115,000, 157,000 and 193,000 shares, respectively, underlying outstanding stock options, and for the years ended December 31, 2013, 2012 and 2011, we excluded approximately zero, 1,000, and zero shares, respectively, underlying restricted stock awards, calculated on a weighted average basis, from our net income per diluted share calculations because their effect was anti-dilutive.

4. Fair Value Measurements

The fair value of our financial instruments are estimates of the amounts that would be received if we were to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date or exit price. The following table presents the fair value of our financial instruments measured at fair value on a recurring basis by level of input within the fair value hierarchy defined in Note 2:

	December 31, 2013			December 31, 2012		
(In thousands)	**Level 1**	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
Assets:						
Money market funds	$ 85,970	$ —	$ 85,970	$ 121,095	$ —	$ 121,095
Certificates of deposit	—	—	—	—	26,128	26,128
Corporate securities	—	5,238	5,238	—	—	—
Corporate debt securities	—	—	—	—	13,572	13,572
Total	$ 85,970	$ 5,238	$ 91,208	$ 121,095	$ 39,700	$ 160,795
Liabilities:						
Foreign currency hedge contracts	$ —	$ 8,871	$ 8,871	$ —	$ 7,581	$ 7,581

The fair value of the certificates of deposit is determined using quoted market prices for similar instruments and non-binding market prices that are corroborated by observable market data. At December 31, 2012, the certificates of deposit include a $20 million certificate of deposit that was restricted as it was purchased to collateralize the line of credit for Merus Labs; see Note 7.

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

Corporate debt securities consisted 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 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.

There have been no transfers between levels during the years ended December 31, 2013 and 2012. The Company recognizes transfers between levels on the date of the event or change in circumstances that caused the transfer.

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

	December 31, 2013			December 31, 2012		
	Carrying Value	Level 2	Level 3	Carrying Value	Level 2	Level 3
(In thousands)						
Assets:						
Wellstat Diagnostics note receivable	$ 47,694	$ —	$ 46,042	$ 41,098	$ —	$ 41,098
Merus Labs note receivable	—	—	—	30,000	30,000	—
AxoGen note receivable and embedded derivative	26,544	—	25,785	22,110	—	22,110
Avinger note receivable	20,250	—	19,061	—	—	—
LENSAR note receivable	39,572	—	39,572	—	—	—
Durata note receivable	24,995	—	24,995	—	—	—
Direct Flow Medical note receivable	34,799	—	34,799	—	—	—
Total	$ 193,854	$ —	$ 190,254	$ 93,208	$ 30,000	$ 63,208
Liabilities:						
Series 2012 Notes	$ 172,630	$ 277,650	$ —	$ 165,528	$ 227,187	$ —
May 2015 Notes	148,253	212,304	—	143,433	182,031	—
February 2015 Notes	—	—	—	991	1,269	—
Term loan	74,397	75,000	—	—	—	—
Total	$ 395,280	$ 564,954	$ —	$ 309,952	$ 410,487	$ —

As of December 31, 2013, the estimated fair value of our Wellstat Diagnostic note receivable, AxoGen note receivable, Avinger note receivable, LENSAR note receivable, Durata note receivable and Direct Flow Medical note receivable, and as of December 31, 2012, the estimated fair value of our Axogen note receivable and Merus Labs note receivable were determined using one or more discounted cash flow models, incorporating expected payments and the interest rate extended on the notes receivable with fixed interest rates and incorporating expected payments for notes receivable with a variable rate of return. In some instances the carrying values of certain notes receivable exceed their estimated fair market values. This is generally the result of discount rates used when performing a discounted cash flow for fair value valuation purposes. In all cases, the undiscounted expected future cash flows exceed the related carrying value.

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

The carrying value and estimated fair value of the AxoGen note receivable include the value of a change of control embedded derivative valued at $1.1 million and $0.6 million at December 31, 2013 and 2012, respectively. We utilized discounted cash flows and probability analysis to estimate the fair value of the embedded derivative.

On December 31, 2013, the estimated fair value of Wellstat was determined by using a discounted cash flow that was based upon expected income from estimated sales through December 31, 2016. Due to breach of the credit agreement as of December 31, 2012, as discussed in Note 7, we considered the estimated fair value of the collateral when estimating fair value of the note. The note is collateralized by all assets and equity interest in Wellstat Diagnostics. The estimated fair value of the collateral was determined by using a discounted cash flow analysis related to the underlying technology included in the collateral. The discounted cash flow was based upon expected income from sales of planned products over a period of 15 years. The terminal value was estimated using selected market multiples based on sales and EBITDA.

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

5. Cash, Cash Equivalents and Investments

As of December 31, 2013, we had invested our excess cash balances primarily in money market funds, certificates of deposit, and a corporate security, and in 2012, money market funds, certificates of deposit, and corporate debt securities. Our securities are classified as available-for-sale and are carried at estimated fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss) in stockholders' equity (deficit), net of estimated taxes. See Note 4 for fair value measurement information. The cost of securities sold is based on the specific identification method. To date, we have not experienced credit losses on investments in these instruments and we do not require collateral for our investment activities.

Summary of Cash and Available-For-Sale Securities	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Restricted Investment	Short-Term Investments
(In thousands)							
December 31, 2013							
Cash	$ 8,332	$ —	$ —	$ 8,332	$ 8,332	$ —	$ —
Money market funds	85,970	—	—	85,970	85,970	—	—
Corporate securities	3,500	1,738	—	5,238	—	—	5,238
Total	$ 97,802	$ 1,738	$ —	$ 99,540	$ 94,302	$ —	$ 5,238
December 31, 2012							
Cash	$ 7,894	$ —	$ —	$ 7,894	$ 7,894	$ —	$ —
Money market funds	121,095	—	—	121,095	121,095	—	—
Certificates of deposit	26,128	—	—	26,128	2,223	20,000	3,905
Corporate debt securities	13,562	10	—	13,572	—	—	13,572
Total	$ 168,679	$ 10	$ —	$ 168,689	$ 131,212	$ 20,000	$ 17,477

We recognized approximately zero and $13,000, respectively, of gains on sales of available-for-sale securities in the years ended December 31, 2013 and 2012. We did not recognize any gains or losses on sales of available-for-sale securities during 2011.

Cash and Available-For-Sale Securities by Contractual Maturity	December 31, 2013		December 31, 2012	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than one year	$ 97,802	$ 99,540	$ 168,679	$ 168,689
Greater than one year but less than five years	—	—	—	—
Total	$ 97,802	$ 99,540	$ 168,679	$ 168,689

The unrealized gain on investments included in other comprehensive income (loss), net of estimated taxes, was approximately $1,129,000 and $7,000 as of December 31, 2013 and 2012, respectively.

6. Foreign Currency Hedging

We designate the foreign currency exchange contracts used to hedge our royalty revenues based on underlying Euro-denominated sales as cash flow hedges. Euro forward contracts are presented on a net basis on our Consolidated Balance Sheets as we have entered into a netting arrangement with the counterparty. As of December 31, 2013 and 2012, all outstanding Euro forward contracts and option contracts were classified as cash flow hedges.

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

During the third quarter of 2012, we reduced our forecasted exposure to the Euro for 2013 royalties. We de-designated and terminated certain forward contracts, due to our determination that certain cash flows under the de-designated contracts were not probable to occur, and recorded a gain of approximately $391,000 to interest and other income, net, which was reclassified from other comprehensive income (loss) net of tax effects. The termination of these contracts was effected through a reduction in the notional amount of the original hedge contracts.

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

Euro Forward Contracts			**December 31, 2013**		**December 31, 2012**	
			(In thousands)		***(In thousands)***	
Currency	**Settlement Price ($ per Euro)**	**Type**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Euro	1.230	Sell Euro	$ —	$ —	$ 27,553	$ (2,036)
Euro	1.240	Sell Euro	10,850	(1,207)	10,850	(726)
Euro	1.270	Sell Euro	44,450	(3,760)	44,450	(1,950)
Euro	1.281	Sell Euro	36,814	(2,785)	36,814	(1,331)
Euro	1.300	Sell Euro	19,500	(1,119)	91,000	(1,538)
Total			$ 111,614	$ (8,871)	$ 210,667	$ (7,581)

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

		December 31,	
Cash Flow Hedge	**Location**	**2013**	**2012**
(In thousands)			
Euro contracts	Accrued liabilities	$ 7,355	$ 3,574
Euro contracts	Other long-term liabilities	$ 1,516	$ 4,007

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

	Year Ended December 31,		
	2013	**2012**	**2011**
(In thousands)			
Net gain (loss) recognized in OCI, net of tax [1]	$ (2,432)	$ (5,040)	$ (4,470)
Gain (loss) reclassified from accumulated OCI into royalty revenue, net of tax [2]	$ (1,510)	$ (1,859)	$ 664
Net gain (loss) recognized in interest and other income, net -- cash flow hedges [3]	$ 11	$ (169)	$ (19)
Net gain recognized in interest and other income, net -- non-designated contracts [4]	$ —	$ 391	$ —

(1) Net change in the fair value of the effective portion of cash flow hedges classified in other comprehensive income (loss) (OCI)

(2) Effective portion classified as royalty revenue

(3) Ineffectiveness from excess hedge was approximately ($11), $8 and $19 for the years ended December 31, 2013, 2012 and 2011, respectively. Net loss from restructuring hedges was approximately zero, $161 and zero for the years ended December 31, 2013, 2012 and 2011, respectively

(4) Gain on de-designation classified as interest and other income, net

A loss of approximately $4.8 million, net of tax, is expected to be reclassified from other comprehensive income (loss) against earnings in the next 12 months.

7. Notes and Other Long-term Receivables

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

Wellstat Diagnostics Note Receivable and Credit Agreement

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

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

In January 2013, the Company was informed that, as of November 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. PDL sent Wellstat Diagnostics a notice of default on January 22, 2013, and accelerated the amounts owed under the credit agreement. In connection with the notice of default, PDL exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to PDL and applied the funds to amounts due under the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby PDL agreed to refrain from exercising additional remedies for 120 days while Wellstat Diagnostics raised funds to capitalize the business and the parties attempted to negotiate a revised credit agreement. PDL agreed to provide up to $7.9 million to Wellstat Diagnostics to fund the business for the 120-day forbearance period under the terms of the forbearance agreement. Following the conclusion of the June 28 forbearance period, the Company agreed to forbear in its exercise of remedies for additional periods of time to allow the owners and affiliates of Wellstat Diagnostics to complete a pending financing transaction. During such forbearance period, the Company provided approximately $1.3 million to Wellstat Diagnostics to fund ongoing operations of the business. During the year ended December 31, 2013, approximately $8.7 million was advanced pursuant to the forbearance agreement.

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

Except as otherwise described here, the material terms of the amended credit agreement are substantially the same as those of the original credit agreement, including quarterly interest payments at the rate of 5% per annum (payable in cash or in kind). In addition, PDL will receive quarterly royalty payments based on a low double digit royalty rate of Wellstat Diagnostics' net revenues upon successful commercialization. However, pursuant to the amended credit agreement: (i) the principal amount was reset to approximately $44.1 million which was comprised of approximately $33.7 million original loan principal and interest, $1.3 million term loan principal and interest and $9.1 million forbearance principal and interest; (ii) the specified internal rates of return increased; (iii) the default interest rate was increased; (iv) Wellstat Diagnostics' obligation to provide certain financial information increased in frequency to monthly; (v) internal financial controls were strengthened by requiring Wellstat Diagnostics to maintain an independent, third-party financial professional with control over fund disbursements; (vi) the Company waived the existing events of default; and (vii) the owners and affiliates of Wellstat Diagnostics are required to contribute additional capital to Wellstat Diagnostics upon the sale, if any, of an affiliated entity. The restated credit agreement continues to have an ultimate maturity date of December 31, 2021 (but may mature earlier upon certain specified events).

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

Wellstat Diagnostics may prepay the amended credit agreement at a price that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company. In the event of a change of control, bankruptcy or certain other customary events of defaults, or Wellstat Diagnostics' failure to achieve a specified annual revenue

threshold in 2017, Wellstat Diagnostics will be required to prepay the amended credit agreement at a price that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company. The amended credit agreement is secured by a pledge of all of the assets of Wellstat Diagnostics, a pledge of all of Wellstat Diagnostics' equity interests by the holders thereof, and a second lien on the assets of the affiliates of Wellstat Diagnostics.

At December 31, 2013, and 2012, the carrying value of the note was included in non-current assets.

As of December 31, 2013, the Company determined that its interest in Wellstat Diagnostics represented a variable interest in a Variable Interest Entity since Wellstat Diagnostics' equity was not sufficient to finance its operations without amounts advanced to it under the Company's note and forbearance agreement. However, the Company does not have the power to direct the activities of Wellstat Diagnostics that most significantly impacts Wellstat Diagnostics's economic performance and is not the primary beneficiary of Wellstat Diagnostics; therefore, Wellstat Diagnostics is not subject to consolidation.

As of December 31, 2013, the carrying value of all amounts advanced to Wellstat Diagnostics was $47.7 million, which was recorded in notes receivable. As of December 31, 2013, the maximum loss exposure was $47.7 million.

Merus Labs Note Receivable and Credit Agreement

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

Outstanding borrowings under the July 2012 loan bore interest at the rate of 13.5% per annum and outstanding borrowings as a result of the draw on the letter of credit bore interest at the rate of 14.0% per annum. Merus Labs was required to make four periodic principal payments in respect of the July 2012 loan, with repayment of the remaining principal balance of all loans due on March 31, 2015. The borrowings were subject to mandatory prepayments upon certain asset dispositions or debt issuances as set forth in the credit agreement. Merus Labs made the first of these payments in December 2012 in the amount of $5.0 million, and made the second payment in June 2013 in the amount of $7.5 million. In September 2013, Merus Labs made two additional payments totaling $43.3 million, including the prepayment fee, in order to pay its remaining outstanding balance.

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

AxoGen Royalty Agreement

In October 2012, PDL entered into the Royalty Agreement with AxoGen pursuant to which the Company will receive specified royalties on AxoGen's net revenues (as defined in the Royalty Agreement) generated by the sale, distribution or other use of AxoGen's products (assigned interests). The Royalty Agreement has an eight years term and provides PDL with royalties of 9.95% based on AxoGen net revenues, subject to agreed-upon guaranteed quarterly minimum payments of approximately $1.3 to $2.5 million beginning in the fourth quarter of 2014, and the right to require AxoGen to repurchase the Royalty Agreement at the end of the fourth year. AxoGen has been granted certain rights to call the contract in years five through eight. The total consideration PDL paid to AxoGen for the assigned interests was $20.8 million, including the termination of an interim funding of $1.8 million in August 2012. AxoGen was required to use a portion of the proceeds from the Royalty Agreement to pay the outstanding balance under its existing credit facility with a third party. The royalty rights are secured by the cash and accounts receivable of AxoGen.

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

In the event of a change of control, AxoGen must repurchase the assigned interests from the Company for a repurchase price equal to an amount that, together with payments already made by AxoGen, would generate a 32.5% internal rate of return to the Company. The Company has concluded that the change of control provision is an embedded derivative that should be bifurcated

and separately recorded at its estimated fair value. The estimated fair value of the change of control provision was approximately $1.1 million and $0.6 million as of December 31, 2013, and December 31, 2012, respectively. The estimated fair value of this embedded derivative is included in the carrying value of the AxoGen Note Receivable. The Company recognized approximately $0.5 million related to the change in the estimated fair value of embedded derivative during the year ended December 31, 2013.

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

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

On August 14, 2013, PDL purchased 1,166,666 shares of AXGN at $3.00 per share, totaling $3.5 million. The shares are classified as available-for-sale and recorded as short term investments on the consolidated balance sheet. As of December 31, 2013, the shares were valued at $5.2 million, which results in an unrealized gain of $1.7 million and is recorded in other comprehensive income (loss).

Avinger Note Receivable and Royalty Agreement

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

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

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

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

LENSAR Credit Agreement

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

Principal repayment will commence on the thirteenth interest payment date or December 30, 2016. The principal amount outstanding at the commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on October 1, 2018. LENSAR may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The loans are secured by all of the assets of LENSAR.

Durata Credit Agreement

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

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

Direct Flow Credit Agreement

On November 5, 2013, PDL entered into a credit agreement with Direct Flow Medical, in which PDL will provide up to $50.0 million to Direct Flow Medical. Of the $50.0 million available to Direct Flow Medical, an initial $35.0 million (tranche one), net of fees, was provided by the Company at the close of the transaction. Upon the attainment of a specified revenue milestone to be accomplished no later than December 31, 2014 (the tranche two milestone), the Company will loan to Direct Flow Medical an additional $15.0 million, net of fees. Until the occurrence of the tranche two milestone, outstanding borrowings under tranche one bear interest at the rate of 15.5% per annum, payable quarterly in arrears. Upon occurrence of the tranche two milestone, the interest rate of the loans will decrease to 13.5%.

Principal repayment will commence on the twelfth interest payment date, September 30, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on November 5, 2018. Direct Flow Medical may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Direct Flow Medical and any of its subsidiaries.

For carrying value and fair value information related to our Notes and Other Long-term Receivables, see Note 4.

8. Prepaid and Other Current Assets

	December 31,	
(In thousands)	**2013**	**2012**
Convertible notes issuance costs	$ 3,097	$ —
Prepaid income taxes	1,877	3,351
Other	2,493	1,462
Total	$ 7,467	$ 4,813

During the year ended December 31, 2013, the convertible notes issuance costs were reclassified from non-current to current as the notes will be due upon demand during 2014. See Note 13.

9. Property and Equipment

(In thousands)	December 31, 2013	December 31, 2012
Leasehold improvements	$ 127	$ 127
Computer and office equipment	9,028	8,993
Furniture and fixtures	38	38
Total	9,193	9,158
Less accumulated depreciation and amortization	(9,152)	(9,131)
Construction in progress	—	32
Property and equipment, net	$ 41	$ 59

10. Intangible Assets

Depomed Royalty Purchase and Sales Agreement

On October 18, 2013, PDL entered into a royalty purchase and sale agreement with Depomed, Inc. and Depo DR Sub, LLC, a wholly owned subsidiary of Depomed, whereby the Company acquired the rights to receive royalties and milestones payable on sales of Type 2 diabetes products licensed by Depomed in exchange for a $240.5 million cash payment. Total arrangement consideration was $241.3 million which was comprised of the $240.5 million cash payment to Depomed and $0.8 million in transaction costs.

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

Under the terms of the royalty agreement, the Company will receive all royalty and milestone payments due under license agreements between Depomed and its licensees until the Company has received payments equal to two times the cash payment it made to Depomed, after which all net payments received by Depomed will be shared evenly between the Company and Depomed.

The royalty agreement terminates on the third anniversary following the date upon which the later of the following occurs: (a) October 25, 2021, or (b) at such time as no royalty payments remain payable under any license agreement and each of the license agreements has expired by its terms.

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

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

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

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

(In thousands)	December 31, 2013		
(in thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Definite lived intangible assets	$ 241,314	$ (5,637)	$ 235,677

Amortization expense related to the acquired intangible assets was $5.6 million for the year ended December 31, 2013. As of December 31, 2013, the remaining weighted-average amortization period for acquired intangible asset is 8.0 years. The expected annual amortization expense related to the acquired intangible assets is as follows for the years ended December 31, (in thousands):

2014	$ 33,880
2015	44,940
2016	33,184
2017	19,028
2018	18,096
Thereafter	86,549
Total	$ 235,677

On October 18, 2013 and as of December 31, 2013, the Company determined that its royalty purchase interest in Depo DR Sub, LLC represented a variable interest in a variable interest entity since the equity in Depo DR Sub, LLC was not sufficient to finance its operations without additional financing. However, the Company does not have the power to direct the activities of
Depo DR Sub, LLC that most significantly impacts the Depo DR Sub, LLC's economic performance and is not the primary beneficiary of Depo DR Sub, LLC therefore, it is not subject to consolidation by the Company.

11. Accrued Liabilities

	December 31,	
(In thousands)	**2013**	**2012**
Compensation	$ 768	$ 594
Interest	2,925	2,925
Foreign currency hedge	7,355	3,574
Dividend payable	59	53
Legal	324	2,020
Other	426	234
Total	$ 11,857	$ 9,400

12. Commitments and Contingencies

Operating Leases

We currently occupy a leased facility in Incline Village, Nevada, with a lease term through May 2014. We also lease certain office equipment under operating leases. Rental expense under these arrangements totaled $0.2 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Future minimum operating lease payments for the years ended December 31, were as follows:

(In thousands)	
2014	$ 102
2015	16
2016	16
Total	$ 134

13. Convertible Notes, Non-recourse Notes and Term Loans

Convertible, Non-recourse Notes, and Term Loan activity for the years ended December 31, 2013 and 2012:

(In thousands)	Series 2012 Notes	May 2015 Notes	February 2015 Notes	Non-recourse Notes	Term Loan	Total
Balance at December 31, 2011	$ —	$ 138,952	$ 177,663	$ 93,370	$ —	$ 409,985
Issuance and exchange	176,679	—	(176,679)	—	—	—
Payment	—	—	—	(93,370)	—	(93,370)
Non-cash discount	(16,833)	—	—	—	—	(16,833)
Discount amortization	5,682	4,481	7	—	—	10,170
Balance at December 31, 2012	165,528	143,433	991	—	—	309,952
Issuance and exchange	1,000	—	(1,000)	—	75,000	75,000
Non-cash discount	—	—	—	—	(831)	(831)
Discount amortization	6,102	4,820	9	—	228	11,159
Balance at December 31, 2013	$ 172,630	$ 148,253	$ —	$ —	$ 74,397	$ 395,280

Series 2012 Notes

In January 2012, we exchanged $169.0 million aggregate principal of new Series 2012 Notes for an identical principal amount of our February 2015 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered, totaling approximately $845,000. The cash incentive payment was allocated to deferred issue costs of $765,000, additional paid-in capital of $52,000 and deferred tax assets of $28,000. The deferred issue costs will be recognized over the life of the Series 2012 Notes as interest expense. In February 2012, we entered into separate privately negotiated exchange agreements under which we exchanged an additional $10.0 million aggregate principal amount of the new Series 2012 Notes for an identical principal amount of our February 2015 Notes. In August 2013, the Company entered into a separate privately negotiated exchange agreement under which it retired the final $1.0 million aggregate principal amount of the Company's outstanding February 2015 Notes. Pursuant to the exchange agreement, the holder of the February 2015 Notes received $1.0 million aggregate principal amount of the Company's Series 2012 Notes. Immediately following the exchange, no principal amount of the February 2015 Notes remained outstanding and $180.0 million principal amount of the Series 2012 Notes is outstanding.

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

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

- During any fiscal quarter commencing after the fiscal quarter ending December 31, 2011, if the closing price of the Company’s common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price for the Series 2012 Notes on the last day of such preceding fiscal quarter;
- During the five business-day period immediately after any five consecutive trading-day period in which the trading price per $1,000 principal amount of the Series 2012 Notes for each trading day of that measurement period was less than 98%

of the product of the closing price of the Company's common stock and the conversion rate for the Series 2012 Notes for that trading day;

- Upon the occurrence of certain corporate transactions as provided in the indenture; or
- Anytime, at the holder's option, beginning on August 15, 2014.

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

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

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

	December 31,	
(In thousands)	**2013**	**2012**
Principal amount of the Series 2012 Notes	$ 180,000	$ 179,000
Unamortized discount of liability component	(7,370)	(13,472)
Net carrying value of the Series 2012 Notes	$ 172,630	$ 165,528

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

	Year ended December 31,		
(In thousands)	**2013**	**2012**	**2011**
Contractual coupon interest	$ 5,158	$ 5,122	$ —
Amortization of debt issuance costs	1,152	1,107	—
Amortization of debt discount	6,102	5,682	—
Total	$ 12,412	$ 11,911	$ —

As of December 31, 2013, our Series 2012 Notes are convertible into 182.598 shares of the Company's common stock per $1,000 of principal amount, or approximately $5.48 per common share, subject to further adjustment upon certain events including dividend payments. As of December 31, 2013, the remaining discount amortization period was 1.1 years.

Our common stock exceeded the conversion threshold price of $7.23 per common share for at least 20 days during the 30 consecutive trading days ended September 30, 2013; accordingly, the Series 2012 Notes were convertible at the option of the holder during the quarter ended December 31, 2013. Our common stock price exceeded the conversion threshold price of $7.12 per common share for at least 20 days during the 30 consecutive trading days ended December 31, 2013; accordingly, the Series 2012 Notes are convertible at the option of the holder during the quarter ending March 31, 2014. The Series 2012 Notes have been classified as current as the notes will be due upon demand within one year of the year ended December 31, 2013. At December 31, 2013, the if-converted value of our Series 2012 Notes exceeded their principal amount by approximately $97.4 million.

See Note 21 for subsequent event transactions related to convertible notes.

May 2015 Notes

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

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

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

In accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we were required to separately account for the liability component of the instrument in a manner that reflects the market interest rate for a similar nonconvertible instrument at the date of issuance. As a result, we separated the principal balance of our May 2015 Notes between the fair value of the debt component and the fair value of the common stock conversion feature. Using an assumed borrowing rate of 7.5%, which represents the estimated market interest rate for a similar nonconvertible instrument available to us on the date of issuance, we recorded a total debt discount of $18.9 million, allocated $12.3 million to additional paid-in capital and allocated $6.6 million to deferred tax liability. The discount is being amortized to interest expense over the term of our May 2015 Notes and increases interest expense during the term of our May 2015 Notes from the 3.75% cash coupon interest rate to an effective interest rate of 7.5%. As of December 31, 2013, the remaining discount amortization period is 1.3 years.

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

	December 31,	
(In thousands)	**2013**	**2012**
Principal amount of the May 2015 Notes	$ 155,250	$ 155,250
Unamortized discount of liability component	(6,997)	(11,817)
Net carrying value of the May 2015 Notes	$ 148,253	$ 143,433

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

	Year Ended December 31,		
(In thousands)	**2013**	**2012**	**2011**
Contractual coupon interest	$ 5,822	$ 5,822	$ 3,639
Amortization of debt issuance costs	1,232	1,193	727
Amortization of debt discount	4,820	4,481	2,639
Total	$ 11,874	$ 11,496	$ 7,005

As of December 31, 2013, our May 2015 Notes are convertible into 159.9165 shares of the Company’s common stock per $1,000 of principal amount, or approximately $6.25 per common share, subject to further adjustment upon certain events including dividend payments.

Our common stock did not exceed the conversion threshold price of $8.26 for at least 20 days during the 30 consecutive trading days ended September 30, 2013; accordingly, the May 2015 Notes were not convertible at the option of the holder during the quarter ended December 31, 2013. Our common stock price did exceed the conversion threshold price of $8.13 per common share for at least 20 days during the 30 consecutive trading days ended December 31, 2013; accordingly, the May 2015 Notes are convertible at the option of the holder during the quarter ending March 31, 2014. The May 2015 Notes have been classified as current as the notes will be due upon demand within one year of the year ended December 31, 2013. At December 31, 2013, the if-converted value of our May 2015 exceeded their principal amount by approximately $54.3 million.

Purchased Call Options and Warrants

In connection with the issuance of our May 2015 Notes, we entered into purchased call option transactions with two hedge counterparties. We paid an aggregate amount of $20.8 million, plus legal fees, for the purchased call options with terms substantially similar to the embedded conversion options in our May 2015 Notes. The purchased call options cover, subject to anti-dilution and certain other customary adjustments substantially similar to those in our May 2015 Notes, approximately 24.8 million shares of our common stock. We may exercise the purchased call options upon conversion of our May 2015 Notes and require the hedge counterparty to deliver shares to the Company in an amount equal to the shares required to be delivered by the Company to the note holder for the excess conversion value. The purchased call options expire on May 1, 2015, or the last day any of our May 2015 Notes remain outstanding.

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

The purchased call option transactions and warrant sales effectively serve to reduce the potential dilution associated with conversion of our May 2015 Notes. The strike prices are approximately $6.25 and $7.50, subject to further adjustment upon certain events including dividend payments, for the purchased call options and warrants, respectively.

If the share price is above $6.25, but below $7.50, upon conversion of our May 2015 Notes, the purchased call options will offset the share dilution, because the Company will receive shares on exercise of the purchased call options equal to the shares that the Company must deliver to the note holders. If the share price is above $7.50, upon exercise of the warrants, the Company will deliver shares to the counterparties in an amount equal to the excess of the share price over $7.50. For example, a 10% increase in the share price above $7.50 would result in the issuance of 1.9 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 December 31, 2013, and 2012, there were no related purchased call options or warrants exercised.

The purchased call options and warrants are considered indexed to PDL stock, require net-share settlement, and met all criteria for equity classification at inception and at December 31, 2013, and 2012. The purchased call options cost, including legal fees, of $20.8 million, less deferred taxes of $7.2 million, and the $10.9 million received for the warrants, was recorded as adjustments to additional paid-in capital. Subsequent changes in fair value will not be recognized as long as the purchased call options and warrants continue to meet the criteria for equity classification.

February 2015 Notes

On November 1, 2010, we completed an exchange of $92.0 million in aggregate principal of our 2012 Notes in separate, privately negotiated transactions with the note holders. In the exchange transactions, the note holders received $92.0 million in aggregate principal of our February 2015 Notes, and we recorded a net gain of $1.1 million. As part of the transaction, we placed an additional $88.0 million in aggregate principal of our February 2015 Notes. In January 2012, we completed an exchange transaction where we exchanged and subsequently retired approximately $169.0 million aggregate principal amount of our

February 2015 Notes for approximately $169.0 million aggregate 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. In February 2012, we entered into separate privately negotiated exchange agreements under which we retired an additional $10.0 million aggregate principal amount of our February 2015 Notes for $10.0 million aggregate principal amount of our Series 2012 Notes. In August 2013, the Company entered into a separate privately negotiated exchange agreement under which it retired the final $1.0 million aggregate principal amount of the Company's outstanding February 2015 Notes. Pursuant to the exchange agreement, the holder of the February 2015 Notes received $1.0 million aggregate principal amount of the Company's Series 2012 Notes. Immediately following the exchange, no principal amount of the February 2015 Notes remained outstanding. Our February 2015 Notes bore interest at 2.875% per annum.

Non-recourse Notes Retirement

In November 2009, we completed a $300.0 million securitization transaction in which we monetized 60% of the net present value of the estimated 5 years royalties from sales of Genentech products including Avastin®, Herceptin®, Lucentis®, Xolair® and future products, if any, under which Genentech may take a license under our related agreements with Genentech. Our QHP PhaRMA℠ Senior Secured Notes due 2015 bore interest at 10.25% per annum and were issued in a non-registered offering by QHP, a Delaware limited liability company, and a newly formed, wholly-owned subsidiary of PDL. Concurrent with the securitization transaction and under the terms of a purchase and sale agreement, we sold, transferred, conveyed, assigned, contributed and granted to QHP, certain rights under our non-exclusive license agreements with Genentech including the right to receive the Genentech Royalties in exchange for QHP's proceeds from our Non-recourse Notes issuance. As of December 31, 2012, there was no remaining balance on our Non-recourse Notes, as they were fully repaid and retired on September 17, 2012. The indenture has ceased to be of further effect and all of the security interests in the collateral have terminated, including the pledge by PDL to the trustee of its equity interest in QHP. There are no further restrictions on the Genentech Royalties.

Term Loan

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

The interest rates per annum applicable to amounts outstanding under the Term Loan are, at the Company's option, either (a) the base rate plus 1.00%, or (b) the Eurodollar rate plus 2.00% per annum. As of December 31, 2013, the interest rate was 2.24%. Interest and principal payments associated with the Term Loan are due on the interest payment dates of January 31, April 30, and July 31 of 2014, with the remaining outstanding balance due on October 28, 2014.

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

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

As of December 31, 2013 and 2012, PDL was in compliance with all applicable debt covenants.

As of December 31, 2013, the future minimum principal payments under our Series 2012 Notes, May 2015 Notes and Term Loan were:

(In thousands)	Series 2012 Notes	May 2015 Notes	Term Loan	Total
2014	$ —	$ —	$ 75,000	$ 75,000
2015	180,000	155,250	—	335,250
Total	$ 180,000	$ 155,250	$ 75,000	$ 410,250

14. Other Long-Term Liabilities

	December 31,	
(In thousands)	**2013**	**2012**
Accrued lease liability	$ 10,700	$ 10,700
Uncertain tax position	10,826	12,955
Foreign currency hedge	1,516	4,007
Total	$ 23,042	$ 27,662

In connection with the Spin-Off, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. Should Facet default under its lease obligations, we could be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of December 31, 2013, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $90.2 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. We have recorded a liability of $10.7 million on our Condensed Consolidated Balance Sheets as of December 31, 2013, and 2012, related to this guarantee.

15. Stock-Based Compensation

We recognize compensation expense using a fair-value based method for costs associated with all share-based awards issued to our directors, employees and outside consultants under our stock plan. The value of the portion of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service periods in our Consolidated Statements of Income.

We have adopted the simplified method to calculate the beginning balance of the additional paid-in capital pool of the excess tax benefit and to determine the subsequent effect on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee stock-based compensation awards that were outstanding upon our adoption.

We calculate stock-based compensation expense based on the number of awards ultimately expected to vest, net of estimated forfeitures. We estimate forfeiture rates at the time of grant and revise such rates, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The stock-based compensation expense was determined using the Black-Scholes option valuation model.

Stock-based compensation expense for employees and directors and non-employees for the years ended December 31, 2013, 2012 and 2011, is presented below:

	Year Ended December 31,		
Stock-based Compensation	**2013**	**2012**	**2011**
(In thousands)			
Employees and directors	$ 655	$ 650	$ 337
Non-employees	217	287	50
Total	$ 872	$ 937	$ 387

Stock-Based Incentive Plans

We currently have one active stock-based incentive plan under which we may grant stock-based awards to our employees, directors and non-employees.

The total number of shares of common stock authorized for issuance, shares of common stock issued upon exercise of options or grant of restricted stock, shares of common stock subject to outstanding awards and available for grant under this plan as of December 31, 2013, is as follows:

Title of Plan	Total Shares of Common Stock Authorized	Total Shares of Common Stock Issued	Total Shares of Common Stock Subject to Outstanding Awards	Total Shares of Common Stock Available for Grant
2005 Equity Incentive Plan[1]	5,200,000	722,335	—	4,477,665
2002 Outside Directors Stock Option Plan[2]	157,000	140,750	16,250	—
1999 Non-statutory Stock Option Plan[2]	5,071,183	4,966,183	105,000	—
1999 Stock Option Plan[2]	3,704,376	3,653,150	51,226	—

(1) As of December 31, 2013, there were 113,882 shares of unvested restricted stock awards outstanding.
(2) Plan terminated in 2009, subject to options outstanding under the plan.

Under our 2005 Equity Incentive Plan, we are authorized to issue a variety of incentive awards, including stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance share and performance unit awards, deferred compensation awards and other stock-based or cash-based awards.

In 2009, our Compensation Committee terminated the 1991 Nonstatutory Stock Option Plan. Additionally our Compensation Committee terminated the 1999 Outside Director Stock Option Plan, the 1999 Nonstatutory Stock Option Plan and the 2002 Outside Directors Stock Option Plan, subject to any outstanding options. Also in June 2009, our stockholders approved amendments to the Company's 2005 Equity Incentive Plan to expand persons eligible to participate in the plan to include our outside directors.

Stock Option Activity

A summary of our stock option activity is presented below:

	2013		2012		2011	
	Number of shares (in thousands)	Weighted-Average Exercise Price	Number of shares (in thousands)	Weighted-Average Exercise Price	Number of shares (in thousands)	Weighted-Average Exercise Price
Outstanding at beginning of year	196	$ 16.22	231	$ 16.62	274	$ 17.25
Expired	(24)	$ 14.07	(35)	$ 18.83	(43)	$ 20.67
Outstanding at end of year	172	$ 16.52	196	$ 16.22	231	$ 16.62
Exercisable at end of year	172	$ 16.52	196	$ 16.22	231	$ 16.62

As of December 31, 2013, the aggregate intrinsic value of our outstanding and exercisable stock options was $0.2 million and the weighted-average remaining contractual life was 0.8 years. The aggregate intrinsic value represents the total pre-tax intrinsic value, based on the closing prices of our common stock of $8.44 on December 31, 2013, which would have been received by the option holders had option holders exercised their options as of that date. All stock options were fully vested as of 2010 and at December 31, 2013, had a range of exercise price of $5.41 to $22.60.

Restricted Stock

Restricted stock has the same rights as other issued and outstanding shares of the Company's common stock, including, in some cases, the right to accrue dividends, which are held in escrow until the award vests. The compensation expense related to these awards is determined using the fair market value of the Company's common stock on the date of the grant, and the compensation expense is recognized ratably over the vesting period. Restricted stock awards typically vest over twelve to twenty-four months. In addition to service requirements, vesting of restricted stock awards may be subject to the achievement of specified performance goals set by the Compensation Committee of the Company's Board of Directors. If the performance goals are not met, no compensation expense is recognized and any previously recognized compensation expense is reversed.

A summary of our restricted stock activity is presented below:

	2013		2012		2011	
	Number of shares (in thousands)	Weighted-average grant-date fair value per share	Number of shares (in thousands)	Weighted-average grant-date fair value per share	Number of shares (in thousands)	Weighted- average grant-date fair value per share
Nonvested at beginning of year	120	$ 6.51	137	$ 6.09	40	$ 5.05
Awards granted	127	$ 7.50	139	$ 6.49	155	$ 6.15
Awards vested	(118)	$ 6.59	(137)	$ 6.09	(40)	$ 5.05
Forfeited	(15)	$ 7.07	(19)	$ 6.35	(18)	$ 6.59
Nonvested at end of year	114	$ 7.45	120	$ 6.51	137	$ 6.09

Stock-based compensation expense associated with our restricted stock for the years ended December 31, 2013, 2012 and 2011, was $0.9 million, $0.9 million and $0.4 million, respectively. As of December 31, 2013, the aggregate intrinsic value of non-vested restricted stock was $1.0 million. Total unrecognized compensation costs associated with non-vested restricted stock as of December 31, 2013, was $0.4 million, excluding forfeitures, which we expect to recognize over a weighted-average period of 10 months.

16. Cash Dividends

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

On January 23, 2013, our board of directors declared a regular quarterly dividend of $0.15 per share of common stock, which were paid on March 12, June 12, September 12 and December 12 of 2013 to stockholders of record on March 5, June 5, September 5 and December 5 of 2013, the record dates for each of the dividend payments, respectively. We paid $84.0 million in dividends in 2013.

On January 18, 2012, our board of directors declared regular quarterly dividends of $0.15 per share of common stock, which were paid 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. We paid $83.9 million in dividends in 2012.

On February 25, 2011, our board of directors declared regular quarterly dividends of $0.15 per share of common stock, which were paid on March 15, June 15, September 15 and December 15 of 2011 to stockholders of record on March 8, June 8, September 8 and December 8 of 2011, the record dates for each of the dividend payment dates, respectively. We paid $83.8 million in dividends in 2011.

17. Customer Concentration

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

	Year Ended December 31,		
	2013	2012	2011
Licensees			
Genentech	83%	85%	86%
Biogen Idec[1]	11%	13%	12%

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

Total revenues by geographic area are based on the country of domicile of the counterparty to the agreement:

	Year Ended December 31,		
(In thousands)	**2013**	**2012**	**2011**
United States	$ 165,412	$ 133,824	$ 137,269
Europe	277,434	240,626	224,472
Other	75	75	300
Total revenues	$ 442,921	$ 374,525	$ 362,041

18. Income Taxes

The provision for income taxes for the years ended December 31, 2013, 2012 and 2011 consisted of the following:

	Year Ended December 31,		
(In thousands)	**2013**	**2012**	**2011**
Current income tax expense			
Federal	$ 134,619	$ 104,152	$ 83,569
State	3,726	1	1
Total current	138,345	104,153	83,570
Deferred income tax expense (benefit)			
Federal	(416)	11,311	24,469
State	(583)	—	—
Total deferred	(999)	11,311	24,469
Total provision	$ 137,346	$ 115,464	$ 108,039

A reconciliation of the income tax provision computed using the U.S. statutory federal income tax rate compared to the income tax provision for income included in the Consolidated Statements of Income is as follows:

	Year Ended December 31,		
(In thousands)	**2013**	**2012**	**2011**
Tax at U.S. statutory rate on income before income taxes	$ 140,656	$ 114,496	$ 107,600
Change in valuation allowance	(2,055)	—	—
State taxes	1	1	1
Change in uncertain tax positions	(2,082)	—	—
Other	826	967	438
Total	$ 137,346	$ 115,464	$ 108,039

Deferred tax assets and liabilities are determined based on the differences between financial reporting and income tax bases of assets and liabilities, as well as net operating loss carryforwards and are measured using the enacted tax rates and laws in effect when the differences are expected to reverse. The significant components of our net deferred tax assets and liabilities are as follows:

	December 31,	
(In thousands)	**2013**	**2012**
Deferred tax assets:		
Net operating loss carryforwards	$ 6,063	$ 6,686
Research and other tax credits	2,259	15,205
Intangible assets	3,559	5,487
Stock-based compensation	215	222
Accruals	255	229
Debt modifications	330	—
Unrealized losses on foreign currency hedge contracts	2,632	2,740
Other	47	227
Total deferred tax assets	15,360	30,796
Valuation allowance	(5,390)	(20,392)
Total deferred tax assets, net of valuation allowance	9,970	10,404
Deferred tax liabilities:		
Deferred gain on repurchase of convertible notes	(953)	(954)
Debt modifications	(1,779)	(3,285)
Other	(161)	—
Total deferred tax liabilities	(2,893)	(4,239)
Net deferred tax assets	$ 7,077	$ 6,165

As of December 31, 2013 and 2012, we had federal net operating loss carryforwards of $39.4 million and $41.1 million, respectively. We also had California net operating loss carryforwards of $215.5 million as of December 31, 2013 and 2012. The federal net operating loss carryforwards will expire in the year 2023 and the California net operating loss carryforwards will expire between 2014 and 2019, if not utilized. As of December 31, 2013 and 2012, we had $20.0 million of state tax credit carryforwards that do not expire and can be carried forward indefinitely. The net operating loss carryforwards and tax credit carryforwards which resulted from exercises of stock options were not recorded on the Consolidated Balance Sheet.

Utilization of the federal and state net operating loss and tax credit carryforwards may be subject to a substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986. The annual limitation may result in the expiration of net operating losses and credits before utilization. We have an annual limitation on the utilization of our federal operating losses of $1.8 million for each of the years ending December 31, 2014 to 2022, and $1.3 million for the year ending December 31, 2023. As of December 31, 2013, we estimate that at least $22.0 million of the $39.4 million of federal net operating loss carryforwards and $18.7 million of the $215.5 million state net operating losses will expire unutilized.

During 2013, as a result of changes in our business model and increased forecasted earnings, we determined that it was more likely than not that certain net operating losses, tax credits and other deferred tax assets would be realized in the near future. As a result, our valuation allowance against deferred tax assets was decreased by $15 million. We continue to believe it is more likely than not that the benefit from certain net operating losses and deferred tax assets will not be realized in the near future, and have provided a valuation allowance of $5.4 million against these deferred tax assets.

A reconciliation of our unrecognized tax benefits, excluding accrued interest and penalties, for 2013, 2012 and 2011 is:

	December 31,		
(In thousands)	**2013**	**2012**	**2011**
Balance at the beginning of the year	$ 32,647	$ 23,061	$ 23,061
Increases related to tax positions from prior fiscal years	—	4,029	—
Increases related to tax positions taken during current fiscal year	5,490	5,557	—
Expiration of statute of limitations for the assessment of taxes from prior fiscal years	(5,718)	—	—
Balance at the end of the year	$ 32,419	$ 32,647	$ 23,061

The future impact of the unrecognized tax benefit of $32.4 million, if recognized, is as follows: $9.3 million would affect the effective tax rate and $23.1 million would result in adjustments to deferred tax assets and corresponding adjustments to the valuation allowance. We periodically evaluate our exposures associated with our tax filing positions. During 2013, as a result of the evaluation of our uncertain tax positions, we increased the unrecognized tax benefits by $5.5 million primarily related to state items and decreased the unrecognized tax benefits by $5.7 million due to expiration of statute of limitation for our tax attributes. The Company expects its unrecognized tax benefits to decrease by $6.5 million due to the expiration of statute of limitations within the next twelve months, substantially all of which would affect the effective income tax rate.

Estimated interest and penalties associated with unrecognized tax benefits decreased income tax expense in the Consolidated Statements of Income by $0.7 million during the year ended December 31, 2013, and increased income tax expense by $0.2 million, and $0.5 million during the year ended December 31, 2012, and 2011, respectively. In general, our income tax returns are subject to examination by U.S. federal, state, and local tax authorities for tax years 1996 forward. Interest and penalties associated with unrecognized tax benefits accrued on the balance sheet were $1.5 million and $0.7 million as of December 31, 2013 and 2012, respectively. In May 2012, PDL received a “no-change” letter from the IRS upon completion of an examination of the Company's 2008 Federal tax return. We are currently under income tax examination in the state of California for tax years 2010, 2009 and 2008.

Although the timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year, except as noted above, we do not anticipate any material change to the amount of our unrecognized tax benefits related to the California audit over the next twelve months.

19. Accumulated Other Comprehensive Income (Loss)

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

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

	Unrealized gain (loss) on available-for-sale securities	Unrealized gain (loss) on cash flow hedges	Total Accumulated Other Comprehensive Income (Loss)
(In thousands)			
Beginning Balance at December 31, 2010	$ (1)	$ 3,220	$ 3,219
Activity for the year ended December 31, 2011	30	(5,134)	(5,104)
Balance at December 31, 2011	29	(1,914)	(1,885)
Activity for the year ended December 31, 2012	(22)	(3,181)	(3,203)
Balance at December 31, 2012	7	(5,095)	(5,088)
Activity for the year ended December 31, 2013	1,122	(922)	200
Ending Balance at December 31, 2013	$ 1,129	$ (6,017)	$ (4,888)

20. Legal Proceedings

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

MedImmune Settlement

On February 10, 2011, we entered into a definitive settlement agreement with MedImmune resolving all legal disputes with them, including those relating to MedImmune's product Synagis® and PDL's patents known as the Queen et al. patents. Under the settlement agreement, PDL paid MedImmune $65.0 million on February 15, 2011, and an additional $27.5 million on February 9, 2012, for a total of $92.5 million. No further payments will be owed by MedImmune to PDL under its license to the Queen et al. patents as a result of past or future Synagis sales and MedImmune will cease any support, financial or otherwise, of any party involved in the appeal proceeding before the European Patent Office relating to the opposition against our '216B Patent including the opposition owned by BioTransplant.

Settlement with UCB

On February 2, 2011, we reached a settlement with UCB. Under the settlement agreement, PDL provided UCB a covenant not to sue UCB for any royalties regarding UCB's Cimzia® product under the Queen et al. patents in return for a lump sum payment of $10.0 million to PDL and termination of pending patent interference proceedings before the U.S. Patent and Trademark office involving our U.S. Patent No. 5,585,089 patent and our U.S. Patent No. 6,180,370 in PDL's favor. UCB also agreed to formally withdraw its opposition appeal challenging the validity of the '216B Patent.

Settlement with Novartis

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

European Opposition to '216B Patent

Termination of European Opposition to '216B Patent

Pursuant to our settlements with UCB, MedImmune and Novartis, and as a result of our acquisition of BioTransplant and subsequent withdrawal of BioTransplant's appeal, all of the active appellants in the EPO opposition have formally withdrawn their participation in the appeal proceeding. Accordingly, the EPO has canceled the appeal proceeding and terminated the

opposition proceeding in its entirety, with the result that the 2007 EPO decision upholding the claims of our ‘216B Patent as valid will become the final decision of the EPO. In the year ending December 31, 2013, approximately 43% of our royalty revenues were derived from sales of products that were made in Europe and sold outside of the United States.

Genentech / Roche Matter

Settlement Agreement

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

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

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

The settlement and the related agreements are conditional upon entry of a proposed order dismissing the underlying litigation and dismissal of the AAA arbitration filed by PDL.

Other Legal Proceedings

In addition, from time to time, we may be 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.

21. Subsequent Events

February 2018 Notes

On February 6, 2014, the Company agreed to sell $260.87 million aggregate principal amount of its February 2018 Notes in an underwritten public offering. The conversion rate of the February 2018 Notes will initially be 109.1048 shares of common stock per $1,000 principal amount of the February 2018 Notes equivalent to an initial conversion price of approximately $9.17 per share of common stock. The Company granted the underwriters an option to purchase up to an additional $39.13 million aggregate principal amount of the February 2018 Notes solely to cover overallotments (or $300 million principal amount in the aggregate). The conversion rate, subject to increase under certain circumstances, will not be increased in respect of regular quarterly cash dividends paid by us that do not exceed $0.15 per share.

On February 12, 2014, we issued $300 million aggregate principal amount of February 2018 Notes, which included $39.13 million aggregate principal amount of February 2018 Notes issued pursuant to the exercise of the underwriters’ overallotment option to purchase additional February 2018 Notes.

In connection with the offering of the February 2018 Notes, the Company has entered into privately negotiated convertible note hedge transactions with RBC Capital Markets and Wells Fargo Securities. The convertible note hedge transactions will cover, subject to customary anti-dilution adjustments, the number of shares of the Company’s common stock that will initially

underlie the February 2018 Notes, and are intended to reduce the dilutive impact of the conversion feature of the February 2018 Notes on the Company's outstanding shares of common stock. The Company has also entered into privately negotiated warrant transactions with the hedge counterparties relating to the same number of shares of the Company's common stock. The warrant transactions could separately have a dilutive effect to the extent that the market price per share of the Company's common stock exceeds the applicable strike price of the warrants on any expiration date of the warrants.

Series 2012 Notes Exchange

On February 6, 2014, the Company entered into exchange and purchase agreements with certain holders of approximately $131.7 million aggregate principal amount of outstanding Series 2012 Notes. The exchange agreements provide for the issuance, by the Company, of shares of common stock and a cash payment for the Series 2012 Notes being exchanged, and the purchase agreement provides for a cash payment for the Series 2012 Notes being repurchased. The Company issued a total of approximately 20.3 million shares of its common stock and paid an aggregate cash payment of approximately $34.2 million pursuant to the exchange and purchase agreements.

Paradigm Spine

On February 14, 2014, the Company entered into a credit agreement with Paradigm Spine, LLC, under which it made available to Paradigm up to $75 million to be used by Paradigm to refinance its existing credit facility and expand its domestic commercial operations. A portion of the amount available under the agreement in an aggregate principal amount equal to $50 million, net of fees, was funded at the close of the transaction. In the event that certain specified sales and other milestones occur before December 31, 2014, the Company will fund Paradigm between an additional $6.25 million and $12.5 million, at Paradigm's discretion. In the event that additional specified sales and other milestones occur before June 30, 2015, the Company will fund up to an additional $12.5 million also at Paradigm's discretion. Borrowings under the credit agreement bear interest at the rate of 13.0% per annum, payable quarterly in arrears.

Principal repayment will commence on the eleventh interest payment date, September 30, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on February 14, 2019, or, if Paradigm has achieved the first milestone and the additional loan amount is provided to Paradigm, the loans will mature on August 14, 2019. Paradigm may elect to prepay the loans at any time, subject to a prepayment penalty that decreases over the life of the loans. The obligations under the credit agreement are secured by a pledge of substantially all of the assets of Paradigm and its domestic subsidiaries and, initially, certain assets of Paradigm's German subsidiaries.

22. Quarterly Financial Data (Unaudited)

	2013 Quarter Ended			
(In thousands, except per share data)	**December 31**	**September 30**	**June 30**	**March 31**
Total revenues	$ 110,143	$ 97,314	$ 143,617	$ 91,847
Net income	$ 61,092	$ 56,225	$ 93,742	$ 53,471
Net income per basic share	$ 0.44	$ 0.40	$ 0.67	$ 0.38
Net income per diluted share	$ 0.39	$ 0.36	$ 0.62	$ 0.36

	2012 Quarter Ended			
(In thousands, except per share data)	**December 31**	**September 30**	**June 30**	**March 31**
Total revenues	$ 86,046	$ 85,231	$ 125,904	$ 77,344
Net income	$ 49,408	$ 48,575	$ 73,502	$ 40,184
Net income per basic share	$ 0.35	$ 0.35	$ 0.53	$ 0.29
Net income per diluted share	$ 0.34	$ 0.32	$ 0.52	$ 0.29

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of PDL BioPharma, Inc.

We have audited the accompanying consolidated balance sheets of PDL BioPharma, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PDL BioPharma, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PDL BioPharma, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 3, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Redwood City, California
March 3, 2014

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Annual Report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer, has concluded that, as of December 31, 2013, 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.

Management's Annual Report on Internal Control over Financial Reporting

PDL, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, is responsible for the preparation and integrity of our Consolidated Financial Statements, establishing and maintaining adequate internal control over financial reporting and all related information appearing in this Annual Report. We evaluated the effectiveness of our internal controls over financial reporting under the Internal Control-Integrated Framework founded by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control-Integrated Framework, our management has assessed our internal control over financial reporting to be effective as of December 31, 2013.

Changes in Internal Controls

There were no changes in our internal controls over financial reporting during the quarter ended December 31, 2013, 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.

Our independent registered public accountants, Ernst & Young LLP, audited the Consolidated Financial Statements included in this Annual Report and have issued an audit report on the effectiveness of our internal control over financial reporting. The report on the audit of internal control over financial reporting appears below, and the report on the audit of the Consolidated Financial Statements appears in Part II, Item 8 of this Annual Report.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of PDL BioPharma, Inc.

We have audited PDL BioPharma, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). PDL BioPharma, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, PDL BioPharma, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PDL BioPharma, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2013 of PDL BioPharma, Inc. and our report dated March 3, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Redwood City, California
March 3, 2014

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item 10 will be contained in the Proxy Statement for our 2014 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 will be contained in the Proxy Statement for our 2014 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 will be contained in the Proxy Statement for our 2014 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 will be contained in the Proxy Statement for our 2014 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item 14 will be contained in the Proxy Statement for our 2014 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) Index to financial statements

Our financial statements and the Report of the Independent Registered Public Accounting Firm are included in Part II, Item 8.

(2) The financial statement schedules are omitted because the information is inapplicable or presented in our Consolidated Financial Statements or notes.

(3) Index to Exhibits

Exhibit Number	Exhibit Title
2.1	Separation and Distribution Agreement, dated December 17, 2008, between the Company and Facet Biotech Corporation (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed December 23, 2008)
2.2	Amendment No. 1 to Separation and Distribution Agreement, dated January 20, 2009, between the Company and Facet Biotech Corporation (incorporated by reference to Exhibit 2.2 to Annual Report on Form 10-K filed March 2, 2009)
3.1	Restated Certificate of Incorporation effective March 23, 1993 (incorporated by reference to Exhibit 3.1 to Annual Report on Form 10-K filed March 31, 1993)
3.2	Certificate of Amendment of Certificate of Incorporation effective August 21, 2001 (incorporated by reference to Exhibit 3.3 to Annual Report on Form 10-K filed March 14, 2002)
3.3	Certificate of Amendment of Certificate of Incorporation effective January 9, 2006 (incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed January 10, 2006)
3.4	Certificate of Designation, Preferences and Rights of the Terms effective August 25, 2006 (incorporated by reference to Exhibit 3.4 to Registration Statement on Form 8-A filed September 6, 2006)
3.5	Amended and Restated Bylaws effective June 4, 2009 (incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed June 10, 2009)
3.6	Certificate of Amendment of Restated Certificate of Incorporation effective May 22, 2013 (incorporated by reference to Exhibit 4.4 to Registration Statement on Form S-3 filed June 21, 2013)
4.1	Indenture between the Company and J.P. Morgan Trust Company, National Association, dated February 14, 2005 (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed February 16, 2005)
4.2	Indenture between wholly-owned subsidiary QHP Royalty Sub LLC and U.S. Bank National Association, dated November 2, 2009 (incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed November 6, 2009)
4.3	Indenture between the Company and The Bank of New York Mellon, N.A., dated November 1, 2010 (incorporated by reference to Exhibit 4.1 to Quarterly Report on Form 10-Q filed November 9, 2010)
4.4	Indenture between the Company and The Bank of New York Mellon, N.A., dated May 16, 2011 (incorporated by reference to Exhibit 4.1 to Quarterly Report on Form 10-Q filed July 29, 2011)
4.5	Supplemental Indenture between the Company and The Bank of New York Mellon, N.A., dated May 16, 2011 (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed May 16, 2011)
4.6	Indenture between the Company and The Bank of New York Mellon, N.A., dated January 5, 2012 (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed January 6, 2012)
4.7	Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., dated February 12, 2014 (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed February 12, 2014)
4.8	Supplemental Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., dated February 12, 2014 (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed February 12, 2014)
4.9#	Second Supplemental Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., dated February 28, 2014
10.1*	1999 Stock Option Plan (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.2*	1999 Nonstatutory Stock Option Plan, as amended through February 20, 2003 (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.3*	Form of Notice of Grant of Stock Option under the 1999 Stock Option Plan (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed August 14, 2002)

10.4*	Form of Stock Option Agreement (incentive stock options) under the 1999 Stock Option Plan (incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.5*	Form of Stock Option Agreement (nonstatutory stock options) under the 1999 Stock Option Plan (incorporated by reference to Exhibit 10.5 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.6*	Form of Notice of Grant of Stock Option under the 1999 Nonstatutory Stock Option Plan (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q/A filed November 14, 2007)
10.7*	Form of Stock Option Agreement under the 1999 Nonstatutory Stock Option Plan (incorporated by reference to Exhibit 10.6 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.8*	2002 Outside Directors Stock Option Plan, as amended June 8, 2005 (incorporated by reference to Exhibit 99.2 to Current Report on Form 8-K filed June 14, 2005)
10.9*	Form of Nonqualified Stock Option Agreement under the 2002 Outside Directors Plan (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q/A filed November 14, 2007)
10.10*	Amended and Restated 2005 Equity Incentive Plan effective June 4, 2009 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed July 31, 2009)
10.11*	Form of Notice of Grant of Stock Option under the 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.7 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.12*	Form of Stock Option Agreement under the 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.8 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.13*	Form of Notice of Grant of Restricted Stock Award under the 2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.9 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.14*	Form of Restricted Stock Agreement under the 2005 Equity Incentive Plan (for the officers of the Company) (incorporated by reference to Exhibit 10.10 to Quarterly Report on Form 10-Q filed August 9, 2006)
10.15*	Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.1 to Registration Statement on Form S-1 filed December 16, 1991)
10.16*	Offer Letter between the Company and John McLaughlin, dated November 4, 2008 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed November 10, 2008)
10.17	Tax Sharing and Indemnification Agreement, dated December 18, 2008, between the Company and Facet Biotech Corporation (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed December 23, 2008)
10.18	Patent Licensing Master Agreement between the Company and Genentech, Inc., dated September 25, 1998 (incorporated by reference to Exhibit 10.10 to Quarterly Report on Form 10-Q filed November 16, 1998)†
10.19	Amendment No. 1 to Patent Licensing Master Agreement between the Company and Genentech, Inc., dated September 18, 2003 (incorporated by reference to Exhibit 10.45 to Annual Report on Form 10-K filed March 8, 2004)†
10.20	Amendment No. 2 to Patent Licensing Master Agreement between the Company and Genentech, Inc., dated December 18, 2003 (incorporated by reference to Exhibit 10.45 to Annual Report on Form 10-K filed March 2, 2009)
10.21	Amendment No. 1 to the Herceptin® License Agreement between the Company and Genentech, Inc., dated December 18, 2003 (incorporated by reference to Exhibit 10.47 to Annual Report on Form 10-K filed March 8, 2004)
10.22	Patent License Agreement, dated July 17, 1997, between the Company and MedImmune Inc. (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed January 24, 2011)†
10.23	Patent License Agreement, dated April 24, 1998, between the Company and Elan International Services Ltd. (incorporated by reference to Exhibit 10.45 to Annual Report on Form 10-K filed March 2, 2009) †
10.24*	Offer Letter between the Company and Christopher Stone, dated December 30, 2008 (incorporated by reference to Exhibit 10.29 to Annual Report on Form 10-K filed March 1, 2010)

10.25	Purchase and Sale Agreement, dated November 2, 2009, between PDL and wholly-owned subsidiary QHP Royalty Sub LLC (incorporated by reference to Exhibit 99.2 to Current Report on Form 8-K filed November 6, 2009)
10.26	Pledge and Security Agreement, dated November 2, 2009, between PDL and wholly-owned subsidiary QHP Royalty Sub LLC (incorporated by reference to Exhibit 99.3 to Current Report on Form 8-K filed November 6, 2009)
10.27	Bill of Sale, dated November 2, 2009, between PDL and wholly-owned subsidiary QHP Royalty Sub LLC (incorporated by reference to Exhibit 99.4 to Current Report on Form 8-K filed November 6, 2009)
10.28	Settlement Agreement between the Company and Genentech, Inc., dated December 18, 2003 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed November 9, 2010) †
10.29	Amended and Restated Patent Licensing master Agreement between the Company and Genentech, Inc., dated July 27, 2009 (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed November 9, 2010) †
10.30	Amendments to Product Licenses and Settlement Agreement between the Company and Genentech, Inc. dated July 27, 2009 (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q filed November 9, 2010)
10.31	Form of Exchange Agreement between the Company and certain holders of the Company’s 2.75% Convertible Subordinated Notes due 2023 (incorporated by reference to Exhibit 10.1 to Current Report Form 8-K filed August 5, 2010)
10.32	Form of Exchange Agreement between the Company and certain holders of the Company’s 2.00% Convertible Senior Notes due 2012 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed October 27, 2010)
10.33	Form of Purchase Agreement between the Company and certain holders of the Company’s 2.00% Convertible Senior Notes due 2012 (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K filed October 27, 2010)
10.34	Form of Exchange and Purchase Agreement between the Company and certain holders of the Company’s 2.00% Convertible Senior Notes due 2012 (incorporated by reference to Exhibit 10.3 to Current Report on Form 8-K filed October 27, 2010)
10.35*	Offer Letter between the Company and Caroline Krumel, dated January 6, 2011 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed January 25, 2011)
10.36*	Company 2011 Annual Bonus Plan (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed January 26, 2011)
10.37*	Offer Letter between the Company and Danny Hart, dated January 11, 2010 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed April 18, 2011)
10.38*	Form of Executive Officer Severance Agreement (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed May 26, 2011)
10.39*	2012 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 to Quarterly Report on Form 10-Q filed July 29, 2011)
10.40*	Separation Agreement between the Company and Christine Larson, dated December 9, 2011 (incorporated by reference to Exhibit 10.46 to Annual Report on Form 10-K filed February 23, 2012)
10.41*	2013 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.47 to Annual Report on Form 10-K filed February 23, 2012)
10.42*	2012 Annual Bonus Plan (incorporated by reference to Exhibit 10.48 to Annual Report on Form 10-K filed February 23, 2012)
10.43	Form of Exchange Agreement between the Company and certain holders of the Company's 2.875% Convertible Senior Notes due February 15, 2015 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed February 2, 2012)

10.44	Lease Agreement between 932936, LLC and the Company, dated April 17, 2012 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed May 3, 2012)
10.45*	Offer Letter between the Company and Bruce Tomlinson, dated April 20, 2012 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed April 27, 2012)
10.46	Credit Agreement between the Company and Merus Labs International, Inc., dated July 10, 2012 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10Q filed August 2, 2012)†
10.47	Revenue Interests Purchase Agreement between the Company and AxoGen, Inc., dated October 5, 2012 (incoporporated by reference to Exhibit 10.49 to Annual Report on March 1, 2013)†
10.48	Credit Agreement between the Company and Wellstat Diagnostics, LLC, dated November 2, 2012 (incorporated by reference to Exhibit 10.50 to Annual Report on March 1, 2013)†
10.49*	Separation Agreement between the Company and Bruce Tomlinson, dated November 30, 2012 (incorporated by reference to Exhibit 10.51 to Annual Report on March 1, 2013)
10.50*	Offer Letter between the Company and Peter Garcia, dated March 27, 2013 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed April 29, 2013)
10.51*	2013 Annual Bonus Plan (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed May 9, 2013)
10.52*	2014 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed May 9, 2013)
10.53*	Offer Letter between the Company and David Montez, executed July 4, 2013 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed July 24, 2013)
10.54	Credit Agreement between the Company and Avinger, Inc., dated April 18, 2013 (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q filed August 8, 2013)†
10.55	Amended and Restated Credit Agreement between the Company and Wellstat Diagnostics, LLC, dated August 15, 2013 (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q filed November 6, 2013)†
10.56#	Form of Credit Agreement between the Company and certain borrowers
10.57	Credit Agreement among the Company, as borrower, the lenders from time to time party thereto and Royal Bank of Canada, as administrative agent, dated as of October 28, 2013 (incorporate by reference to Exhibit 10.1 to Current Report on Form 8-K filed October 30, 2013)
10.58#	Royalty Purchase and Sale Agreement between the Company and Depomed, Inc. and Depo DR Sub, LLC, dated October 18, 2013†
12.1#	Ratio of Earnings to Fixed Charges
21.1#	Subsidiaries of the Registrant
23.1#	Consent of Independent Registered Public Accounting Firm
31.1#	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2#	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1#+	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

Filed herewith.

* Management contract or compensatory plan or arrangement.

† Certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request under 17 C.F.R. Sections 200.80(b)(4) and 24b-2.

+ The certifications attached as Exhibit 32.1 accompany this Annual Report on Form 10-K pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed “filed” by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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.

PDL BIOPHARMA, INC. (REGISTRANT)

By: /S/ JOHN P. MCLAUGHLIN

John P. McLaughlin

President and Chief Executive Officer

Date: March 3, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ JOHN P. MCLAUGHLIN **(John P. McLaughlin)**	President and Chief Executive Officer (Principal Executive Officer)	March 3, 2014
/S/ PETER S. GARCIA **(Peter S. Garcia)**	Vice President and Chief Financial Officer (Principal Financial Officer)	March 3, 2014
/S/ DAVID MONTEZ **(David Montez)**	Controller and Chief Accounting Officer (Principal Accounting Officer)	March 3, 2014
/S/ JODY S. LINDELL **(Jody S. Lindell)**	Director	March 3, 2014
/S/ PAUL W. SANDMAN **(Paul W. Sandman)**	Director	March 3, 2014
/S/ HAROLD E. SELICK **(Harold E. Selick)**	Director	March 3, 2014

Exhibit 4.9

SECOND SUPPLEMENTAL INDENTURE

dated as of February 28, 2014

among

PDL BIOPHARMA, INC.,

as Issuer,

and

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,

as Trustee

4.00% Convertible Senior Notes due 2018

SECOND SUPPLEMENTAL INDENTURE (this "**Second Supplemental Indenture**"), dated as of February 28, 2014, between PDL BioPharma, Inc., a Delaware corporation (the "**Company**") and The Bank of New York Mellon Trust Company, N.A., a national banking association, as Trustee (the "**Trustee**").

RECITALS

WHEREAS, the Company and the Trustee entered into an indenture, dated as of February 12, 2014 (the "**Base Indenture**"), and a supplemental indenture dated as of February 12, 2014 (the "**Supplemental Indenture**"; the Base Indenture, as supplemented by the Supplemental Indenture, the "**Indenture**") relating to the Company's 4.00% Convertible Senior Notes due 2018 (the "**Notes**"); and

WHEREAS, subclause (11) of Section 10.01 of the Base Indenture and Section 7.01(b)(ii) of the Supplemental Indenture permit amendments to the Indenture for the purposes of conforming the provisions of the Indenture to the prospectus dated June 21, 2013, as supplemented by the Supplemental Prospectus dated February 6, 2014 with respect to the Notes, without obtaining the consent of any Holder.

AGREEMENT

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

Section 1. Capitalized terms used herein and not otherwise defined herein are used as defined in the Indenture.

Section 2. Section 1.01 of the Supplemental Indenture is hereby amended by restating the definition of "Stated Maturity" as follows:

> "Stated Maturity" means, with respect to any Note and the payment of the principal amount thereof, February 1, 2018.

Section 3. Exhibit A of the Supplemental Indenture is hereby deleted in its entirety and replaced by Exhibit A to this Second Supplemental Indenture.

Section 4. The foregoing amendments are limited in effect and, except as specifically set forth in this Second Supplemental Indenture, shall apply only as expressly set forth in this Second Supplemental Indenture and shall not constitute a modification or amendment of any other provision of the Indenture. Except as expressly amended hereby, all the terms, conditions and provisions of the Indenture shall remain in full force and effect.

Section 5. This Second Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

Section 6. This Second Supplemental Indenture may be signed in various counterparts which together will constitute one and the same instrument.

Section 7. This Second Supplemental Indenture is an amendment supplemental to the Indenture (as amended and supplemented to the date hereof) and the Indenture and this Second Supplemental Indenture will henceforth be read together.

Section 8. The Trustee shall have no responsibility for the validity or sufficiency of this Supplemental Indenture, nor for the recitals contained herein, all of which are taken to be statements of the Company.

[Signature Pages Follow]

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

PDL BIoPHARMA, INC.,

By: /s/ Peter S. Garcia

Name: Peter S. Garcia
Title:VP and CFO

THE BANK OF NEW YORK MELLON TRUST COMPAny, N.A., as Trustee

By: /s/ Teresa Petta

Name: Teresa Petta
Title:Vice President

EXHIBIT A

[Form of Note]

THIS NOTE IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE OF A DEPOSITARY. THIS NOTE IS EXCHANGEABLE FOR NOTES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE, AND NO TRANSFER OF THIS NOTE (OTHER THAN A TRANSFER OF THIS NOTE AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY) MAY BE REGISTERED EXCEPT IN LIMITED CIRCUMSTANCES.

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

PDL BIOPHARMA, INC.

4.00% Convertible Senior Note due 2018

No. [ ] Initially $[ ]

CUSIP No. 69329Y AF1

PDL BioPharma, Inc., a Delaware corporation (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay CEDE & CO., or registered assigns, [ ] ($[ ]) (or such lesser principal amount as shall be specified in the "Schedule of Exchanges of Securities" attached hereto) on February 1, 2018 unless earlier converted or repurchased, and to pay interest thereon as set forth in the manner, at the rates and to the Persons set forth in the Indenture.

Interest Payment Dates: February 1 and August 1, commencing August 1, 2014.

Regular Record Dates: January 15 and July 15.

Reference is hereby made to the further provisions of this Note set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, PDL BIOPHARMA, INC. has caused this instrument to be signed manually or by facsimile by its duly authorized officers.

Dated:

PDL BIOPHARMA, INC.

By: _____

Name:

Title:

Attest

By: _____

Name:

Title:

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated herein referred to in the within-mentioned Indenture.

Dated:

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By: _____

Name:

Title:

[FORM OF REVERSE OF NOTE]

PDL BIOPHARMA, INC.

4.00% Convertible Senior Note due 2018

This Note is one of a duly authorized issue of Securities of the Company (herein called the "Notes"), issued under an Indenture dated as of February 12, 2014, as amended and supplemented from time to time in accordance with the terms thereof (herein called the "Original Indenture") and as further supplemented by the Supplemental Indenture dated as of February 12, 2014 (herein called the "Supplemental Indenture" and the Original Indenture, as supplemented by the Supplemental Indenture, the "Indenture") by and between the Company and The Bank of New York Mellon Trust Company, N.A., herein called the "Trustee", and reference is hereby made to the Indenture for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Notes and of the terms upon which the Notes are, and are to be, authenticated and delivered. Additional Notes may be issued in an unlimited aggregate principal amount, subject to conditions specified in the Indenture.

1. INTEREST

This Note shall bear interest at a rate of 4.00% per annum from February 12, 2014 or from the most recent date to which interest had been paid or provided to, but excluding, the next scheduled Interest Payment Date, until the principal hereof shall be repaid. Interest on this Note shall be computed on the basis of a 360-day year composed of twelve 30-day months. Interest is payable semi-annually in arrears on each February 1 and August 1, commencing on August 1, 2014, to the Person in whose name this Note (or one or more predecessor securities) is registered at the close of business on the Regular Record Date for such interest. Additional Interest shall be payable at the option of the Company on the terms set forth in Section 5.02 of the within-mentioned Supplemental Indenture.

The Company shall pay interest on overdue principal, and, to the extent lawful, on overdue interest, in each case at a rate of 4.00% per annum. Interest not paid when due and any interest on principal or interest not paid when due will be paid to Holders on a special record date, which will be the 15th day preceding the date fixed by the Company for the payment of such interest, whether or not such day is a Business Day. At least 15 days before a special record date, the Company will send to each Holder and to the Trustee a notice that sets forth the special record date, the payment date and the amount of interest to be paid.

2. MATURITY DATE

The Notes shall mature on February 1, 2018.

3. METHOD OF PAYMENT

The Company shall pay the principal of and interest on any Global Note in immediately available funds to the Depositary or its nominee, as the case may be, as the registered Holder of such Global Note. The Company shall pay the principal of any Definitive Notes at the office or agency designated by the Company for that purpose. The Company has initially designated the Trustee as its Paying Agent and Registrar in respect of the Notes and its agency in New York,

New York as a place where Notes may be presented for payment or for registration of transfer. The Company may, however, change the Paying Agent or Registrar for the Notes without prior notice to the Holders thereof, and the Company may act as Paying Agent or Registrar for the Notes. Interest on any Definitive Notes shall be payable (i) to Holders of Definitive Notes having an aggregate principal amount of Notes of $5,000,000 or less, by check mailed to the Holders of such Notes at their address in the Security Register and (ii) to Holders having an aggregate principal amount of Definitive Notes in excess of $5,000,000, either by check mailed to each Holder at its address in the Security Register or, upon application by a Holder to the Registrar not later than the relevant Regular Record Date, by wire transfer in immediately available funds to that Holder's account within the United States, which application shall remain in effect until that Holder notifies, in writing, the Registrar to the contrary.

As provided in and subject to the provisions of the Indenture, the Company shall make all payments and deliveries in respect of the Fundamental Change Repurchase Price and the principal amount on Stated Maturity thereof, as the case may be, to the holder who surrenders a Note to the Paying Agent to collect such payments in respect of the Note. The Company shall pay cash amounts in money of the United States that at the time of payment is legal tender for payment of public and private debts.

4. PAYING AGENT, REGISTRAR, CONVERSION AGENT.

Initially, The Bank of New York Mellon Trust Company, N.A. (the "Trustee") shall act as Paying Agent, Registrar and Conversion Act. The Issuer may change Paying Agent, Registrar or Conversion Agent without prior notice.

5. NO REDEMPTION

This Note is not subject to redemption at the option of the Company and, for the avoidance of doubt, this Note is not subject to the provisions of Article Three of the Original Indenture.

6. FUNDAMENTAL CHANGES AND REPURCHASES THEREUPON

Upon the occurrence of a Fundamental Change, the Holder has the right, at such Holder's option, to require the Company to repurchase all of such Holder's Notes or any portion thereof (in principal amounts of $1,000 or integral multiples thereof) on the Fundamental Change Repurchase Date at a price equal to the Fundamental Change Repurchase Price.

7. CONVERSION

As provided in and subject to the provisions of the Indenture, the Holder hereof has the right, at its option, during periods and upon the occurrence of conditions specified in the Indenture, prior to the close of business on the second Scheduled Trading Day immediately preceding February 1, 2018, to convert this Note or a portion thereof that is $1,000 or an integral multiple thereof, into cash up to the aggregate principal amount of the Notes to be converted and if applicable, shares of Common Stock, in respect of the remainder, if any, at the Conversion Rate specified in the Indenture, as adjusted from time to time as provided in the Indenture.

8. SATISFACTION AND DISCHARGE

The provisions in Section 6.01 of the Supplemental Indenture supersede the entirety of Section 8.01 of the Original Indenture with respect to this Note.

9. DENOMINATIONS, TRANSFER, EXCHANGE

As provided in the Indenture and subject to limitations therein set forth, the transfer of this Note is registrable in the Security Register, upon surrender of this Note for registration of transfer at the office or agency of the Company in any place where the principal of and interest on this Note are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, shall be issued to the designated transferee or transferees.

The Notes are issuable only in registered form without coupons in denominations of $1,000 and in integral multiples of $1,000 in excess thereof. As provided in the Indenture and subject to limitations therein set forth, the Notes are exchangeable for a like aggregate principal amount of Notes and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

10. DEFAULTS AND REMEDIES

As provided in and subject to the provisions of the Indenture, in case an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the principal of and interest on all Notes may be declared due and payable, by either the Trustee or Holders of not less than 25% in aggregate principal amount of Notes then outstanding, and upon said declaration shall become due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture; *provided* that upon the occurrence of an Event of Default specified in Section 5.01(j) or (k) of the Supplemental Indenture, the principal amount of, and interest on, all the Notes shall automatically become due and payable.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of, any premium and interest on and any consideration due upon conversion of this Note at the time, place and rate, and in the coin and currency, herein prescribed.

11. AMENDMENT, SUPPLEMENT AND WAIVER

The Indenture permits, with exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Notes to be effected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of at least a majority in principal amount of the Notes at the time outstanding.

The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Notes at the time outstanding, on behalf of the Holders of all Notes, to waive compliance by the Company with certain provisions of the Indenture and certain past

defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note.

12 PERSONS DEEMED OWNERS

The Holder of a Note may be treated as the owner of it for all purposes.

13. DEFINITIONS

All defined terms used in this Note that are defined in the Indenture shall have the meanings assigned to them in the Indenture.

14. AUTHENTICATION

Unless the certificate of authentication hereon has been executed by the Trustee or an authenticating agent by manual signature, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

15. INDENTURE TO CONTROL; GOVERNING LAW

In the case of any conflict between this Note and the Indenture, the provisions of the Indenture shall control. This Note and any claim, controversy or dispute arising under or related to this Note, for all purposes, shall be governed by, and construed in accordance with, the laws of the State of New York.

16. ABBREVIATIONS

The following abbreviations, when used in the inscription of the face of this Note, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= as joint tenants with right of Survivorship and not as tenants in common), UGMA (= Uniform Gifts to Minors Act), CUST (= Custodian).

Additional abbreviations may also be used though not in the above list.

SCHEDULE A

SCHEDULES OF EXCHANGES OF NOTES

PDL BIOPHARMA, INC.

4.00% Convertible Senior Notes due 2018

The initial principal amount of this Global Note is _____ DOLLARS ($[_____]). The following, exchanges, repurchases or conversions of a part of this Global Security have been made:

Date of Exchange, Repurchase or Conversion	Amount of Decrease in Principal Amount of this Global Note	Amount of Increase in Principal Amount of this Global Note	Principal Amount of this Global Note following Each Increase of Decrease	Signature of Authorized Officer of Trustee

Exhibit 10.[•]

Form of Credit Agreement

In accordance with Instruction 2 to Item 601(a) of Regulation S-K, the following schedule identifies other credit agreements that have not been filed because they are substantially similar to the form of credit agreement that is being filed. The following schedule sets forth the material details in which the omitted credit agreements differ from the form of credit agreement that is being filed.

Execution Date	Borrower(s)	Maturity Date	Amount Funded at Closing	Aggregate Available Credit	Additional Funding Conditions	Outstanding Borrowings Interest Rate Per Annum	Interest Only Period	Principal Repayment Schedule	Change in Control Fee
October 1, 2013	LENSAR, Inc.	October 1, 2018	$40 million	Up to $60 million	Tranche 1: $40 million funded at Closing. Tranche 2: $20 million funded upon attainment of specified sales milestone no later than September 30, 2014	15.5%	End on the 13th quarterly interest payment date	Equal installments until final maturity.	None
October 31, 2013	Durata Therapeutics Holding C.V. and Durata Therapeutics International B.V.	October 31, 2018	$25 million	Up to $70 million	Tranche 1: $25million funded at closing. Tranche 2: $15 million upon attainment of marketing approval of dalbavacin in the United States before January 1, 2015 Tranche 3: $30 million upon accomplishment of Tranche 2 milestone and Borrower request.	Until attainment of Tranche 2 milestone, 14.0%. Upon attainment of Tranche 2 milestone interest rate on loans will decrease to 12.75%.	Ends March 31, 2015	Increasing installments until final maturity.	Borrower charged a fee if undergoes a change in control.
November 5, 2013	Direct Flow Medical, Inc.	November 5, 2018	$35 million	Up to $50 million	Tranche 1: $35 million funded at closing. Tranche 2: $15 million upon attainment of a specified revenue milestone to be accomplished prior to January 1, 2015	Until attainment of Tranche 2 milestone, 15.5%. Upon attainment of Tranche 2 milestone, interest rate on loans will decrease to 13.5%	Ends September 30, 2016	Equal installments until final maturity.	None

CREDIT AGREEMENT

dated as of [ ], [ ]

among

[ ],

as the Borrower,

PDL BIOPHARMA, INC.,

as the Lender,

and

PDL BIOPHARMA, INC.,

as the Agent

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CREDIT AGREEMENT

This Credit Agreement dated as of [ ], [ ] (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, this "Agreement"), is made among [ ], a [ ] [corporation][limited liability company] (the "Borrower"), PDL BIOPHARMA, INC., a Delaware corporation, as the lender (the "Lender"), and PDL BIOPHARMA, INC., a Delaware corporation, not individually, but as the Agent (as defined below).

The Borrower has agreed to enter into this Agreement with the Lender and the Agent evidencing its agreement to incur the Loans, and in connection therewith, to make the representations and warranties, covenants and undertakings as hereinafter set forth.

Section 1. Definitions; Interpretation.

1.1 Definitions. When used herein the following terms shall have the following meanings:

"Accounts" means "accounts" as defined in the UCC, and also means a right to payment of a monetary obligation, whether or not earned by performance, (a) for property that has been or is to be sold, leased, licensed, assigned or otherwise disposed of, or (b) for services rendered or to be rendered.

"Acquisition" means any transaction or series of related transactions for the purpose of or resulting, directly or indirectly, in (a) the acquisition of all or substantially all of the assets of a Person, or of all or substantially all of any business or division of a Person, (b) the acquisition of in excess of 50% of the Capital Stock of any Person, or otherwise causing any Person to become a Subsidiary, (c) a merger, consolidation, amalgamation or any other combination with another Person (other than a combination between two Persons that prior to the merger, consolidation, amalgamation or combination were already Loan Parties) and (d) the acquisition of a brand, line of business, division, branch, product line, marketing rights, patent rights, or other Intellectual Property rights with respect to a product line, operating division, product or potential product, or other unit operation of any Person.

"Affiliate" of any Person means (a) any other Person which, directly or indirectly, controls or is controlled by or is under common control with such Person and (b) any officer or director of such Person. A Person shall be deemed to be "controlled by" any other Person if such Person possesses, directly or indirectly, power to vote 10% or more of the securities (on a fully diluted basis) having ordinary voting power for the election of directors or managers or power to direct or cause the direction of the management and policies of such Person whether by contract or otherwise. Unless expressly stated otherwise herein, neither the Agent nor the Lender shall be deemed an Affiliate of any Loan Party.

"Agent" means PDL BioPharma, Inc. in its capacity as administrative agent for the Lender hereunder and any successor thereto in such capacity.

"Agreement" has the meaning set forth in the Preamble.

"Applicable Law" means all applicable provisions of all (i) constitutions, treaties, statutes, laws, rules, regulations and ordinances of any Governmental Authority, (ii) authorizations, consents, approvals, permits or licenses issued by, or a registration or filing with, any Governmental Authority and (iii) orders, decisions, judgments, awards and decrees of any Governmental Authority (including common law and principles of public policy).

"Borrower" has the meaning set forth in the Preamble.

"Borrowing Request" means an irrevocable written notice of borrowing delivered by the Borrower to the Agent and appropriately specifying (a) the aggregate principal amount of the Loans to be incurred, (b) the date of such borrowing (which shall be a Business Day), (c) the account details and wiring instructions for the Borrower and (d) that the applicable conditions set forth in Section 4 of this Agreement have been satisfied.

"Business Day" means any day on which commercial banks are open for commercial banking business in New York, New York.

"Capital Lease" means, with respect to any Person, any lease of (or other agreement conveying the right to use) any real or personal property by such Person that, in conformity with GAAP, is accounted for as a capital lease on the balance sheet of such Person.

"Capital Stock" means all shares of capital stock (whether denominated as common stock or preferred stock), equity interests, beneficial, partnership or membership interests, joint venture interests, participations or other ownership or profit interests in, or Stock Equivalents (regardless of how designated) of, a Person (other than an individual), whether voting or non-voting.

"Cash Equivalent Investment" means, at any time, (a) any evidence of Debt, maturing not more than one year after such time, issued or guaranteed by the United States Government or any agency thereof, (b) commercial paper, or corporate demand notes, in each case rated at least A-l by Standard & Poor's Ratings Group or P-l by Moody's Investors Service, Inc., (c) any certificate of deposit (or time deposit represented by a certificate of deposit) or banker's acceptance maturing not more than one year after such time, or any overnight Federal Funds transaction that is issued or sold by a commercial banking institution that is a member of the Federal Reserve System and has a combined capital and surplus and undivided profits of not less than $500,000,000, (d) any repurchase agreement entered into with any commercial banking institution of the nature referred to in clause (c) above which (i) is secured by a fully perfected security interest in any obligation of the type described in any of clauses (a) through (c) above and (ii) has a market value at the time such repurchase agreement is entered into of not less than 100% of the repurchase obligation of such commercial banking institution thereunder, (e) money market accounts or mutual funds which invest predominantly in assets satisfying the foregoing requirements and (f) other short term liquid investments approved in writing by the Agent.

"CFC" means a Person that is a "controlled foreign corporation" as defined in Section 957 of the IRC.

"Change of Control" means an event or series of events by which:

(a) the Holders shall cease to beneficially own and control at least 50.1% on a fully diluted basis of the economic and voting interests in the Capital Stock of the Borrower;

(b) individuals who on the Closing Date constituted the board of directors or similar governing body of the Borrower (together with any new directors whose election or appointment by such board of directors or similar governing body or whose nomination for election by the shareholders of the Borrower was approved by a vote of a majority of the directors of the Borrower then still in office who were either directors on the Closing Date or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the board of directors or similar governing body of the Borrower then in office; or

(c) all or substantially all of the assets of the Borrower are disposed of in any one or more related transactions.

"Change of Control Fee" has the meaning set forth in Section 2.11.2.

"Closing Date" means the date on which the conditions set forth in Section 4.1 have been satisfied or waived by the Agent in its sole discretion.

"Closing Fee" means the closing fee due from the Borrower to the Lender on or before the Closing Date in an aggregate amount equal to [ ].

"Collateral" means all property and interests in property and proceeds thereof now owned or hereafter acquired by any Loan Party and any other Person who has granted a Lien to the Agent, in or upon which a Lien now or hereafter exists in favor of the Lender or the Agent for the benefit of the Agent and the Lender, whether under this Agreement or under any other documents executed by any such Persons and delivered to the Agent.

"Collateral Access Agreement" means an agreement in form and substance satisfactory to the Agent in its reasonable discretion pursuant to which a mortgagee or lessor of real property on which Collateral is stored or otherwise located, or a warehouseman, processor or other bailee of inventory or other property owned by any Loan Party, acknowledges the Liens of the Agent and waives (or, if approved by the Agent, subordinates) any Liens held by such Person on such property, and, in the case of any such agreement with a mortgagee or lessor, permits the Agent reasonable access to and use of such real property during the continuance of an Event of Default to assemble, complete and sell any Collateral stored or otherwise located thereon.

"Collateral Documents" means, collectively, the Guarantee and Collateral Agreement (including as may be supplemented by the joinder of any Subsidiary of the Borrower thereto) and each other agreement or instrument pursuant to or in connection with which any Loan Party or any other Person grants a security interest in any Collateral to the Agent for the benefit of the Lender or pursuant to which any such security interest in Collateral is perfected, each as amended, supplemented or otherwise modified from time to time in accordance with the terms hereof and thereof.

"Commitments" means the Tranche One Commitment[and the Tranche Two Commitment].

"Compliance Certificate" means a certificate substantially in the form of Exhibit B and otherwise satisfactory to the Agent in all respects.

"Connection Income Taxes" means Other Connection Taxes that are imposed on or measured by net income (however denominated) or that are franchise Taxes or branch profits Taxes.

"Contingent Obligation" means any agreement, undertaking or arrangement by which any Person guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to or otherwise to invest in a debtor, to provide security for the obligations of a debtor or otherwise to assure a creditor against loss) any indebtedness, obligation or other liability of any other Person (other than by endorsements of instruments in the course of collection), or guarantees the payment of dividends or other distributions upon the Capital Stock of any other Person. The amount of any Person's obligation in respect of any Contingent Obligation shall (subject to any limitation set forth therein) be deemed to be the principal amount of the indebtedness, obligation or other liability supported thereby or the amount of the dividends or distributions guaranteed, as applicable.

"Control Agreement" means a tri-party deposit account, securities account or commodities account Control Agreement by and among the applicable Loan Party, the Agent and the depository, securities intermediary or commodities intermediary, and each in form and substance satisfactory in all respects to the Agent and in any event providing to the Agent "control" of such deposit account, securities or commodities account within the meaning of Articles 8 and 9 of the UCC.

"Copyrights" means all rights, title and interests (and all related IP Ancillary Rights) arising under any Applicable Law in copyrights and all mask work, database and design rights, whether or not registered or published, all registrations and recordations thereof and all applications in connection therewith.

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

Person is a general partner.

"Default" means any event that, if it continues uncured, will, with the lapse of time or the giving of notice or both, constitute an Event of Default.

"Default Rate" has the meaning set forth in Section 2.3.1.

"Disclosure Letter" means the letter dated as of the date of this Agreement delivered by the Loan Parties to the Agent and the Lender in connection with the execution and delivery of this Agreement.

"Disqualified Capital Stock" means any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, (a) matures (excluding any maturity as the result of an optional redemption by the issuer thereof) or is mandatorily redeemable or is redeemable at the option of the holder thereof, in whole or in part, on or prior to the date ninety-one (91) days after the Maturity Date, (b) is convertible into or exchangeable (unless at the sole option of the issuer thereof) for (i) debt securities or (ii) any Capital Stock referred to in (a) above, in each case at any time on or prior to the date ninety-one (91) days after the Maturity Date, or (c) contains any repurchase obligation which may come into effect prior to the date ninety-one (91) days after the Maturity Date; provided that any Capital Stock that would not constitute Disqualified Capital Stock but for provisions thereof giving holders thereof (or the holders of any security into or for which such Capital Stock is convertible, exchangeable or exercisable) the right to require the issuer thereof to redeem or repurchase such Capital Stock upon the occurrence of a change in control occurring prior to the date ninety-one (91) days after the Maturity Date, shall not constitute Disqualified Capital Stock if such Capital Stock provides that the issuer thereof will not redeem or repurchase any such Capital Stock pursuant to such provisions prior to the repayment in full of the Obligations.

"Disposition" has the meaning set forth in Section 7.4(b).

"Dollar" and "$" mean lawful currency of the United States of America.

"Eligible Institution" means any Person that is a bank, institutional lender or other recognized financing provider.

"Environmental Claims" means all claims, however asserted, by any governmental, regulatory or judicial authority or other Person alleging potential liability or responsibility under or for violation of any Environmental Law, or for release or injury to the environment or any Person or property or natural resources.

"Environmental Laws" means all present or future federal, state, provincial or local laws, statutes, common law duties, rules, regulations, ordinances and codes, including all amendments, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case relating to any

matter arising out of or relating to health and safety, or pollution or protection of the environment, natural resources or the workplace, including any of the foregoing relating to the presence, use, production, recycling, reclamation, generation, handling, transport, treatment, storage, disposal, distribution, discharge, release, emission, control, cleanup or investigation or management of any Hazardous Substance.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Event of Default" means any of the events described in Section 8.1.

"Existing Loan Documents" means that certain [Loan Agreement] dated as of [ ], [ ] and all documents and instruments executed and delivered from time to time in connection therewith.

"Existing Obligations" means all obligations, including accrued interest, outstanding pursuant to the Existing Loan Documents.

"Excluded Taxes" means any of the following Taxes required to be withheld or deducted from a payment to the Lender: (a) Taxes imposed on or measured by the Lender's net income, franchise Taxes in lieu of Taxes on net income, and branch profits Taxes, in each case (i) imposed by the jurisdiction under which the Lender is organized or has its principal office or (ii) that are Other Connection Taxes, (b) U.S. federal withholding taxes pursuant to a law in effect at the time such Lender first becomes a party to this Agreement, except to the extent that, pursuant to Section 3.1(a), amounts with respect to such Taxes were payable to such Lender's assignor immediately before such Lender became a party hereto, and (c) any U.S. federal withholding taxes imposed pursuant to FATCA.

"FATCA" means Sections 1471 through 1474 of the IRC, as of the date of this Agreement (or any amended or successor provision that is substantively comparable and not materially more burdensome to comply with), and any current or future regulations issued thereunder or official interpretations thereof.

"Fiscal Quarter" means a fiscal quarter of a Fiscal Year.

"Fiscal Year" means the fiscal year of the Borrower and its Subsidiaries, which period shall be the 12-month period ending on December 31 of each year.

"FRB" means the Board of Governors of the Federal Reserve System or any successor thereto.

"GAAP" means generally accepted accounting principles as in effect in the United States of America.

"Governmental Authority" means any nation or government, any state, province, municipality or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government (including any supra-national bodies

such as the European Union or the European Central Bank), and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"Guarantee and Collateral Agreement" means the Guarantee and Collateral Agreement, dated as of the Closing Date, executed by the Borrower and the other Loan Parties in favor of the Agent, and governed by the laws of the State of New York, as amended, restated, supplemented or otherwise modified from time to time in accordance with the terms hereof and thereof.

"Hazardous Substances" means any waste, chemical, substance, or material listed, defined, classified, or regulated as a hazardous waste, hazardous substance, pollutant, contaminant, toxic substance, or hazardous, dangerous or radioactive material, chemical or waste or any waste, chemical, substance or material otherwise regulated by any Environmental Law, including, without limitation, any petroleum or any derivative, waste, or byproduct thereof, radon, asbestos, and polychlorinated biphenyls, and any other substance, the storage, manufacture, disposal, treatment, generation, use, transportation, remediation, release into or concentration in the environment of which is prohibited, controlled, regulated or licensed by any governmental authority under any Environmental Law.

"Healthcare Laws" shall mean all federal and state laws applicable to the business of the Borrower or any other Loan Party, regulating the manufacturing, labeling, promotion and provision of and payment for healthcare products, items and services, including HIPAA, Section 1128B(b) of the Social Security Act, as amended, 42 U.S.C. Section 1320a-7b (Criminal Penalties Involving Medicare or State Health Care Programs), commonly referred to as the "Federal Anti-Kickback Statute," Section 1877 of the Social Security Act, as amended, 42 U.S.C. Section 1395nn (Limitation on Certain Physician Referrals), commonly referred to as "Stark Statute," U.S. Federal Food, Drug, and Cosmetic Act, as amended from time to time (21 U.S.C. Section 301 et seq.), all applicable Good Manufacturing Practice requirements addressed in the FDA's Quality System Regulation (21 C.F.R. Part 820), the Medical Devices Regulations, 21 C.F.R. Part 812, and Parts 50, 54, and 56, all applicable labeling requirements address in FDA's Device Labeling Regulation (21 C.F.R. Part 801), and all rules, regulations and guidance promulgated thereunder, including the Medicare Regulations and the Medicaid Regulations.

"Hedging Obligation" means, with respect to any Person, any liability of such Person under any interest rate, currency or commodity swap agreement, cap agreement or collar agreement, and any other agreement or arrangement designed to protect a Person against fluctuations in interest rates, currency exchange rates or commodity prices. The amount of any Person's obligation in respect of any Hedging Obligation shall be deemed to be the incremental obligation that would be reflected in the financial statements of such Person in accordance with GAAP.

"Holders" means, collectively, (i) the holders of the Capital Stock of the Borrower as of the Closing Date, (ii) each natural relative who is a rightful heir of the foregoing and (iii) any trust maintained by or for the benefit of any of the foregoing.

"Indemnified Liabilities" has the meaning set forth in Section 10.4.

"Indemnified Taxes" means (a) Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of any Loan Party under any Loan Document and (b) to the extent not otherwise described in (a), Other Taxes.

"Intellectual Property" means all rights, title and interests in intellectual property arising under any Applicable Law and all IP Ancillary Rights relating thereto, including all Copyrights, Patents, Trademarks, Internet Domain Names, Trade Secrets, industrial designs, integrated circuit topographies, and rights under IP Licenses.

["Interest-Only Period" shall mean the period beginning on the Closing Date and continuing through the [ ] Interest Payment Date after the Closing Date.]

"Interest Payment Date" means the last Business Day of each March, June, September and December.

"Internet Domain Name" means all right, title and interest (and all related IP Ancillary Rights) arising under any Applicable Law in internet domain names.

"Investment" means, with respect to any Person, (a) the purchase or other acquisition of any debt or equity security of any other Person, (b) the making of any loan, advance or capital contribution to any other Person, (c) becoming obligated with respect to a Contingent Obligation in respect of obligations of any other Person or (d) the making of an Acquisition.

"IP Ancillary Rights" means, with respect to an item of Intellectual Property all foreign counterparts to, and all divisionals, reversions, continuations, continuations-in-part, reissues, reexaminations, renewals and extensions of, such Intellectual Property and all income, royalties, proceeds and liabilities at any time due or payable or asserted under or with respect to any of the foregoing or otherwise with respect to such Intellectual Property, including all rights to sue or recover at law or in equity for any past, present or future infringement, misappropriation, dilution, violation or other impairment thereof, and, in each case, all rights to obtain any other IP Ancillary Right.

"IP License" means all contractual obligations (and all related IP Ancillary Rights), whether written or oral, granting any right, title and interest in any Intellectual Property.

"IRC" means the Internal Revenue Code of 1986, as amended.

"IRS" has the meaning set forth in Section 3.1(d).

"Legal Costs" means, with respect to any Person, (a) all fees and charges of any counsel, accountants, auditors, appraisers, consultants and other professionals to such Person, (b) the reasonable allocable cost of internal legal services of such Person and all reasonable disbursements of such internal counsel and (c) all court costs and similar legal expenses.

"Lender Party" has the meaning set forth in Section 10.4.

"Lender" has the meaning set forth in the Preamble.

"Letter Agreement" has the meaning set forth in Section 4.1.7.

"Lien" means, with respect to any Person, any interest granted by such Person in any real or personal property, asset or other right owned or being purchased or acquired by such Person which secures payment or performance of any obligation and shall include any mortgage, lien, encumbrance, charge or other security interest of any kind, whether arising by contract, as a matter of law, by judicial process or otherwise.

"Liquidity" means, at any time, the aggregate amount of cash held by the Borrower and its domestic Subsidiaries at such time (in deposit accounts located in the United States that are subject to Control Agreements in form and substance satisfactory to the Agent) that are not (A) subject to any Liens (other than Liens under the Collateral Documents and customary setoff rights with respect to deposit accounts or other funds maintained with depository institutions that are created by law or by applicable account agreements in favor of such depositary institutions or securities intermediaries), (B) required to be maintained or kept segregated from the general assets of the Borrower or the applicable Subsidiary for the purpose of securing or providing a source of payment for Debt or other obligations that are or from time to time may be owed to one or more creditors of the Borrower or any Subsidiary (other than to secure the Obligations) or (C) held by a Subsidiary that is subject to restrictions on its ability to pay dividends or distributions.

"Loans" means the Tranche One Loan[and the Tranche Two Loan].

"Loan Documents" means this Agreement, the Notes, the Collateral Documents, the Letter Agreement, the Perfection Certificate delivered by the Loan Parties on or prior to the Closing Date (as supplemented pursuant to Section 7.17 of the Guarantee and Collateral Agreement), the Disclosure Letter and all other documents, instruments and agreements delivered in connection with the foregoing, all as amended, restated or otherwise modified from time to time in accordance with the terms hereof and thereof.

"Loan Party" means the Borrower and each Subsidiary of the Borrower that has executed and delivered the Guarantee and Collateral Agreement (or a joinder thereto in accordance with the terms thereof).

"Margin Stock" means any "margin stock" as defined in Regulation T, U or X of the FRB.

"Material Adverse Effect" means (a) a material adverse change in, or a material adverse effect upon, the operations, assets, business, properties or condition (financial or otherwise) of (i) the Borrower or (ii) the Loan Parties and their Subsidiaries taken as a whole, (b) a material impairment of the ability of any Loan Party to perform in any material respect any of its Obligations under any Loan Document to which it is a party or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against any Loan Party of any Loan Document to which it is a party.

"Maturity Date" means [ ], [ ].

"Note" means a promissory note in substantially the form of Exhibit A or otherwise in form and substance acceptable to the Lender and the Agent, as the same may be replaced, substituted, amended, restated or otherwise modified from time to time.

"Obligations" means all liabilities, indebtedness and obligations (including interest accrued at the rate provided in the applicable Loan Document after the commencement of a bankruptcy proceeding whether or not a claim for such interest is allowed) of any Loan Party under this Agreement or otherwise with respect to any Loan, or any Loan Party under any other Loan Document, any Collateral Document or any other document or instrument executed in connection herewith or therewith, in each case howsoever created, arising or evidenced, whether direct or indirect, absolute or contingent, now or hereafter existing, or due or to become due.

"OFAC" has the meaning set forth in Section 5.20.1.

"Other Connection Taxes" means, with respect to the Lender, Taxes imposed as a result of a present or former connection between the Lender and the jurisdiction imposing such Tax (other than any such connection arising from the Lender having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction with respect to the Loan or enforced any Loan Document or sold or assigned an interest in any Loan or Loan Document).

"Other Taxes" means all present or future stamp, court or documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document.

"Paid in Full" or "Payment in Full" means, with respect to any Obligations, the payment in full in cash and performance of all such Obligations.

"Patents" means all (i) all patents and certificates of invention, or similar property rights, and applications for any of the foregoing, of the United States, any other country or any political subdivision thereof, (ii) all reissues, divisions, continuations, continuations-in-part, extensions, renewals, and reexaminations thereof, (iii) all rights corresponding thereto throughout the world, (iv) all inventions and improvements described therein, (v) all rights to sue for past, present and future infringements thereof, (vi) all licenses, claims, damages, and proceeds of suit arising therefrom, (vii) all proceeds of the foregoing, including, without limitation, licenses, royalties, and income, and (viii) without duplication, all IP Ancillary Rights in respect of the foregoing.

"Perfection Certificate" means the Perfection Certificate dated as of the date hereof delivered by the Loan Parties to the Agent and the Lender in connection with the execution and delivery of this Agreement, as amended, supplemented or otherwise modified from time to time.

"Permitted Lien" means any Lien expressly permitted by Section 7.2.

"Permitted Refinancing" means any replacement, renewal, refinancing or extension of any existing Debt, in any such case, permitted by this Agreement (a) that does not exceed the aggregate principal amount (plus accrued interest and any applicable premium and associated fees and expenses) of the Debt being replaced, renewed, refinanced or extended, (b) that does not

have a weighted average life to maturity at the time of such replacement, renewal, refinancing or extension that is less than the weighted average life to maturity of the Debt being replaced, renewed, refinanced or extended, (c) that does not rank at the time of such replacement, renewal, refinancing or extension senior to the Debt being replaced, renewed, refinanced or extended, (d) with respect to which the primary obligor in respect of, and the Persons (if any) that guarantee, such Debt (resulting from such replacement, renewal, refinancing or extension) are the primary obligor in respect of, and Persons (if any) that guaranteed, respectively, the Debt being replaced, renewed, refinanced or extended, and (e) that does not contain terms (including, without limitation, terms relating to security, amortization, interest rate, premiums, fees, covenants, subordination, event of default and remedies) that are less favorable to any Loan Party or adverse to the interests of the Agent and the Lender than those applicable to the Debt being replaced, renewed, refinanced or extended.

"Person" means any natural person, corporation, partnership, trust, limited liability company, association, Governmental Authority or unit, or any other entity, whether acting in an individual, fiduciary or other capacity.

"Prepayment Premium" means at any time with respect to any Loan being prepaid in whole or in part (including without limitation any prepayment as a result of an acceleration of the Loans hereunder), an amount equal to the product of (x) the principal amount of Loans being prepaid and (y) the applicable prepayment percentage set forth below opposite the period in which such prepayment is made:

Period	Prepayment Percentage
On or prior to the first anniversary of the Closing Date	[ ]%
After the first anniversary of the Closing Date through and including the second anniversary of the Closing Date	[ ]%
After the second anniversary of the Closing Date through and including the third anniversary of the Closing Date	[ ]%
After the third anniversary of the Closing Date through and including the fourth anniversary of the Closing Date	[ ]%
After the fourth anniversary of the Closing Date and prior to the Maturity Date	[ ]%

"Product" means and includes [ ], any and all future iterations thereof and any other products developed by any Loan Party.

"Qualified Capital Stock" of any person shall mean any Capital Stock of such person that is not Disqualified Capital Stock.

"Restricted Payment" has the meaning set forth in Section 7.3.

"Stock Equivalents" means all securities convertible into or exchangeable for Capital Stock or any other Stock Equivalent and all warrants, options or other rights to purchase, subscribe for or otherwise acquire any Capital Stock or any other Stock Equivalent, whether or not presently convertible, exchangeable or exercisable. For the avoidance of doubt, "Stock Equivalent" shall not include debt instruments that are convertible into Capital Stock or Stock Equivalents.

"Subsidiary" means, with respect to any Person, a corporation, partnership, limited liability company or other entity of which such Person owns, directly or indirectly, such number of outstanding shares of voting Capital Stock as to have more than 50% of the ordinary voting power for the election of directors or other managers of such corporation, partnership, limited liability company or other entity. Unless the context otherwise requires, each reference to Subsidiaries herein shall be a reference to Subsidiaries of the Borrower.

"Taxes" has the meaning set forth in Section 3.1(a).

"Tax Returns" has the meaning set forth in Section 5.12.

"Trade Secrets" means all right, title and interest (and all related IP Ancillary Rights) arising under any Applicable Law in or relating to trade secrets.

"Trademark" means all rights, title and interests (and all related IP Ancillary Rights) arising under any Applicable Law in trademarks, trade names, corporate names, company names, business names, fictitious business names, trade styles, service marks, logos and other source or business identifiers and, in each case, all goodwill associated therewith, all registrations and recordations thereof and all applications in connection therewith.

"Tranche One Commitment" means, as to the Lender, the Lender's commitment to provide the Tranche One Loan in the aggregate principal amount of $[ ] pursuant to Section 2.1.1(a).

["Tranche Two Commitment" means, as to the Lender, the Lender's commitment to provide the Tranche Two Loan in the aggregate principal amount of up to $[ ] pursuant to Section 2.1.1(b).]

"Tranche One Loan" means the term loan from the Lender pursuant to Section 2.1.1(a).

["Tranche Two Loan" means the term loan from the Lender pursuant to Section 2.1.1(b).]

["Tranche Two Milestone" has the meaning set forth in Section 4.2.2.]

["Tranche Two Milestone Notice" means written notice from the Borrower to the Agent that the Tranche Two Milestone has occurred.]

"UCC" means the Uniform Commercial Code as in effect in from time to time in the State of New York.

"Wholly-Owned Subsidiary" means, as to any Subsidiary, all of the Capital Stock of which (except directors' qualifying shares) are at the time directly or indirectly owned by the Borrower and/or another Wholly-Owned Subsidiary of the Borrower.

1.2 Interpretation. In the case of this Agreement and each other Loan Document, (a) the meanings of defined terms are equally applicable to the singular and plural forms of the defined terms; (b) Annex, Exhibit, Schedule and Section references in each Loan Document are to the particular Annex, Exhibit, Schedule and Section of such Loan Document unless otherwise specified; (c) the term "including" is not limiting and means "including but not limited to"; (d) in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding", and the word "through" means "to and including"; (e) unless otherwise expressly provided in such Loan Document, (i) references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications thereto, but only to the extent such amendments and other modifications are not prohibited by the terms of any Loan Document, and (ii) references to any statute or regulation shall be construed as including all statutory and regulatory provisions amending, replacing, supplementing or interpreting such statute or regulation; (f) this Agreement and the other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters, all of which are cumulative and each shall be performed in accordance with its terms; and (g) this Agreement and the other Loan Documents are the result of negotiations among and have been reviewed by counsel to the Agent, the Borrower, the Lender and the other parties hereto and thereto and are the products of all parties; accordingly, this Agreement and the other Loan Documents, in each case, shall not be construed against the Agent or the Lender merely because of the Agent's or the Lender's involvement in their preparation. Any reference in any Loan Document to a Permitted Lien is not intended to subordinate or postpone, and shall not be interpreted as subordinating or postponing, or as any agreement to subordinate or postpone, any Lien created by any of the Loan Documents to any Permitted Lien.

Section 2. Credit Facilities.

2.1 Loans.

2.1.1 Loans. Subject to the terms and conditions set forth in this Agreement, the Lender agrees to lend to the Borrower funds in an aggregate principal amount not to exceed the aggregate Commitments as follows:

(a) on the Closing Date, the entire amount of its Tranche One Commitment, after which the Tranche One Commitment shall terminate in full[; and

(b) within five (5) Business Days after receipt by the Agent from the Borrower of the Tranche Two Milestone Notice, the entire amount of its Tranche Two Commitment, after which the Tranche Two Commitment shall terminate in full].

2.1.2 General. No portion of the Loans may be re-borrowed once repaid. The proceeds of the Tranche One Loan shall be used to repay and terminate the Existing Obligations in full concurrently with the incurrence of the Tranche One Loan, for [ ] and for

general corporate purposes, in each case, in compliance with the Loan Documents and Applicable Law. [The Tranche Two Loan shall be used for general corporate purposes, in compliance with the Loan Documents and Applicable Law.]

2.2 Loan Accounting.

2.2.1 Recordkeeping. The Agent, on behalf of the Lender, shall record in its records the date and amount of the Loans made by the Lender, accrued interest and each repayment of principal or interest thereon. The aggregate unpaid principal amount so recorded shall be presumptive evidence of the principal amount of the Loans owing and unpaid. The failure to so record any such amount or any error in so recording any such amount shall not, however, limit or otherwise affect the Obligations of the Borrower hereunder or under any Note to repay the principal amount of the Loans hereunder, together with all interest accruing thereon.

2.2.2 Notes. At the request of the Lender, the Loans shall be evidenced by one or more Notes, with appropriate insertions, payable to the order of the Lender in a face principal amount equal to the Loans and payable in such amounts and on such dates as are set forth herein.

2.3 Interest.

2.3.1 Interest Rate

(a) The Borrower promises to pay interest on the unpaid principal amount of (i) the Tranche One Loan for the period commencing on the Closing Date[and (ii) the Tranche Two Loan for the period commencing on the borrowing date of the Tranche Two Loan, in each case] until such Loans are Paid in Full, at a rate payable in cash per annum equal to [ ]%.

(b) The foregoing notwithstanding, (i) at any time an Event of Default has occurred and is continuing, the interest rate then applicable to the Loans shall automatically be increased by five percent (5.00%) per annum (any such increased rate, the "Default Rate") and (ii) any such increase may thereafter be waived or rescinded by the Lender. In the event that the Obligations are not Paid in Full as of the Maturity Date, or in the event that the Obligations shall be declared or shall become due and payable pursuant to Section 8.2, the Obligations shall bear interest subsequent thereto at the Default Rate and such interest shall be payable in cash on demand. In no event shall interest or other amounts payable by the Borrower to the Lender hereunder exceed the maximum rate permitted under Applicable Law, and if any such provision of this Agreement is in contravention of any such law, (x) any amounts paid hereunder shall be deemed to be and shall be applied against the principal amount of the Obligations to the extent necessary such that the amounts paid hereunder do not exceed the maximum rate under Applicable Law and (y) such provision shall otherwise be deemed modified as necessary to limit such amounts paid to the maximum rate permitted under Applicable Law.

2.3.2 Interest Payments. Interest accrued on the Loans during the period from the Closing Date until the Maturity Date shall accrue and be payable in cash quarterly on each Interest Payment Date, in arrears, and, to the extent not paid in advance, upon a prepayment of the Loans in accordance with Section 2.4 and at maturity, in each such case, in cash. After

maturity and at any time an Event of Default exists, all accrued interest on the Loans shall be payable in cash on demand at the rates specified in Section 2.3.1.

2.3.3 Computation of Interest. Interest on the Loans shall be computed on the basis of a 360-day year comprised of twelve 30-day months.

2.4 Amortization; Prepayment.

2.4.1 Amortization. Commencing on the first Interest Payment Date following the [Interest-Only Period] [Closing Date], the Borrower shall repay to the Agent for the account of the Lender on each Interest Payment Date an amortization payment, plus accrued and unpaid interest, in respect of the outstanding Loans. Each amortization payment made on each such Interest Payment Date shall be equal to [ ] (which amounts shall be reduced as a result of the application of prepayments in accordance with Section 2.7), plus accrued and unpaid interest. The amount of each such amortization payment determined by the Agent shall be binding on the Borrower absent manifest error. [Each amortization payment hereunder shall be applied *pro rata* between the Tranche One Loan and the Tranche Two Loan according to the respective outstanding principal amounts of the Loans.]

2.4.2 Voluntary Prepayment. The Borrower may, on at least three (3) Business Days' written notice to the Agent, not later than 12:00 noon New York City time on such day, prepay the Loans in whole or in part (together with the applicable Prepayment Premium and accrued and unpaid interest to the date of prepayment on such prepaid amount); provided, however, that each partial prepayment that is not of the entire outstanding amount of any Loan shall be in an aggregate amount that is an integral multiple of $1,000,000.

2.5 Payment Upon Maturity. The Loans shall be Paid in Full on the Maturity Date.

2.6 Making of Payments. All payments on the Loans in accordance with this Agreement, including any payment in respect of the Prepayment Premium and all payments of fees and expenses, shall be made by the Borrower to the Agent without setoff, recoupment or counterclaim and in immediately available funds, in United States Dollars, by wire transfer to the account of the Agent specified by the Agent, in any case, not later than 1:00 p.m. New York City time on the date due, and funds received after that hour shall be deemed to have been received by the Agent on the following Business Day. The Agent shall promptly remit to the Lender all payments received in collected funds by the Agent for the account of such Lender.

2.7 Application of Payments and Proceeds. Each prepayment of the outstanding Loans pursuant to Section 2.4.2 shall be applied to the principal repayment installments of the Loans as determined by the Agent in its sole discretion.

2.8 Payment Dates. If any payment of principal of or interest on a Loan, or of any fees, falls due on a day which is not a Business Day, then such due date shall be extended to the immediately following Business Day and, in the case of principal, additional interest shall accrue and be payable for the period of any such extension.

2.9 Set-off. The Borrower agrees that the Agent, the Lender and their respective Affiliates have all rights of set-off and bankers' lien provided by Applicable Law, and in addition thereto, the Borrower agrees that at any time an Event of Default has occurred and is continuing, the Agent and the Lender may apply to the payment of any Obligations of the Borrower hereunder, whether or not then due, any and all balances, credits, deposits, accounts or moneys of the Borrower then or thereafter maintained with the Agent or such Lender.

2.10 Currency Matters. All amounts payable under this Agreement and the other Loan Documents to the Agent and/or the Lender shall be payable in Dollars.

2.11 Fees.

2.11.1 Closing Fee. As consideration for the agreements of the Lender hereunder, the Borrower agrees to pay to the Lender, for its own account, on or prior to the Closing Date, the Closing Fee.

2.11.2 Change of Control Fee. Upon the occurrence of a Change of Control, the Borrower agrees to pay to the Lender, for its own account, on the closing date for such Change of Control, a change of control fee (the "Change of Control Fee") equal to [ ]. For the avoidance of doubt, the Change of Control Fee shall be paid in addition to any Prepayment Premium and interest accruing at the Default Rate.

Section 3. Yield Protection.

3.1 Taxes.

(a) All payments of principal and interest on the Loan and all other amounts payable under any Loan Document shall be made free and clear of and without deduction or withholding for any present or future income, excise, stamp, documentary, property or franchise taxes or other taxes, fees, imposts, duties, levies, deductions, withholdings (including backup withholding) or other charges of any nature whatsoever imposed by any taxing authority, including any interest, additions to tax or penalties applicable thereto ("Taxes"), except as required by Applicable Law. If any withholding or deduction from any payment to be made by the Borrower hereunder is required in respect of any Taxes pursuant to any Applicable Law (as determined in the good faith reasonable discretion of the Borrower or the Agent), then the Borrower shall: (i) timely pay directly to the relevant taxing authority the full amount required to be so withheld or deducted; (ii) within thirty (30) days after the date of any such payment of Taxes, forward to the Agent an official receipt or other documentation satisfactory to the Agent evidencing such payment to such relevant taxing authority; and (iii) in the case of Indemnified Taxes, pay to the Agent for the account of the Lender such additional amount or amounts as is necessary to ensure that the net amount actually received by the Lender will equal the full amount the Lender would have received had no such withholding or deduction (including withholdings and deductions applicable to any additional sums payable under this Section 3.1) been required.

(b) The Borrower shall timely pay to the relevant Governmental Authority in accordance with Applicable Law, or at the option of the Agent timely reimburse it for the payment of, any Other Taxes.

(c) The Loan Parties shall jointly and severally reimburse and indemnify, within 10 days after receipt of demand therefor (with copy to the Agent), the Agent and the Lender for all Indemnified Taxes and Other Taxes (including any Indemnified Taxes and Other Taxes imposed by any jurisdiction on amounts payable under this Section 3.1) paid by the Agent or the Lender, or required to be withheld or deducted from a payment to the Agent or the Lender, and any liabilities arising therefrom or with respect thereto (including any penalty, interest or expense), whether or not such Taxes were correctly or legally asserted. A certificate of the Agent or the Lender (or of the Agent on behalf of the Lender) claiming any compensation under this clause (c), setting forth the amounts to be paid thereunder and delivered to the Borrower with a copy to the Agent, shall be conclusive, binding and final for all purposes, absent manifest error.

(d) On or prior to the date it becomes a party to this Agreement, and from time to time thereafter as required by law or reasonably requested in writing by the Borrower, the Lender (including for this purpose any assignee of the Lender that becomes a party to this Agreement) shall (but only so long as the Lender remains lawfully able to do so) provide the Borrower with such documents and forms as prescribed by the Internal Revenue Service ("IRS") in order to certify that payments to the Lender are exempt from or entitled to a reduced rate of U.S. federal withholding tax on payments pursuant to this Agreement or any other Loan Document. Without limiting the generality of the foregoing, any Lender that is the beneficial owner of payments made under this Agreement will (but only so long as the Lender remains lawfully able to do so) provide: (i) in the case of a beneficial owner that is U.S. person within the meaning of Section 7701 of the IRC, IRS Form W-9 certifying that such beneficial owner is exempt from U.S. Federal backup withholding tax, (ii) in the case of a beneficial owner claiming the benefits of the exemption for portfolio interest under Section 881(c) of the IRC both (A) IRS Form W-8BEN and (B) a certificate to the effect that such beneficial owner is not (1) a "bank" within the meaning of Section 881(c)(3)(A) of the IRC, (2) a "10 percent shareholder" of the Borrower within the meaning of Section 881(c)(3)(B) of the IRC, or (3) a "controlled foreign corporation" described in Section 881(c)(3)(C) of the IRC, (iii) in the case of a beneficial owner that is not a U.S. person within the meaning of Section 7701 of the IRC claiming the benefits of an income tax treaty to which the United States is a party, IRS Form W-8BEN establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "interest," "business profits" or "other income" article of such tax treaty; and (iv) in the case of a beneficial owner for whom payments under this Agreement constitute income that is effectively connected with such beneficial owner's conduct of a trade or business in the United States, IRS Form W-8ECI. Any Lender that is not the beneficial owner of payments made under this Agreement, such as an entity treated as a partnership for U.S. federal income tax purposes, will (but only so long as the Lender remains lawfully able to do so) provide (x) an IRS Form W-8IMY on behalf of itself and (y) on behalf of each such beneficial owner, the forms set forth in clauses (i) through (iv) of the preceding sentence that would be required of such beneficial owner if such beneficial owner were a Lender. If a payment made to the Lender under this Agreement would be subject to U.S. federal withholding tax imposed by FATCA if the Lender were to fail to comply with the applicable reporting requirements of FATCA, the Lender shall (but only so long as the Lender remains lawfully able to do so) deliver to the Borrower, at the time or times prescribed by law or reasonably requested in writing by the Borrower, such documentation prescribed by applicable law or reasonably requested in writing by the Borrower as may be necessary for the Borrower to comply with its obligations under FATCA, to determine that the Lender has complied with its obligations under

FATCA, or to determine the amount to deduct and withhold from such payment. Solely for purposes of the preceding sentence, FATCA shall include any amendments made to FATCA after the date of this Agreement.

(e) If the Lender determines, in its sole discretion, that it has received a refund of any Indemnified Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section, the Lender shall pay to the Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) incurred by the Lender, and without interest (other than any interest paid by the relevant taxing authority with respect to such refund), provided that the Borrower, upon the request of the Lender, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant taxing authority) to the Lender in the event the Lender is required to repay such refund to such taxing authority. Notwithstanding anything to the contrary in this paragraph (e), in no event will the Lender be required to pay any amount to the Borrower pursuant to this paragraph (e) the payment of which would place the Lender in a less favorable net after-Tax position than the Lender would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. This paragraph (e) shall not be construed to require the Lender to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person.

(f) The provisions of this Section 3.1 shall survive the termination of this Agreement and repayment of all Obligations.

3.2 Increased Cost.

(a) If, after the Closing Date, the adoption or taking effect of, or any change in, any Applicable Law, rule, regulation or treaty, or any change in the interpretation or administration of any Applicable Law, rule, regulation or treaty by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Lender with any request, rule, guideline or directive (whether or not having the force of law) of any such authority, central bank or comparable agency: (i) shall impose, modify or deem applicable any reserve (including any reserve imposed by the FRB), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by the Lender; (ii) subject the Lender or the Agent to any Taxes (other than Taxes described in clauses (b) and (c) of the definition of Excluded Taxes, Taxes indemnified pursuant to Section 3.1 and Connection Income Taxes); or (iii) shall impose on the Lender any other condition affecting its Loan, its Note or its obligation to make the Loan; and the result of anything described in clauses (i) through (iii) above is to increase the cost to (or to impose a cost on) such Lender of making or maintaining its Loan, or to reduce the amount of any sum received or receivable by such Lender under this Agreement or under its Note with respect thereto, then, upon demand by such Lender (which demand shall be accompanied by a statement setting forth the basis for such demand and a calculation of the amount thereof in reasonable

detail, a copy of which shall be furnished to the Agent), the Borrower shall pay directly to the Lender such additional amount as will compensate the Lender for such increased cost or such reduction.

(b) If the Lender shall reasonably determine that any change in, or the adoption or phase-in of, any Applicable Law, rule or regulation regarding capital adequacy, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or the compliance by the Lender or any Person controlling the Lender with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on the Lender's or such controlling Person's capital as a consequence of such Lender's Commitments hereunder to a level below that which the Lender or such controlling Person could have achieved but for such change, adoption, phase-in or compliance (taking into consideration the Lender's or such controlling Person's policies with respect to capital adequacy) by an amount deemed by the Lender or such controlling Person to be material, then from time to time, upon demand by the Lender (which demand shall be accompanied by a statement setting forth the basis for such demand and a calculation of the amount thereof in reasonable detail, a copy of which shall be furnished to the Agent), the Borrower shall pay to the Lender such additional amount as will compensate the Lender or such controlling Person for such reduction.

(c) Notwithstanding anything herein to the contrary, (i) all requests, rules, guidelines, requirements and directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or by United States or foreign regulatory authorities, in each case pursuant to Basel III, and (ii) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines, requirements and directives thereunder or issued in connection therewith or in implementation thereof, shall in each case be deemed to be a change in Applicable Law, regardless of the date enacted, adopted, issued or implemented.

3.3 Mitigation of Circumstances. The Lender will use commercially reasonable efforts available to it (and not, in such Lender's sole judgment, otherwise disadvantageous to such Lender) to mitigate or avoid, any obligation by the Borrower to pay any amount pursuant to Section 3.1 or 3.2; provided, that this Section 3.3 shall not apply to, or operate to prevent, any assignment of the Loan and the rights and obligations of the Lender pursuant to Section 10.13. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by the Lender in connection with this Section 3.3.

3.4 Conclusiveness of Statements; Survival. Determinations and statements of the Lender pursuant to Sections 3.1 or 3.2 shall be conclusive absent demonstrable error provided that the Lender or the Agent provides the Borrower with written notification of such determinations and statements. The Lender may use reasonable averaging and attribution methods in determining compensation under Sections 3.1 or 3.2 and the provisions of such Sections shall survive repayment of the Loan, cancellation of the Notes and termination of this Agreement.

Section 4. Conditions Precedent.

4.1 Tranche One Loan. The obligation of the Lender to make the Tranche One Loan on the Closing Date is subject to the following conditions precedent, each of which shall be satisfactory in all respects to the Agent and the Lender:

4.1.1 Delivery of Loan Documents. The Borrower shall have delivered the following documents in form and substance satisfactory to the Agent (and, as applicable, duly executed by all Persons named as parties thereto and dated the Closing Date or an earlier date satisfactory to the Agent):

(a) Agreement. This Agreement.

(b) Notes. A Note in respect of the Tranche One Loan.

(c) Collateral Documents. The Guarantee and Collateral Agreement and all other Collateral Documents, and all instruments, documents, certificates and agreements executed or delivered pursuant thereto (including Intellectual Property assignments and pledged equity and limited liability company interests in the Borrower's Subsidiaries, if any, with undated irrevocable transfer powers executed in blank), in each case, executed and delivered by each Loan Party and each other Person named as a party thereto.

(d) Financing Statements. Properly completed Uniform Commercial Code financing statements and other filings and documents required by law or the Loan Documents to provide the Agent perfected first priority Liens (subject only to Permitted Liens) in the Collateral.

(e) Lien Searches. Copies of Uniform Commercial Code search reports listing all effective financing statements or equivalent filings filed against any Loan Party, with copies of such financing statements and filings; and copies of Patent, Trademark, Copyright and Internet Domain Name search reports conducted by the Borrower listing all effective collateral assignments in respect of such Intellectual Property filed with respect to any Loan Party, with copies of such collateral assignment documentation.

(f) Authorization Documents. For each Loan Party, such Person's (i) charter (or similar formation document), certified as of a recent date by the appropriate Governmental Authority (as applicable) in its jurisdiction of incorporation (or formation), (ii) limited liability company agreement, partnership agreement and bylaws (and similar governing document) (as applicable), (iii) resolutions of its board of directors (or similar governing body) approving and authorizing such Person's execution, delivery and performance of the Loan Documents to which it is party and the transactions contemplated thereby, (vi) signature and incumbency certificates of its officers authorized to execute the Loan Documents, in each case with respect to clauses (i) through (iv), all certified by its secretary or an assistant secretary (or similar officer) as being in full force and effect without modification and (v) good standing certificates in its jurisdiction of incorporation (or formation) and in each other jurisdiction requested by the Agent or the Lender, in each case, dated as of a recent date.

(g) Opinions of Counsel. Opinions of counsel for each Loan Party, in form and substance requested by the Agent.

(h) Insurance. Certificates or other evidence of insurance in effect as required by Section 6.3(b), with endorsements naming the Agent as lenders' loss payee and/or additional insured, as applicable.

(i) Control Agreements. A Control Agreement for each deposit account and securities account maintained by any Loan Party (other than zero balance, payroll and similar accounts) in form and substance satisfactory to the Agent.

(j) Other Documents. Such other certificates, documents and agreements that may be listed on the closing checklist provided by the Agent to the Borrower or as the Agent or the Lender may request.

4.1.2 Payment of Fees and Expenses. The Borrower shall have paid, on or prior to the Closing Date, (i) all fees and expenses owing and payable to the Agent and the Lender as of the Closing Date, including the Closing Fee; and (ii) subject to Section 10.3, without duplication, all costs and expenses incurred by the Agent and the Lender in connection with the preparation, execution and delivery of this Agreement, the other Loan Documents and the transactions contemplated hereby and thereby which are required to be paid by the Borrower, and shall provide evidence acceptable to the Agent of each of the foregoing.

4.1.3 Representations and Warranties. Each representation and warranty by each Loan Party contained herein or in any other Loan Document to which such Loan Party is a party, shall be true and correct in all material respects (without duplication of any materiality qualifier contained therein) as of the Closing Date.

4.1.4 No Default. No Default or Event of Default shall have occurred and be continuing.

4.1.5 No Material Adverse Change. Since [the date of the last audited financial statements], there has been no event or occurrence that has or could reasonably be expected to result in a Material Adverse Effect.

4.1.6 Execution and Delivery of Letter Agreement. The Borrower shall have executed and delivered a letter agreement to the Agent dated as of the Closing Date (the "Letter Agreement") containing, among other items, certain representations and warranties regarding, among other things, its Intellectual Property, on terms and conditions acceptable to the Lender and the Agent.

4.1.7 Repayment of Existing Obligations. The Borrower shall have paid in full, on or prior to the Closing Date, all Existing Obligations and shall have delivered a fully executed payoff letter in form and substance satisfactory to the Agent evidencing such payment in full. Any Liens securing, and transfers or assignments executed in connection with, the Existing Obligations shall be terminated on or prior to the Closing Date in accordance with documentation in form and substance satisfactory to the Agent.

4.2 [Tranche Two Loan. The obligation of the Lender to make the Tranche Two Loan is subject to the following conditions precedent, each of which shall be satisfactory in all respects to the Agent and the Lender:

4.2.1 Delivery of Borrowing Request. The Borrower shall have delivered a Borrowing Request in respect of the Tranche Two Loan no later than 1:00 New York City time at least five (5) Business Days prior to the proposed borrowing date.

4.2.2 Tranche Two Milestone. On or prior to [ ], the Borrower shall have [ ] (the "Tranche Two Milestone"). For the avoidance of doubt, if the Tranche Two Milestone shall have not occurred on or prior to [ ], the condition set forth in this Section 4.2.2 shall not be satisfied.

4.2.3 Delivery of Tranche Two Milestone Notice. The Borrower shall have delivered the Tranche Two Milestone Notice in respect of the Tranche Two Milestone.

4.2.4 Payment of Fees and Expenses. The Borrower shall have paid, on or prior to the borrowing date of the Tranche Two Loan, (i) all fees and expenses owing and payable to the Agent and the Lender as of such date and (ii) subject to Section 10.3, without duplication, all costs and expenses incurred by the Agent and the Lender in connection with the funding of the Tranche Two Loan and the transactions contemplated thereby which are required to be paid by the Borrower, and shall provide evidence acceptable to the Agent of each of the foregoing.

4.2.5 Representations and Warranties. Each representation and warranty by each Loan Party contained herein or in any other Loan Document to which such Loan Party is a party, shall be true and correct in all material respects (without duplication of any materiality qualifier contained therein) as of the proposed borrowing date of the Tranche Two Loan.

4.2.6 No Default. No Default or Event of Default shall have occurred and be continuing.

4.2.7 No Material Adverse Change. Since [date of the last audited financial statements], there has been no event or occurrence that has or could reasonably be expected to result in a Material Adverse Effect.

4.2.8 Note. The Borrower shall have delivered a Note in respect of the Tranche Two Loan in form and substance satisfactory to the Agent, duly executed by the Borrower.]Representations and Warranties.

To induce the Agent and the Lender to enter into this Agreement and to induce the Lender to advance the Loans hereunder, the Borrower represents and warrants to the Agent and the Lender that each of the following are, and after giving effect to the borrowing of the Loans, will be, true, correct and complete:

5.1 Organization. The Borrower is a [corporation][limited liability company] validly existing and in good standing under the laws of the State of Delaware; each other Loan Party and each of its Subsidiaries is validly existing and in good standing (as applicable) under

the laws of the jurisdiction of its organization; and each Loan Party and each of its Subsidiaries is duly qualified to do business in each jurisdiction where, because of the nature of its activities or properties, such qualification is required.

5.2 Authorization; No Conflict. Each Loan Party is duly authorized to execute and deliver each Loan Document to which it is a party, the Borrower is duly authorized to borrow monies hereunder, the granting of the security interests pursuant to the Collateral Documents is within the corporate purposes of the Borrower and each other Loan Party party thereto, and the Borrower and each other Loan Party is duly authorized to perform its Obligations under each Loan Document to which it is a party. The execution, delivery and performance by the Borrower of this Agreement and by the Borrower and each Loan Party of each Loan Document to which it is a party, and the borrowings by the Borrower hereunder, do not and will not (a) require any consent or approval of any Governmental Authority (other than (i) any consent or approval which has been obtained and is in full force and effect and (ii) recordings and filings in connection with the Liens granted to the Agent under the Collateral Documents), (b) conflict with (i) any provision of Applicable Law, (ii) the charter, by-laws, limited liability company agreement, partnership agreement or other organizational documents of any Loan Party or (iii) any agreement, indenture, instrument or other document, or any judgment, order or decree, which is binding upon any Loan Party or any of their respective properties or (c) require, or result in, the creation or imposition of any Lien on any asset of the Borrower or any other Loan Party (other than Liens in favor of the Agent created pursuant to the Collateral Documents).

5.3 Validity; Binding Nature. Each of this Agreement and each other Loan Document to which the Borrower or any other Loan Party is a party is the legal, valid and binding obligation of such Person, enforceable against such Person in accordance with its terms, subject to bankruptcy, insolvency and similar laws affecting the enforceability of creditors' rights generally and to general principles of equity.

5.4 Financial Condition. The unaudited consolidated financial statements of the Borrower and its Subsidiaries (presented on a consolidated basis) as at [ ], [ ], and the audited consolidated financial statements of the Borrower and its Subsidiaries (presented on a consolidated basis) as at [ ], [ ], have been prepared in accordance with GAAP and present fairly the consolidated financial condition of such Persons as at such dates and the results of their operations for the periods then ended. As of the Closing Date, the Borrower and its Subsidiaries have no liabilities other than as set forth on the foregoing financial statements other than trade payables incurred in the ordinary course of business.

5.5 No Material Adverse Change. Since [the date of the last audited financial statements], there has been no event or occurrence that has or could reasonably be expected to result in a Material Adverse Effect.

5.6 Litigation. No litigation (including derivative actions), arbitration proceeding or governmental investigation or proceeding is pending or, to any Loan Party's knowledge, threatened, against any Loan Party or any of its Subsidiaries or any of their respective properties which (i) purport to affect or pertain to this Agreement, any other Loan Document or any of the transactions contemplated hereby or (ii) that could reasonably be

expected to have, either individually or in the aggregate, a Material Adverse Effect. No injunction, writ, temporary restraining order or any order of any nature has been issued by any court or other Governmental Authority purporting to enjoin or restrain the execution, delivery or performance of this Agreement, any other Loan Document, or directing that the transactions provided for herein not be consummated as herein provided. Neither any Loan Party nor any of its Subsidiaries is the subject of an audit or any review or investigation by any Governmental Authority (excluding the IRS and other taxing authorities) concerning the violation or possible violation of any requirement of Applicable Law.

5.7 Ownership of Properties; Liens; Real Property. There are no Liens on the Collateral other than those granted in favor of the Agent to secure the Obligations and other Permitted Liens. Each Loan Party and each of its Subsidiaries owns good and, in the case of real property, marketable, title to all of its properties and assets, real and personal, tangible and intangible, of any nature whatsoever (including Patents, Trademarks, trade names, service marks and Copyrights), free and clear of all Liens, charges and claims (including infringement claims with respect to Intellectual Property) other than Permitted Liens. Section 5.7 of the Disclosure Letter lists all of the real property owned, leased, subleased or otherwise owned or occupied by any Loan Party.

5.8 Capitalization; Subsidiaries.

(a) Equity Interests. As of the Closing Date, the Borrower has no Subsidiaries and does not hold any Capital Stock of any other Person. All Capital Stock of each Loan Party and each of its Subsidiaries are duly and validly issued and, in the case of each entity that is a corporation, are fully paid and non-assessable, and, other than the Capital Stock of the Borrower, are owned by the Borrower, directly or indirectly through Wholly-Owned Subsidiaries. Each Loan Party is the record and beneficial owner of, and has good and marketable title to, the Capital Stock pledged by it to the Agent under the Collateral Documents, free of any and all Liens, rights or claims of other persons, except the security interest created by the Collateral Documents, and there are no outstanding warrants, options or other rights to purchase, or shareholder, voting trust or similar agreements outstanding with respect to, or property that is convertible into, or that requires the issuance or sale of, any such Capital Stock. As of the Closing Date, no Loan Party is engaged in any joint venture with any other Person.

(b) No Consent of Third Parties Required. No consent of any Person including any other general or limited partner, any other member of a limited liability company, any other shareholder or any other trust beneficiary is necessary or reasonably desirable (from the perspective of a secured party) in connection with the creation, perfection or first priority status of the security interest of the Agent in any Capital Stock pledged to the Agent for the benefit of the Lender under the Collateral Documents or the exercise by the Agent of the voting or other rights provided for in the Collateral Documents or the exercise of remedies in respect thereof.

5.9 Pension Plans. No Loan Parties have any liability under ERISA and no Loan Party sponsors any “pension plan” or has any liability subject to Title IV of ERISA.

5.10 Compliance with Law; Investment Company Act; Other Regulated Entities.

(a) Each Loan Party and each of its Subsidiaries possesses all, and is not in default under any, necessary authorizations, permits, licenses, certifications and approvals from all Governmental Authorities in order to conduct their respective businesses as presently conducted. All business and operations of each Loan Party and each of its Subsidiaries complies with all Applicable Law. No Loan Party or any of its Subsidiaries is operating any aspect of its business under any agreement, settlement, judgment, decree, injunction, order or other arrangement with any Governmental Authority. None of any Loan Party, any Person controlling any Loan Party, or any Subsidiary of any Loan Party, is subject to regulation under any Federal or state statute, rule or regulation limiting its ability to incur Debt, pledge its assets or perform its Obligations under the Loan Documents.

(b) No Loan Party or any of its Subsidiaries is an "investment company" or a company "controlled" by an "investment company" or a "subsidiary" of an "investment company", within the meaning of the Investment Company Act of 1940.

(c) Without limiting the generality of the foregoing, except where noncompliance individually or in the aggregate could not reasonably be expected to result in a Material Adverse Effect:

i. any financial relationships of any Loan Party or any Subsidiary with any Person (i) comply with all applicable Healthcare Laws including, without limitation, the Federal Anti-Kickback Statute, the Stark Law and applicable state anti-kickback and self-referral laws; (ii) reflect fair market value, have commercially reasonable terms, and were negotiated at arm's length; and (iii) do not obligate such Person to purchase, use, recommend, or arrange for the use of any Products or services of the Borrower, any Loan Party, or any Subsidiary; and

ii. each Loan Party and each of its Subsidiaries have implemented policies and procedures to monitor, collect, and report, and will report, any payments or transfers of value to certain healthcare providers and teaching hospitals, in accordance with industry standards and the Affordable Care Act of 2010 and its implementing regulations and state disclosure and transparency laws.

5.11 Margin Stock. Neither the Borrower nor any other Loan Party is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying Margin Stock. No portion of the Obligations is secured directly or indirectly by Margin Stock.

5.12 Taxes. Each Loan Party and each of its Subsidiaries has filed all federal, state, provincial, local and foreign income, sales, goods and services, harmonized sales and franchise and other tax returns, reports and statements (collectively, the "Tax Returns") with the appropriate Governmental Authorities in all jurisdictions in which such Tax Returns are or were required to be filed. All such Tax Returns are true, correct and complete in all material respects. All Taxes, charges and other impositions reflected therein or otherwise due and payable have

been paid prior to the date on which any liability may be added thereto for non-payment thereof, except for those contested in good faith by appropriate proceedings diligently conducted and for which adequate reserves are maintained on the books of the appropriate Loan Party, as applicable. No Tax Return is under audit or examination by any Governmental Authority and no notice of such an audit or examination or any assertion of any claim for Taxes has been given or made by any Governmental Authority. Proper and accurate amounts have been withheld by each Loan Party and each of its Subsidiaries, as applicable, from their respective employees for all periods in full and complete compliance with the tax, social security and unemployment withholding provisions of Applicable Law and such withholdings have been timely paid to the respective Governmental Authorities in accordance with Applicable Law. No Loan Party has been a member of an affiliated, combined or unitary group other than the group of which a Loan Party is the common parent or has liability for Taxes of any other person.

5.13 Solvency. Both immediately before and after giving effect to (a) the Loans made on or prior to the date this representation and warranty is made or remade, (b) the disbursement of proceeds of such Loans, and (c) the payment and accrual of all transaction costs in connection with the foregoing, with respect to the Borrower and each other Loan Party, on a consolidated basis, (i) the fair value of the assets of Borrower and each other Loan Party, on a consolidated basis, is greater than the amount of the liabilities (including disputed, contingent and unliquidated liabilities) of Borrower and each other Loan Party, on a consolidated basis, as such value is established and liabilities evaluated, (ii) the present fair saleable value of the property and assets of Borrower and each other Loan Party, on a consolidated basis, is not less than the amount that will be required to pay the probable liability on the debts of Borrower and each other Loan Party, on a consolidated basis, as they become absolute and matured, (iii) the Borrower and each other Loan Party, on a consolidated basis, are able to realize upon their assets and pay their debts and other liabilities (including disputed, contingent and unliquidated liabilities) as they mature in the normal course of business, (iv) neither Borrower nor any other Loan Party intends to, and does not believe that it will, incur debts or liabilities beyond its ability to pay as such debts and liabilities mature, (v) neither Borrower nor any other Loan Party is engaged in business or a transaction, and is not about to engage in business or a transaction, for which its property would constitute unreasonably small capital, and (vi) the Borrower and each other Loan Party, on a consolidated basis, are “solvent” within the meaning given that term and similar terms under applicable laws relating to bankruptcy, insolvency and fraudulent transfers and conveyances.

5.14 Environmental Matters. The on-going operations of each Loan Party and each of its Subsidiaries comply in all respects with all Environmental Laws, except such non-compliance which could not (if enforced in accordance with Applicable Law) reasonably be expected to result in a Material Adverse Effect. Each Loan Party and each of its Subsidiaries have obtained, and maintained in good standing, all licenses, permits, authorizations and registrations required under any Environmental Law and necessary for their respective ordinary course operations, and each Loan Party and each of its Subsidiaries are in compliance with all material terms and conditions thereof, except where the failure to do so could not reasonably be expected to result in material liability to any Loan Party or any of its Subsidiaries and could not reasonably be expected to result in a Material Adverse Effect. No Loan Party or any of its Subsidiaries or any of their respective properties or operations is subject to any outstanding written order from or agreement with any federal, state or local Governmental Authority, nor

subject to any judicial or docketed administrative proceeding, nor subject to any indemnification agreement or other contractual obligation, respecting any Environmental Law, Environmental Claim or Hazardous Substance. There are no Hazardous Substances or other conditions or circumstances existing with respect to any property, or arising from operations prior to the Closing Date, of any Loan Party or any of its Subsidiaries that could reasonably be expected to result in a Material Adverse Effect. No Loan Party or any of its Subsidiaries has any underground or above ground storage tanks that are not properly registered or permitted under applicable Environmental Laws or that are leaking or disposing of Hazardous Substances.

5.15 Insurance. Each Loan Party and each of its Subsidiaries and its respective properties are insured with financially sound and reputable insurance companies which are not Affiliates of the Borrower, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where such Loan Party or such Subsidiary operates. A true and complete listing of such insurance of the Borrower and the Loan Parties as of the Closing Date, including issuers, coverages and deductibles, is set forth in Section 5.15 of the Disclosure Letter.

5.16 Information. All information heretofore or contemporaneously herewith furnished by the Borrower or any other Loan Party to the Agent or the Lender for purposes of or in connection with this Agreement and the transactions contemplated hereby is, and all information hereafter furnished by or on behalf of the Borrower or any Loan Party to the Agent or the Lender pursuant hereto or in connection herewith will be, true and accurate in every material respect on the date as of which such information is dated or certified, and none of such information is or will be incomplete by omitting to state any material fact necessary to make such information not misleading in light of the circumstances under which made (it being recognized by the Agent and the Lender that any projections and forecasts provided by the Borrower are based on good faith estimates and assumptions believed by the Borrower to be reasonable as of the date of the applicable projections or assumptions and that actual results during the period or periods covered by any such projections and forecasts may differ from projected or forecasted results).

5.17 Intellectual Property.

(a) Each Loan Party and each of its Subsidiaries owns, or is licensed or otherwise has the right to use, all Intellectual Property necessary to conduct its business as currently conducted. The conduct and operations of the businesses of each Loan Party and each of its Subsidiaries do not, and the anticipated Products and Intellectual Property applications of the Loan Parties and its Subsidiaries will not, infringe upon, misappropriate, dilute or violate any Intellectual Property owned by any other Person. No other Person (i) has asserted any right, title or interest with respect to, or (ii) contested any right, title or interest of any Loan Party or any of its Subsidiaries in, any Intellectual Property, any anticipated Products and applications derived or expected to be derived therefrom, or the development and commercialization of any Products derived or expected to be derived therefrom. The Intellectual Property owned by the Loan Parties and their Subsidiaries is sufficient, and conveys adequate rights, title and interests, for the Borrower, the other Loan Parties and their Subsidiaries to develop and commercialize its anticipated Products and Intellectual Property applications.

(b) Each Loan Party and each of its Subsidiaries (either itself or through licensees) has (A) used each Trademark owned by it on each and every trademark class of goods in the ordinary course of business in order to maintain such Trademark in full force free from any claim of abandonment for non-use in any class of goods for which registration was obtained, (B) maintained in the ordinary course of business the quality of products and services offered under such Trademark and taken all necessary steps to ensure that all licensed users of such Trademark maintain as in the past such quality, (C) used such Trademark with the appropriate notice of registration and all other notices and legends required by Applicable Law, (D) not adopted or used any mark which is confusingly similar or a colorable imitation of such Trademark that the Agent, for the benefit of the Lender, has not obtained a perfected security interest and (E) not (and has not permitted any licensee or sublicensee thereof to have) done any act or knowingly omitted to do any act whereby such Trademark may become invalidated or impaired in any way.

(c) Each Loan Party and each of its Subsidiaries (either itself or through licensees) has not done any act, or omitted to do any act, whereby any of its Patents may become forfeited, abandoned or dedicated to the public.

(d) Each Loan Party and each of its Subsidiaries (either itself or through licensees) (A) has employed each Copyright owned by it, if any, and (B) has not acted or omitted to act whereby any portion of its Copyrights may become invalidated or otherwise impaired. Such Loan Party has not (either itself or through licensees) done any act whereby any portion of its Copyrights may fall into the public domain as a result of any such act.

(e) Each Loan Party (either itself or through licensees) has used proper statutory notice in connection with the use of each of its Patents, Trademarks and Copyrights included in the Intellectual Property of such Loan Party

(f) Each Loan Party and each of its Subsidiaries has taken all reasonable and necessary steps, including, without limitation, in any proceeding before the Patent and Trademark Office, the Copyright Office or any similar office or agency in any other country or any political subdivision thereof, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of its Intellectual Property, including, without limitation, the payment of required fees and taxes, the filing of responses to office actions issued by the Patent and Trademark Office and the Copyright Office, the filing of applications for renewal or extension, the filing of affidavits of use and affidavits of incontestability, the filing of divisional, continuation, continuation-in-part, reissue, and renewal applications or extensions, the payment of maintenance fees, and the participation in interference, reexamination, opposition, cancellation, infringement and misappropriation proceedings.

(g) No Loan Party or any of its Subsidiaries (either itself or through licensees) (a) has discontinued use of or otherwise abandoned any of its Intellectual Property or (b) has abandoned any right to file an application for letters patent, trademark, or copyright.

(h) Each Loan Party and each of its Subsidiaries has done all things that are necessary and proper within such Loan Party's power and control to keep each license of Intellectual Property held by such Loan Party as licensee or licensor in full force and effect.

(i) Each Loan Party and each of its Subsidiaries has maintained all of its rights to its domain names in full force and effect, except that each Loan Party and each of its Subsidiaries may elect not to renew any domain name the failure of which would not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect.

5.18 Labor Matters. No Loan Party or any of its Subsidiaries is subject to any labor or collective bargaining agreement. There are no existing or threatened strikes, lockouts or other labor disputes involving any Loan Party or any of its Subsidiaries that individually or in the aggregate could reasonably be expected to have a Material Adverse Effect. Hours worked by and payment made to employees of the Borrower, the other Loan Parties and any Subsidiary are not in violation of the Fair Labor Standards Act or any other Applicable Law, rule or regulation dealing with such matters.

5.19 No Default. No Loan Party or any of its Subsidiaries is in default under or with respect to any contractual obligation in any respect which, individually or together with all such defaults, would reasonably be expected to have a Material Adverse Effect.

5.20 Foreign Assets Control Regulations and Anti-Money Laundering.

5.20.1 OFAC. Each Loan Party and each of its Subsidiaries is and will remain in compliance in all material respects with all U.S. economic sanctions laws, Executive Orders and implementing regulations as promulgated by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") and all applicable anti-money laundering and counter-terrorism financing provisions of the Bank Secrecy Act and all regulations issued pursuant to any of the foregoing. No Loan Party and no Subsidiary (i) is a Person designated by the U.S. government on the list of the Specially Designated Nationals and Blocked Persons (the "SDN List") with which a U.S. Person cannot deal with or otherwise engage in business transactions, (ii) is a Person who is otherwise the target of U.S. economic sanctions laws such that a U.S. Person cannot deal or otherwise engage in business transactions with such Person or (iii) is controlled by (including without limitation by virtue of such person being a director or owning voting shares or interests), or acts, directly or indirectly, for or on behalf of, any person or entity on the SDN List, a Terrorist List or a foreign government that is the target of U.S. economic sanctions prohibitions such that the entry into, or performance under, this Agreement or any other Loan Document would be prohibited under U.S. law.

5.20.2 PATRIOT Act. The Loan Parties and each of their Affiliates are in compliance in all material respects with (a) the Trading with the Enemy Act, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B Chapter V, as amended) and any other enabling legislation or executive order relating thereto and (b) the PATRIOT Act. No part of the proceeds of any Loan will be used directly or indirectly for any payments to any government official or employee, political party, official of a

political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977.

5.21 Non-Competes. None of the Loan Parties nor any of their officers or employees is subject to a non-compete agreement that prohibits or will interfere with the development, commercialization or marketing of any Product.

5.22 Internal Controls. Borrower acknowledges that its management is responsible for establishing and maintaining effective internal control over financial reporting and assessing the effectiveness of internal control over financial reporting. Borrower has performed an evaluation and made an assessment of the effectiveness of the Company's internal control over financial reporting as of [date of last audited financial statements]. Based on Borrower's assessment, Borrower has concluded that it maintained effective internal control over financial reporting as of [date of last audited financial statements].

Section 6. Affirmative Covenants.

Until all Obligations (other than contingent indemnification obligations to the extent no claim giving rise thereto has been asserted) are Paid in Full, each Loan Party agrees that, unless at any time the Lender shall otherwise expressly consent in writing, it will:

6.1 Information. Furnish to the Agent and the Lender:

6.1.1 Annual Report. Promptly when available and in any event within 60 days of the end of each Fiscal Year of the Borrower beginning with the Fiscal Year ending December 31, [ ], the audited consolidated financial statements of the Borrower and its Subsidiaries as at the end of such Fiscal Year prepared on a basis consistent with GAAP, and a management discussion and analysis relating to such information in reasonable detail.

6.1.2 Quarterly Reports. Commencing with respect to the first Fiscal Quarter after the Closing Date, promptly when available and in any event within 30 days of the end of such Fiscal Quarter and each subsequent Fiscal Quarter (including any Fiscal Quarter ending December 31), a consolidated balance sheet of the Borrower and its Subsidiaries as of the end of such Fiscal Quarter, together with consolidated statements of income and cash flows for such period prepared on a basis consistent with GAAP, and a management discussion and analysis relating to such information in reasonable detail, together with a comparison with the corresponding period of the previous Fiscal Year and a comparison with the budget for such period of the current Fiscal Year, all certified by the chief financial officer of the Borrower.

6.1.3 Monthly Reports. Commencing with respect to the first calendar month after the Closing Date, promptly when available and in any event within 10 days of the end of such calendar month and each subsequent calendar month (including any calendar month ending December 31), a consolidated balance sheet of the Borrower and its Subsidiaries as of the end of such calendar month, together with consolidated statements of income and cash flows for such period prepared on a basis consistent with GAAP, together with a comparison with the corresponding period of the previous Fiscal Year and a comparison with the budget for such period of the current Fiscal Year, all certified by the chief financial officer of the Borrower.

6.1.4 Compliance Certificate. Contemporaneously with the furnishing of the financial statements required pursuant to Sections 6.1.1 and 6.1.2, a duly completed Compliance Certificate signed by the chief financial officer of the Borrower to the effect that such officer has not become aware of any Event of Default or Default that has occurred and is continuing or, if there is any such Event of Default, describing it and the steps, if any, being taken to cure it, and providing such other information as required thereby.

6.1.5 Notice of Default; Litigation; ERISA Matters. Promptly upon becoming aware of any of the following, written notice describing the same and the steps being taken by the Borrower or the applicable Loan Party affected thereby with respect thereto:

(a) the occurrence of an Event of Default or a Default;

(b) any litigation, arbitration or governmental investigation or proceeding not previously disclosed by the Borrower to the Lender which has been instituted or, to the knowledge of the Borrower, is threatened against any Loan Party or any of its Subsidiaries, or to which any of the properties of any thereof is subject, which could reasonably be expected to have a Material Adverse Effect;

(c) any cancellation or material change in coverage in any insurance maintained by the Borrower or any other Loan Party; or

(d) any other event (including (i) any violation of any Environmental Law or the assertion of any Environmental Claim, (ii) the enactment or effectiveness of any law, rule or regulation, (iii) any violation or noncompliance with any law or (iv) any breach or non-performance of, or any default under, any contractual obligation of any Loan Party or any of its Subsidiaries) which could reasonably be expected to have a Material Adverse Effect.

6.1.6 Budgets. As soon as practicable, and in any event not later than 30 days after the commencement of each Fiscal Year, a budget of the Borrower and its Subsidiaries for such Fiscal Year (including quarterly operating and cash flow budgets) prepared in a manner satisfactory to the Agent, accompanied by a certificate of the chief financial officer of the Borrower to the effect that (a) such budget was prepared by the Borrower in good faith, (b) the Borrower has a reasonable basis for the assumptions contained in such budget and (c) such budget has been prepared in accordance with such assumptions.

6.1.7 Other Information. Promptly from time to time, such other information concerning the Borrower and any of its Subsidiaries as the Lender or the Agent may reasonably request.

6.2 Books; Records; Inspections.

(a) Keep, and cause each Loan Party and each of its Subsidiaries to keep, its books and records in accordance with sound business practices sufficient to allow the preparation of financial statements in accordance with GAAP.

(b) Permit, and cause each other Loan Party to permit, at any time and with reasonable prior notice, the Agent, the Lender, or any representative of the foregoing to: (i) inspect (at the sole expense of the Borrower), the properties and operations of such Loan Party; (ii) visit any or all of its offices, to discuss its financial matters with its directors or officers and its independent auditors, if any (and the Borrower hereby authorizes such independent auditors, if any, to discuss such financial matters with the Lender or the Agent or any representative thereof), (iii) examine (and, at the expense of the Borrower or the applicable Loan Party, photocopy extracts from) any of its books or other records; and (iv)(A) inspect (at the sole expense of the Borrower) the Collateral and other tangible assets of such Loan Party, (B) perform appraisals of the equipment of such Loan Party, and (C) inspect, audit, check and make copies of and extracts from the books, records, computer data, computer programs, journals, orders, receipts, correspondence and other data relating to any Collateral, for purposes of or otherwise in connection with conducting a review, audit or appraisal of such books and records. If an Event of Default has occurred and is continuing, the Agent, the Lender, or any representative of the foregoing may take any of the actions specified in clauses (i) through (iv) of this Section 6.2(b) without notice to the Borrower.

6.3 Maintenance of Property; Insurance.

(a) Keep, and cause each other Loan Party and each of its Subsidiaries to keep, all property useful and necessary in the business of the Borrower, such other Loan Party or such Subsidiary in good working order and condition, ordinary wear and tear excepted, and maintain, and cause each other Loan Party to maintain, its Intellectual Property in accordance with the provisions of the Collateral Documents.

(b) Maintain, and cause each other Loan Party and each of its Subsidiaries to maintain, with responsible insurance companies, such insurance coverage as shall be required by all laws, governmental regulations and court decrees and orders applicable to it and such other insurance, to such extent and against such hazards and liabilities, as is customarily maintained by companies similarly situated; provided that in any event, such insurance shall insure against all risks and liabilities of the type insured against as of the Closing Date and shall have insured amounts no less than, and deductibles no higher than, those amounts provided for as of the Closing Date. Upon request of the Agent or the Lender, the Borrower shall furnish to the Agent or such Lender a certificate setting forth in reasonable detail the nature and extent of all insurance maintained by the Borrower and each other Loan Party. The Borrower shall cause each issuer of an insurance policy to provide the Agent with an endorsement (i) showing the Agent as a lenders' loss payee with respect to each policy of property or casualty insurance and naming the Agent as an additional insured with respect to each policy of liability insurance, (ii) providing that 30 days' notice will be given to the Agent prior to any cancellation of such policy and (iii) acceptable in all other respects to the Agent. The Borrower shall execute and deliver to the Agent, upon request of the Agent, a collateral assignment, in form and substance satisfactory to the Agent, of each business interruption insurance policy and key man life insurance policy maintained by the Loan Parties.

(c) Unless the Borrower provides the Agent with evidence of the continuing insurance coverage required by this Agreement, the Agent may purchase insurance (to the extent of such insurance coverage as shall be required by clause (b) above) at

the Borrower's expense to protect the Agent's and the Lender's interests in the Collateral. This insurance may, but need not, protect the Borrower's and each other Loan Party's interests. The coverage that the Agent purchases may, but need not, pay any claim that is made against the Borrower or any other Loan Party in connection with the Collateral. The Borrower may later cancel any insurance purchased by the Agent, but only after providing the Agent with evidence that the Borrower has obtained the insurance coverage required by this Agreement. If the Agent purchases insurance for the Collateral, as set forth above, the Borrower will be responsible for the costs of that insurance, including interest and any other charges that may be imposed with the placement of the insurance, until the effective date of the cancellation or expiration of the insurance and the costs of the insurance may be added to the principal amount of the Loan owing hereunder.

(d) Each Loan Party and each of its Subsidiaries shall: (i) use commercially reasonable efforts to protect, defend and maintain the validity and enforceability of its Intellectual Property that is material to its business; (ii) promptly advise the Agent in writing of material infringement of which it is aware by a third party of its Intellectual Property; and (iii) not allow any Intellectual Property material to its business to be abandoned, forfeited or dedicated to the public without the Agent's prior written consent.

6.4 Compliance with Laws and Contractual Obligations; Payment of Taxes and Liabilities. (a) Comply, and cause each other Loan Party and each of its Subsidiaries to comply, with all Applicable Laws, rules, regulations, decrees, orders, judgments, licenses and permits and all indentures, agreements and other instruments binding upon it or its property, except where failure to comply could not reasonably be expected to have a Material Adverse Effect; (b) without limiting clause (a) above, ensure, and cause each other Loan Party and each of its Subsidiaries to ensure, that no person who owns a controlling interest in or otherwise controls a Loan Party or one of its Subsidiaries is or shall be (i) listed on the Specially Designated Nationals and Blocked Person List maintained by OFAC, Department of the Treasury, and/or any other similar lists maintained by OFAC pursuant to any authorizing statute, Executive Order or regulation or (ii) a person designated under Section 1(b), (c) or (d) of Executive Order 13224, any related enabling legislation or any other similar Executive Orders; (c) without limiting clause (a) above, comply and cause each other Loan Party and each of its Subsidiaries to comply, with all applicable Bank Secrecy Act and anti-money laundering laws and regulations; and (d) timely prepare and file all Tax Returns required to be filed by Applicable Law and pay, and cause each other Loan Party and each of its Subsidiaries to pay, prior to delinquency, all Taxes against it or any of its property, as well as claims of any kind which, if unpaid, could become a Lien on any of its property; provided that the foregoing shall not require the Borrower, any other Loan Party or any of their Subsidiaries to pay any such Tax or charge so long as it shall promptly contest the validity thereof in good faith by appropriate proceedings and shall set aside on its books adequate reserves with respect thereto in accordance with GAAP.

6.5 Maintenance of Existence. Maintain and preserve, and (subject to Section 7.4) cause each other Loan Party and each of its Subsidiaries to maintain and preserve, (a) its existence and good standing (as applicable) in the jurisdiction of its organization and (b) its qualification to do business and good standing (as applicable) in each jurisdiction where the nature of its business makes such qualification necessary.

6.6 Environmental Matters. If any release or disposal of Hazardous Substances shall occur or shall have occurred on or from any real property or any other assets of any Loan Party or any of its Subsidiaries, cause, or direct the applicable Loan Party or Subsidiary to cause, the prompt containment and removal of such Hazardous Substances and the remediation of such real property or other assets as is necessary to comply with all Environmental Laws and to preserve the value of such real property or other assets. Without limiting the generality of the foregoing, the Borrower shall, and shall cause each other Loan Party and Subsidiary to, comply with each Applicable Law and judicial or administrative order requiring the performance at any real property by any Loan Party or any of its Subsidiaries of activities in response to the release or threatened release of a Hazardous Substance. If any violation of any Environmental Law shall occur or shall have occurred at any real property or any other assets of any Loan Party or any of its Subsidiaries or otherwise in connection with their operations, cause, or direct the applicable Loan Party or Subsidiary to cause, the prompt correction of such violation.

6.7 Further Assurances.

(a) Further Assurances. Promptly upon request by the Agent, the Loan Parties shall (and, subject to the limitations hereinafter set forth, shall cause each of their Subsidiaries to) take such additional actions as the Agent may reasonably require from time to time in order (i) to subject to the Liens created by any of the Collateral Documents any of the properties, rights or interests, whether now owned or hereafter acquired, covered or intended to be covered by any of the Collateral Documents, (ii) to perfect and maintain the validity, effectiveness and priority of any of the Collateral Documents and the Liens intended to be created thereby, and (iii) to better assure, convey, grant, assign, transfer, preserve, protect and confirm to the Agent and the Lender the rights granted or now or hereafter intended to be granted to the Agent and the Lender under any Loan Document or under any other document executed in connection therewith.

(b) Additional Subsidiaries. Without limiting the generality of the foregoing and except as otherwise approved in writing by the Lender, the Loan Parties shall cause each of their Subsidiaries other than CFCs to the extent a guaranty of the Obligation by such CFCs could reasonably be expected to result in a material adverse tax consequence for Borrower under Section 956 of the IRC, including, within ten (10) days of such formation or acquisition, any such Subsidiary formed or acquired after the Closing Date, to guaranty the Obligations and cause each such Subsidiary to grant to the Agent, for the benefit of the Agent and the Lender, a security interest in, subject to the limitations set forth herein or set forth in the Guarantee and Collateral Agreement, all of such Subsidiary's property to secure such guaranty, in each case pursuant to the execution and delivery of a joinder to the Security Agreement and such other documents as may be reasonably requested, each in form and substance reasonably satisfactory to the Agent. Furthermore and except as otherwise approved in writing by the Lender, the Borrower shall, and shall cause each of its Subsidiaries to, pledge (with respect to any Subsidiary formed or acquired after the Closing Date, within ten (10) days of such formation or acquisition) (i) all of the Capital Stock of each of its Subsidiaries that are not CFCs and (ii)(A) all of the nonvoting Capital Stock of each of its Subsidiaries that are CFCs, and (B) 65% of the voting Capital Stock of each of its Subsidiaries that are CFCs if the pledge of a greater percentage of such voting Capital Stock could reasonably be expected to result in a material

adverse tax consequence for Borrower under Section 956 of the IRC (and 100% of such voting Capital Stock if no such material adverse tax consequence could reasonably be expected), to the Agent, for the benefit of the Lender, to secure the Obligations, in each case pursuant to documents in form and substance reasonably satisfactory to the Agent. In connection with each pledge of Capital Stock that is certificated, as promptly as practicable, the Borrower and each Subsidiary shall deliver, or cause to be delivered, to the Agent, irrevocable proxies and stock powers and/or assignments, as applicable, duly executed in blank, in each case pursuant to documents in form and substance satisfactory to the Agent.

(c) Collateral Access Agreements. The Borrower and each Loan Party shall be under an ongoing obligation to obtain a Collateral Access Agreement from the lessor of each leased property and bailee in possession of any Collateral with a book value in excess of $[ ] with respect to each location in the United States where any Collateral is stored or located, which Collateral Access Agreement shall be in form and substance reasonably satisfactory to the Agent.

(d) Intellectual Property. Without limiting the requirements of the Collateral Documents, in the event that any Loan Party shall acquire, develop, or otherwise obtain, register or seek to register any Patent, Copyright, Trademark, or other Intellectual Property with any United States Governmental Authority, or obtain, register or seek to register any application for, or license in respect of, any of the foregoing, the Borrower shall notify the Agent thereof within five (5) Business Days thereof and shall promptly thereafter execute and deliver to the Agent, for the benefit of the Lender, such Intellectual Property security agreements, other Collateral Documents or other documents as the Agent may request in order to secure and perfect the security interest in respect of such Intellectual Property.

6.8 Conference Calls. After delivery of the financial statements pursuant to Sections 6.1.1 and 6.1.2, at the request of the Agent, cause its chief financial officer to participate in conference calls with the Agent and the Lender to discuss, among other things, the financial condition of the Loan Parties and any financial or earnings reports.

6.9 Board Observation Rights. With respect to each meeting of the board of directors of the Borrower, Borrower shall (i) provide reasonable prior notice of the date and time of such meeting to the Agent, (ii) reasonably in advance of such meeting, deliver to Agent any and all materials provided to the board of directors in connection with such meeting, and (iii) permit representatives of the Agent (at the sole expense of the Borrower) to attend such meeting either telephonically or in person, as may be determined by the Agent in its sole discretion.

6.10 Internal Controls. Borrower will maintain internal controls over financial reporting that are no less effective in maintaining control over financial reporting than those in effect on the Closing Date.

6.11 [Tranche Two Milestone Notice. As promptly as practicable and in any event within one (1) Business Day after the occurrence of the Tranche Two Milestone, Borrower shall deliver to Agent (i) the Tranche Two Milestone Notice and (ii) a certificate of the Borrower signed by the chief financial officer of the Borrower certifying as to the occurrence of the Tranche Two Milestone.]

6.12 Post-Closing Covenants. Within [ ] days after the Closing Date (subject to extension by the Agent in its sole discretion), the Loan Parties shall [ ].

Section 7. Negative Covenants.

Until the Obligations are Paid in Full, each Loan Party agrees that, unless at any time the Agent, on behalf of the Lender, shall otherwise expressly consent in writing (such consent to be withheld in the Lender's sole discretion), it will:

7.1 Debt. Not, and not suffer or permit any Loan Party or any other Subsidiary, to, create, incur, assume or suffer to exist any Debt, except:

(a) Obligations under this Agreement and the other Loan Documents;

(b) Debt in respect of Capital Leases and purchase money Debt, in each case incurred for the purpose of financing all or any part of the cost of acquiring, repair, construction or improvement of fixed or capital assets; provided that the aggregate principal amount of all such Debt at any time outstanding shall not exceed $[ ];

(c) (i) Debt of the Borrower to any Loan Party that is a Wholly-Owned Subsidiary of the Borrower or Debt of any Loan Party that is a Wholly-Owned Subsidiary of the Borrower to the Borrower or another Loan Party that is a Wholly-Owned Subsidiary of the Borrower; provided that all such Debt in this clause (i) shall be evidenced by a global intercompany demand note in form and substance satisfactory to the Agent and pledged and delivered to the Agent pursuant to the applicable Collateral Document as additional collateral security for the Obligations, and the obligations under such demand note shall be subordinated to the Obligations hereunder in a manner satisfactory to the Agent; (ii) Debt of a Loan Party to a non-Loan Party permitted by Section 7.10(a)(ii); and (iii) Debt of any Wholly-Owned Subsidiary of the Borrower that is not a Loan Party to another Wholly-Owned Subsidiary of the Borrower that is not a Loan Party;

(d) Debt existing as of the Closing Date and described in Section 7.1 of the Disclosure Letter, and any Permitted Refinancing thereof;

(e) Contingent Obligations arising with respect to customary indemnification obligations in favor of purchasers in connection with dispositions permitted under Section 7.4;

(f) Debt arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business, provided that such Debt is extinguished within two (2) Business Days of notice to the Borrower or the relevant Subsidiary of its incurrence; and

(g) guaranties by the Borrower of the Debt of any Loan Party that is a Wholly-Owned Subsidiary of the Borrower or guaranties by any Subsidiary thereof of the Debt of the Borrower in each case so long as such Debt is otherwise permitted under Section 7.1(a) or (b).

7.2 Liens. Not, and not suffer or permit any Loan Party or any other Subsidiary to, create or permit to exist any Lien on any of its real or personal properties, assets or rights of whatsoever nature (whether now owned or hereafter acquired), except:

(a) Liens arising under the Loan Documents;

(b) Liens for Taxes or other governmental charges not at the time delinquent or thereafter payable without penalty, or being diligently contested in good faith by appropriate proceedings and for which it maintains adequate reserves in accordance with GAAP and the execution or other enforcement of which is effectively stayed;

(c) (i) Liens of carriers, warehousemen, mechanics, customs brokers, landlords and materialmen and other similar Liens imposed by law and (ii) Liens consisting of pledges or deposits incurred in connection with worker's compensation, unemployment compensation and other types of social security (excluding Liens arising under ERISA) or in connection with surety bonds, bids, performance bonds and similar obligations for sums not overdue or being diligently contested in good faith by appropriate proceedings and not involving any deposits or advances or borrowed money or the deferred purchase price of property or services and, in each case, for which it maintains adequate reserves in accordance with GAAP and the execution or other enforcement of which is effectively stayed;

(d) Liens existing as of the Closing Date and described in Section 7.2 of the Disclosure Letter;

(e) Liens securing Debt permitted by Section 7.1(b); provided, however, that any such Lien (i) attaches only to the property being leased or financed and any accessions thereto and proceeds thereof and (ii) attaches to such property within 30 days of the acquisition thereof and attaches solely to the property so acquired and any accessions thereto and proceeds thereof;

(f) attachments, appeal bonds, judgments and other similar Liens in connection with judgments the existence of which do not constitute an Event of Default;

(g) easements, encroachments, rights of way, leases, subleases, restrictions, minor defects or irregularities in title and other similar Liens not interfering in any material respect with the ordinary conduct of the business of the Borrower or any Subsidiary;

(h) any interest or title of a lessor or sublessor under any lease (other than a Capital Lease) or of a licensor or sublicensor under any license, in each case permitted by this Agreement;

(i) leases, licenses, subleases or sublicenses granted to third parties in the ordinary course of business which do not interfere in any material respect with, or materially detract from the value of, the business of the Borrower and its Subsidiaries, taken as a whole;

(j) Liens arising from precautionary uniform commercial code financing statements filed under any lease (other than a Capital Lease) permitted by this Agreement;

(k) bankers' liens, rights of setoff and Liens in favor of financial institutions incurred in the ordinary course of business arising in connection with deposit accounts or securities accounts held at such institutions solely to secure payment of fees and similar costs and expenses; and

(l) the replacement, extension or renewal of any Lien permitted by clause (d) above upon or in the same property subject thereto arising out of the Permitted Refinancing of the Debt secured thereby.

7.3 Restricted Payments. Not, and not suffer or permit any Loan Party or any other Subsidiary to, (i) declare or make any dividend payment or other distribution of assets, properties, cash, rights, obligations or securities on account of any Capital Stock, (ii) purchase, redeem or otherwise acquire for value any Capital Stock now or hereafter outstanding or (iii) make any payment or prepayment of principal of, premium, if any, interest, fees, redemption, exchange, purchase, retirement, defeasance, sinking fund or similar payment with respect to, Debt that is subordinated by its terms to the payment of the Obligations (the items described in clauses (i), (ii) and (iii) above are referred to as "Restricted Payments"), except:

(a) any Subsidiary of the Borrower may declare and pay dividends to, repay intercompany debt owed to, and make internal profit-sharing payments to, (i) the Borrower, (ii) any other Loan Party that is a Wholly-Owned Subsidiary of the Borrower or (iii) so long as such Subsidiary is not a Loan Party, any other Subsidiary of the Borrower that is not a Loan Party;

(b) the Borrower may make repurchases from any former employee, director or officer (or the assigns, estate, heirs or current or former spouses thereof) upon the death, disability or termination of employment of such employee, director or officer provided such repurchases do not exceed $[ ] in the aggregate during the term of this Agreement; and

(c) the Borrower may make cash payments in lieu of the issuance of fractional shares upon such conversion or in connection with the exercise of warrants or similar securities.

7.4 Mergers; Consolidations; Asset Sales

(a) Not, and not suffer or permit any Loan Party or any other Subsidiary to, be a party to any merger, consolidation or amalgamation, except for any such merger or consolidation (i) of any Subsidiary of the Borrower into (A) the Borrower (so long as the Borrower survives such merger), (B) any Loan Party that is a Wholly-Owned Subsidiary of the Borrower, as applicable (so long as such Loan Party that is a Wholly-Owned Subsidiary survives such merger), or (C) so long as such Subsidiary is not a Loan Party, any Wholly-Owned Subsidiary of the Borrower that is not a Loan Party, or (ii) in which the Obligations shall be Paid in Full prior to or concurrently with the consummation of such transaction.

(b) Not, and not suffer or permit any Loan Party or any other Subsidiary to, sell, transfer, dispose of, convey, lease or license any of its assets (including Intellectual Property) or the Capital Stock of any Loan Party or any other Subsidiary, or sell or assign with or without recourse any receivables (any such transaction, a "Disposition"), except:

i. Dispositions of inventory, worn-out or surplus equipment, all in the ordinary course of business;

ii. the abandonment or other Disposition of Intellectual Property that is no longer useful or material to the conduct of the business of the Loan Parties;

iii. Dispositions of cash and Cash Equivalent Investments;

iv. licenses, sublicenses, leases or subleases (including any license or sublicense of Intellectual Property) granted to third parties in the ordinary course of business not interfering with the business of the Loan Parties in any material respect;

v. the granting of Liens permitted under Section 7.2, Restricted Payments permitted by Section 7.3, transactions permitted by Section 7.4(a) and Investments permitted by Section 7.10; and

vi. Dispositions as a result of any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceeding of, any property or asset of any Loan Party; provided that the proceeds thereof are promptly applied to replace such assets.

7.5 Modification of Organizational Documents. Not waive, amend or modify, and not suffer or permit any waiver, amendment or modification of, any term of the charter, limited liability company agreement, partnership agreement, articles of incorporation, by-laws or other organizational documents of any other Loan Party or any Subsidiary, in each case except for those amendments and modifications that do not materially adversely affect the interests of the Agent or the Lender under the Loan Documents or in the Collateral (it being understood and agreed that any adverse impact on the effectiveness or validity of any Collateral Document or the Liens granted to the Agent thereunder shall each be deemed to materially adversely affect such interests of the Agent and the Lender).

7.6 Use of Proceeds. Not use the proceeds of the Loan for any purposes other than solely as expressly provided in Section 2.1.2.

7.7 Transactions with Affiliates. Not, and not suffer or permit any Loan Party or any other Subsidiary to, enter into any transaction or arrangement with any Affiliate of the Borrower, of any such Loan Party or of any such Subsidiary, except:

(a) Restricted Payments permitted by Section 7.3, intercompany loans among Loan Parties permitted by Section 7.1(c), transactions permitted by Section 7.4(a) and Investments permitted by Section 7.10(a) and (b);

(b) in the ordinary course of business and pursuant to the reasonable requirements of the business of such Loan Party or such Subsidiary; provided that, in the case of this clause (b), such transaction shall be upon fair and reasonable terms no less favorable to such Loan Party or such Subsidiary than would be obtained in a comparable arm's length transaction with a Person not an Affiliate of the Borrower or such Subsidiary and which are disclosed in writing to the Agent prior to such transaction;

(c) payment of compensation and benefits (including customary indemnities) to officers, directors and employees of the Loan Parties or another Subsidiary for actual services rendered to the Loan Parties or such Subsidiary in the ordinary course of business; and

(d) Investments permitted pursuant to Section 7.10(h) and (i).

7.8 Inconsistent Agreements. Not, and not suffer or permit any other Loan Party or any other Subsidiary to, enter into any agreement containing any provision which would (i) be violated or breached by any borrowing by the Borrower hereunder or by the performance by the Borrower or any other Loan Party of any of its Obligations hereunder or under any other Loan Document, (ii) prohibit the Borrower or any other Loan Party from granting to the Agent and the Lender a Lien on any of its assets that constitute Collateral or prohibit any other Subsidiary from granting to the Agent and the Lender a Lien on any of its assets or (iii) other than pursuant to the Loan Documents, create or permit to exist or become effective any encumbrance or restriction on the ability of any other Subsidiary to (x) pay dividends or make other distributions to the Borrower or any Wholly-Owned Subsidiary, or pay any Debt owed to the Borrower or any Wholly-Owned Subsidiary, (y) make loans or advances to the Borrower or any Wholly-Owned Subsidiary or (z) transfer any of its assets or properties to the Borrower or any Wholly-Owned Subsidiary, except, in the case of clause (ii) and (iii) above: (a) negative pledges and restrictions on Liens in favor of any holder of Debt permitted under Section 7.1(b) but solely to the extent any negative pledge or limitation on Liens relates to the property that is the subject of such Debt and the proceeds and products thereof, (b) customary restrictions on leases, subleases, licenses or asset sale agreements otherwise permitted hereby so long as such restrictions relate to the assets subject thereto, (c) customary provisions restricting assignment of any agreement entered into in the ordinary course of business, and (d) prohibitions and limitations that exist pursuant to Applicable Law.

7.9 Business Activities. Not, and not suffer or permit any Loan Party to, engage in any line of business other than the businesses engaged in on the Closing Date and businesses directly related thereto. As of the Closing Date, the Borrower, the other Loan Parties and any other Subsidiary thereof engage in the business of the development, manufacture, sale and distribution of [ ].

7.10 Investments. Not, and not suffer or permit any Loan Party or any other Subsidiary to, make or permit to exist, any Investment in any other Person, except the following:

(a) Investments (i) between or among the Borrower and the Loan Parties that are Wholly-Owned Subsidiaries; (ii) by Subsidiaries that are not Loan Parties in Loan Parties; provided that such Investments permitted by this clause (ii) shall be limited to

unsecured Debt subordinated in right of payment to the payment in full of the Obligations pursuant to the terms of a subordination agreement acceptable to Agent; and (iii) by Subsidiaries that are not Loan Parties in Subsidiaries that are not Loan Parties;

(b) Investments constituting Debt permitted by Section 7.1(c);

(c) Contingent Obligations constituting Debt permitted by Section 7.1;

(d) Cash Equivalent Investments;

(e) Investments existing as of the Closing Date and set forth in Section 7.10 of the Disclosure Letter;

(f) extensions of trade credit in the ordinary course of business;

(g) notes payable, or stock or other securities issued by an account debtor pursuant to settlement in the ordinary course of business of such account debtor's accounts receivable owing to the Borrower or its Subsidiaries;

(h) loans or advances to employees, officers and directors of a Loan Party for reasonable travel and entertainment expenses and reasonable relocation costs and expenses and other ordinary business purposes; provided, however, that the aggregate outstanding principal amount of all loans and advances permitted pursuant to this clause (g) shall not exceed $[ ] at any time; and

(i) Investments consisting of non-cash loans to employees, officers, directors or consultants for the purpose of purchasing Capital Stock in the Borrower so long as the proceeds of such loans are used entirely to pay the purchase price of such Capital Stock.

7.11 Fiscal Year. Not, and not suffer or permit any other Loan Party to, change its Fiscal Year.

7.12 Deposit Accounts and Securities Accounts. Not, and not suffer or permit any Loan Party to, maintain or establish any deposit account or securities account other than the deposit accounts and securities accounts set forth in Section 7.12 of the Disclosure Letter without prior written notice to the Agent and unless the Agent, the Borrower or such other Loan Party and the bank or securities intermediary at which such deposit account or securities account, as applicable, is to be opened or maintained enter into a Control Agreement regarding such deposit account or securities account, as applicable, on terms satisfactory to the Agent.

7.13 Sale-Leasebacks. Not and not suffer or permit any Loan Party or any other Subsidiary to, engage in a sale leaseback, synthetic lease or similar transaction involving any of its assets.

7.14 Hazardous Substances. Not, and not suffer or permit any other Loan Party or any of its Subsidiaries to, cause or suffer to exist any release of any Hazardous Substances at, to or from any real property owned, leased, subleased or otherwise operated or occupied by any Loan Party or any of its Subsidiaries that would violate any Environmental Law, form the basis for any Environmental Claims or otherwise adversely affect the value or marketability of any real property (whether or not owned by any Loan Party), other than such violations, Environmental Claims and effects that would not, in the aggregate, be reasonably be expected to have a Material Adverse Effect. Notwithstanding the foregoing, under no circumstances will any Loan Party cause or suffer to exist any disposal of any Hazardous Substances at, on, under or in any real property owned, leased, subleased, or otherwise operated or occupied by any Loan Party.

7.15 ERISA Liability. Not suffer or permit any liability under ERISA and the sponsorship of any "pension plan" or any liability subject to Title IV of ERISA.

7.16 Liquidity. Not suffer or permit Liquidity to be less than $[ ] at any time.

Section 8. Events Of Default; Remedies.

8.1 Events of Default. Each of the following shall constitute an Event of Default under this Agreement:

8.1.1 Non-Payment of Credit Agreement. Any default in the payment when due of the principal of any Loan or of any interest, fee, or other amount payable hereunder, including any payment in respect of any amount due under any other Loan Document, shall occur.

8.1.2 No Default Under Other Debt; Material Contracts

(a) Any default shall occur under the terms applicable to any Debt (other than the Obligations) of any Loan Party or any of its Subsidiaries having an aggregate principal amount (for all such Debt so affected and including undrawn committed or available amounts and amounts owing to all creditors under any combined or syndicated credit arrangement) exceeding $[ ] and such default shall result in the acceleration of the maturity of such Debt or permit the holder or holders thereof, or any trustee or agent for such holder or holders, to cause such Debt to become due and payable (or require the Borrower, any other Loan Party or any of their Subsidiaries to purchase or redeem such Debt or post cash collateral in respect thereof) prior to its expressed maturity.

(b) Any breach or non-performance of, or any default under, any material agreement, indenture, instrument or other document of any Loan Party or any of its Subsidiaries shall have occurred.

8.1.3 Bankruptcy; Insolvency. (i) Any Loan Party becomes insolvent or generally fails to pay, or admits in writing its inability or refusal to pay, debts as they become due; (ii) any Loan Party or any of its Subsidiaries commences any case, proceeding or other action (x) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief

entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (y) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets; or (iii) there shall be commenced against any Loan Party or any of its Subsidiaries any case, proceeding or other action of a nature referred to in clause (ii) above that (x) results in the entry of an order for relief or any such adjudication or appointment or (y) remains undismissed or undischarged for a period of 60 days; (iv) there shall be commenced against any Loan Party or any of its Subsidiaries any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets that results in the entry of an order for any such relief that shall not have been vacated, discharged, or stayed or bonded pending appeal within 60 days from the entry thereof; (v) any Loan Party shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (ii), (iii) or (iv) above; or (vi) any Loan Party or any of its Subsidiaries shall make a general assignment for the benefit of its creditors.

8.1.4 Non-Compliance with Loan Documents. (a) Failure by any Loan Party or any of its Subsidiaries to comply with or to perform any covenant set forth in Sections 6.1, 6.4, 6.5, 6.6, 6.8, 6.9, 6.10 and 7; or (b) failure by any Loan Party to comply with or to perform any other provision of this Agreement or any other Loan Document applicable to it (and not constituting an Event of Default under any other provision of this Section 8), and continuance of such failure described in this clause (b) for 10 days.

8.1.5 Representations; Warranties. Any representation or warranty made by or in respect of any Loan Party herein or any other Loan Document is breached or is false or misleading in any material respect (without duplication of any materiality qualifier contained therein), or any schedule, certificate, financial statement, report, notice or other writing furnished by or on behalf of any Loan Party to the Agent or the Lender in connection herewith is false or misleading in any material respect on the date as of which the facts therein set forth are stated or certified.

8.1.6 Judgments

(a) Final judgments which exceed an aggregate of $[ ] shall be rendered against any Loan Party or any of its Subsidiaries and shall not have been paid, discharged or vacated or had execution thereof stayed pending appeal within 30 days after entry or filing of such judgments; or

(b) One or more non-monetary judgments, orders or decrees shall be rendered against any one or more of the Loan Parties or any of their respective Subsidiaries which has had or would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect, and there shall be any period of ten (10) consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect.

8.1.7 Invalidity of Collateral Documents. Any Collateral Document shall cease to be in full force and effect; or any Loan Party or other grantor or pledgor (or any

Person by, through or on behalf of any Loan Party, grantor or pledgor) shall contest in any manner the validity, binding nature or enforceability of any Collateral Document.

8.1.8 Invalidity of Subordination Provisions. Any subordination provision in any document or instrument governing Debt that is intended to be subordinated to the Obligations or any subordination provision in any subordination agreement that relates to any such Debt, or any subordination provision in any guaranty by any Loan Party of any such Debt, shall cease to be in full force and effect, or any Person (including the holder of any applicable Debt) shall contest in any manner the validity, binding nature or enforceability of any such provision.

8.1.9 Change of Control. (a) A Change of Control shall occur, or (b) a "Change of Control" or other similar event shall occur, as defined in, or under, any indenture, agreement, instrument or other documentation.

8.2 Remedies. If any Event of Default described in Section 8.1.3 shall occur, the Loan and all other Obligations shall become immediately due and payable and all outstanding Commitments shall terminate, all without presentment, demand, protest or notice of any kind; and, if any other Event of Default shall occur and be continuing, the Agent may, and upon the written request of the Lender shall, declare all or any part of the Loan and other Obligations to be due and payable and/or all or any part of the Commitments then outstanding to be terminated, whereupon the Loan and other Obligations shall become immediately due and payable (in whole or in part, as applicable), and such Commitments shall immediately terminate (in whole or in part, as applicable), all without presentment, demand, protest or notice of any kind. Any cash collateral delivered hereunder shall be applied by the Agent to any remaining Obligations and any excess remaining after the Obligations shall have been Paid in Full shall be delivered to the Borrower or as a court of competent jurisdiction may elect. Upon the declaration of the Obligations to be, or the Obligations becoming, due and payable pursuant to this Section 8.2 such Obligations shall bear interest at the Default Rate as provided in Section 2.3.1.

Section 9. The Agent.

9.1 Appointment; Authorization. Lender hereby irrevocably appoints, designates and authorizes the Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document, the Agent shall not have any duty or responsibility except those expressly set forth herein, nor shall the Agent have or be deemed to have any fiduciary relationship with the Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Agent.

9.2 Delegation of Duties. The Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys in fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent

shall not be responsible for the negligence or misconduct of any agent or attorney in fact that it selects with reasonable care.

9.3 Limited Liability. None of the Agent or any of its directors, officers, employees or agents shall (a) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except to the extent resulting from its own gross negligence or willful misconduct as determined in a final non-appealable judgment by a court of competent jurisdiction), or (b) be responsible in any manner to the Lender for any recital, statement, representation or warranty made by any Loan Party or Affiliate of any Loan Party, or any officer thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document (or the creation, perfection or priority of any Lien or security interest therein), or for any failure of any Loan Party or any other party to any Loan Document to perform its Obligations hereunder or thereunder. The Agent shall not be under any obligation to the Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of any Loan Party or Affiliate of any Loan Party.

9.4 Successor Agent. The Agent may resign as the Agent at any time upon 10 days' prior notice to the Lender. If the Agent resigns under this Agreement, the Lender shall, with (so long as no Event of Default has occurred and is continuing) the consent of the Borrower (which shall not be unreasonably withheld or delayed), appoint a successor agent for the Lender. If no successor agent is appointed prior to the effective date of the resignation of the Agent, the Agent may appoint, on behalf of the Lender after consulting with the Lender and (so long as no Event of Default has occurred and is continuing) the Borrower, a successor agent. Upon the acceptance of its appointment as successor agent hereunder, such successor agent shall succeed to all the rights, powers and duties of the retiring Agent and the term "the Agent" shall mean such successor agent, and the retiring Agent's appointment, powers and duties as the Agent shall be terminated. After the Agent's resignation hereunder as the Agent, the provisions of this Section 9 and Sections 10.4 and 10.5 shall continue to inure to its benefit as to any actions taken or omitted to be taken by it while it was the Agent under this Agreement. If no successor agent has accepted appointment as the Agent by the date which is 30 days following a retiring the Agent's notice of resignation, the retiring Agent's resignation shall nevertheless thereupon become effective and the Lender shall perform all of the duties of the Agent hereunder until such time as the Lender shall appoint a successor agent as provided for above.

9.5 Collateral Matters. Lender irrevocably authorizes the Agent, at its option and in its discretion, to release any Lien granted to or held by the Agent under any Collateral Document (i) when all Obligations have been Paid in Full; (ii) constituting property sold or to be sold or disposed of as part of or in connection with any sale or other disposition permitted hereunder (it being agreed and understood that the Agent may conclusively rely without further inquiry on a certificate of an officer of the Borrower as to the sale or other disposition of property being made in compliance with this Agreement); or (iii) subject to Section 10.1, if approved, authorized or ratified in writing by the Lender. The Agent shall have the right, in

accordance with the Collateral Documents, to sell, lease or otherwise dispose of any Collateral for cash, credit or any combination thereof, and the Agent may purchase any Collateral at public or, if permitted by law, private sale and, in lieu of actual payment of the purchase price, may credit bid and setoff the amount of such price against the Obligations.

9.6 Collateral Agent. Lender hereby appoints PDL BioPharma, Inc. as its collateral agent under the Guarantee and Collateral Agreement and agrees that in so acting PDL BioPharma, Inc. will have all the rights, protections, exculpations, indemnities and other benefits provided to PDL BioPharma, Inc. under this Section 9 hereof, and authorizes and directs PDL BioPharma, Inc. to take or refrain from taking any and all action that it deems necessary or advisable in fulfilling its role as Collateral Agent under the Guarantee and Collateral Agreement.

Section 10. Miscellaneous.

10.1 Waiver; Amendments. No delay on the part of the Agent or the Lender in the exercise of any right, power or remedy shall operate as a waiver thereof, nor shall any single or partial exercise by any of them of any right, power or remedy preclude other or further exercise thereof, or the exercise of any other right, power or remedy. No amendment, modification or waiver of, or consent with respect to, any provision of this Agreement, the Notes or any of the other Loan Documents (or any subordination and intercreditor agreement or other subordination provisions relating to any other Debt) shall in any event be effective unless the same shall be in writing and approved by the Agent and the Lender, and then any such amendment, modification, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No provision of Section 9 or other provision of this Agreement affecting the Agent in its capacity as such shall be amended, modified or waived without the consent of the Agent.

10.2 Notices. All notices hereunder shall be in writing (including facsimile transmission) and shall be sent to the applicable party at its address shown on Annex I or at such other address as such party may, by written notice received by the other parties, have designated as its address for such purpose. Notices sent by facsimile or other electronic transmission shall be deemed to have been given when sent; notices sent to the Borrower by mail shall be deemed to have been given three (3) Business Days after the date when sent by registered or certified mail, postage prepaid; and notices sent by hand delivery or overnight courier service shall be deemed to have been given when received.

10.3 Costs; Expenses. The Borrower agrees to pay on demand (a) all reasonable out-of-pocket costs and expenses of the Agent and the Lender (including Legal Costs) in connection with the administration (including perfection and protection of Collateral subsequent to the Closing Date) of this Agreement, the other Loan Documents and all other documents provided for herein or delivered or to be delivered hereunder or in connection herewith (including any proposed or actual amendment, supplement or waiver to any Loan Document), and (b) all costs and expenses (including Legal Costs) incurred by the Agent and the Lender in connection with the collection of the Obligations and enforcement of this Agreement, the other Loan Documents or any such other documents. All Obligations provided for in this Section 10.3 shall survive repayment of the Loan, cancellation of the Notes and termination of this Agreement.

10.4 Indemnification by the Borrower. In consideration of the execution and delivery of this Agreement by the Agent and the Lender and the agreement to extend the Commitments provided hereunder, the Borrower hereby agrees to indemnify, exonerate and hold the Agent, the Lender and each of the officers, directors, employees, Affiliates, controlling persons, advisors and agents of the Agent and the Lender (each, a "Lender Party") free and harmless from and against any and all actions, causes of action, suits, losses, liabilities (including, without limitation, strict liabilities), obligations, damages, penalties, judgments, fines, disbursements, expenses and costs, including Legal Costs (collectively, the "Indemnified Liabilities"), incurred by the Lender Parties or asserted against the Lender Party by any Person (including in connection with any action, suit or proceeding brought by any Holder, the Borrower, any other Loan Party or any Lender Party) as a result of, or arising out of, or relating to the execution, delivery, performance, administration or enforcement of this Agreement or any other Loan Document, the use of proceeds of the Loans, or the violation of, noncompliance with or liability under, any Environmental Law applicable to the operations of any Loan Party, except to the extent any such Indemnified Liabilities result from the applicable Lender Party's own gross negligence or willful misconduct, in each case as determined by a court of competent jurisdiction in a final, non-appealable determination. If and to the extent that the foregoing undertaking may be unenforceable for any reason, the Borrower hereby agrees to make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under Applicable Law. All Obligations provided for in this Section 10.4 shall survive repayment of the Loan, cancellation of the Notes, any foreclosure under, or any modification, release or discharge of, any or all of the Collateral Documents and termination of this Agreement.

10.5 Marshaling; Payments Set Aside. Neither the Agent nor the Lender shall be under any obligation to marshal any assets in favor of the Borrower or any other Person or against or in payment of any or all of the Obligations. To the extent that the Borrower or any other Loan Party makes a payment or payments to the Agent or the Lender, or the Agent or the Lender enforces its Liens or exercises its rights of set-off, and such payment or payments or the proceeds of such enforcement or set-off or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Agent or the Lender in its discretion) to be repaid to a trustee, receiver or any other party in connection with any bankruptcy, insolvency or similar proceeding, or otherwise, then (a) to the extent of such recovery, the obligation hereunder or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred and (b) the Lender severally agrees to pay to the Agent upon demand its ratable share of the total amount so recovered from or repaid by the Agent to the extent paid to such Lender.

10.6 Nonliability of the Lender. The relationship between the Borrower on the one hand and the Lender and the Agent on the other hand shall be solely that of borrower and lender. Neither the Agent nor the Lender shall have any fiduciary responsibility to the Borrower or any other Loan Party. Neither the Agent nor the Lender undertakes any responsibility to the Borrower or any other Loan Party to review or inform (including payment of all outstanding principal) the Borrower or any other Loan Party of any matter in connection with any phase of the Borrower's or any other Loan Party's business or operations. Execution of this Agreement by the Borrower constitutes a full, complete and irrevocable release of any and all claims which

the Borrower may have at law or in equity in respect of all prior discussions and understandings, oral or written, relating to the subject matter of this Agreement and the other Loan Documents. Neither the Borrower, the Agent nor the Lender shall have any liability with respect to, and the Borrower, Agent and Lender each hereby waives, releases and agrees not to sue for, any special, indirect, punitive or consequential damages or liabilities.

10.7 Confidentiality. The Agent and the Lender agree to use commercially reasonable efforts (equivalent to the efforts the Agent or such Lender applies to maintain the confidentiality of its own confidential information) to maintain as confidential all information provided to them designated as confidential by any Loan Party, except that the Agent and the Lender may disclose such information (a) to Persons employed or engaged by the Agent or such Lender or any of their Affiliates (including collateral managers of the Lender) in evaluating, approving, structuring or administering the Loan and the Commitments; (b) to any assignee or participant or potential assignee or participant that has agreed to comply with the covenant contained in this Section 10.7 (and any such assignee or participant or potential assignee or participant may disclose such information to Persons employed or engaged by them as described in clause (a) above); (c) as required or requested by any federal or state regulatory authority or examiner, or as reasonably believed by the Agent or such Lender to be compelled by any court decree, subpoena or legal or administrative order or process; (d) as, on the advice of the Agent's or such Lender's counsel, is required by law; (e) in connection with the exercise of any right or remedy under the Loan Documents or in connection with any litigation to which the Agent or such Lender is a party; (f) to any nationally recognized rating agency or investor of the Lender that requires access to information about the Lender's investment portfolio in connection with ratings issued or investment decisions with respect to such Lender; (g) that ceases to be confidential through no fault of the Agent or the Lender (or their Affiliates or Persons employed by them); or (h) to a Person that is an investor or prospective investor in the Agent or any of its Affiliates.

10.8 Captions. Captions used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

10.9 Nature of Remedies. All Obligations of the Borrower and rights of the Agent and the Lender expressed herein or in any other Loan Document shall be in addition to and not in limitation of those provided by Applicable Law. No failure to exercise and no delay in exercising, on the part of the Agent or the Lender, any right, remedy, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

10.10 Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Agreement. Receipt by telecopy or electronic transmission of any executed signature page to this Agreement or any other Loan Document shall constitute effective delivery of such signature page.

10.11 Severability. The illegality or unenforceability of any provision of this Agreement or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Agreement or any instrument or agreement required hereunder.

10.12 Entire Agreement. This Agreement, together with the other Loan Documents, embodies the entire agreement and understanding among the parties hereto and supersedes all prior or contemporaneous agreements and understandings of such Persons, verbal or written, relating to the subject matter hereof and thereof and any prior arrangements made with respect to the payment by the Borrower of (or any indemnification for) any fees, costs or expenses payable to or incurred (or to be incurred) by or on behalf of the Agent or the Lender

10.13 Successors; Assigns. This Agreement shall be binding upon the Borrower, each other Loan Party hereto, the Lender and the Agent and their respective successors and assigns, and shall inure to the benefit of the Borrower, each other Loan Party party hereto, the Lender and the Agent and the successors and assigns of the Lender and the Agent. No other Person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any of the other Loan Documents. The Borrower and each other Loan Party party hereto may not assign or transfer any of its rights or Obligations under this Agreement without the prior written consent of the Agent and the Lender. The Lender may sell, transfer, or assign any or all of its rights and obligations hereunder to any Person acceptable to the Lender pursuant to assignment documentation reasonably acceptable to Lender and such assignee. Such assignee shall be deemed automatically to have become a party hereto and, to the extent that rights and obligations hereunder have been assigned to such assignee pursuant to such assignment documentation, shall have the rights and obligations of a Lender hereunder. The Agent (acting solely for this purpose as the agent of the Borrower) shall maintain a register for the recordation of the names and addresses of the Lender and its assignees and participants, and the amounts of principal and interest owing to any of them hereunder from time to time (the "Register"). The entries in the Register shall be conclusive absent manifest error, and the Borrower, Agent, the Lender and its assignees and participants shall treat each person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement and all references to the Lender in this Agreement shall include any such assignee of the Lender.

10.14 Governing Law. THIS AGREEMENT AND EACH NOTE SHALL BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES (OTHER THAN SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW).

10.15 Forum Selection; Consent to Jurisdiction; Service of Process. ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, SHALL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE COURTS OF THE STATE OF NEW YORK OR IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK; PROVIDED THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY

COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT AGENT'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. EACH LOAN PARTY HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK AND OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE. EACH LOAN PARTY FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF NEW YORK. EACH LOAN PARTY HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. Each Loan Party hereby appoints CT Corporation as such Loan Party's agent where notices and demands to or upon such Loan Party in respect of this Agreement or any other Loan Document may be served (without prejudice to the right of the Agent or the Lender to serve process in any other manner permitted by law). If for any reason such process agent is unable to serve as such, such Loan Party will within 30 days appoint a substitute process agent located in the State of New York and give notice of such appointment to the Agent.

10.16 Waiver of Jury Trial. EACH LOAN PARTY, AGENT AND LENDER HEREBY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT, ANY NOTE, ANY OTHER LOAN DOCUMENT AND ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HEREWITH OR THEREWITH OR ARISING FROM ANY LENDING RELATIONSHIP EXISTING IN CONNECTION WITH ANY OF THE FOREGOING, AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

[signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their duly authorized officers as of the date first set forth above.

BORROWER:

[ ],
a [ ]

By:_____
Name:
Title:

PDL BIOPHARMA, INC.,
as the Agent and the Lender

By:_____
Name: John P. McLaughlin
Title: President and Chief Executive Officer

ANNEX I

Addresses

BORROWER AND THE OTHER LOAN PARTIES

[ ],
as Borrower

Address for Notices:

[ ]

AGENT

PDL BioPharma, Inc.,
as the Agent and the Lender

Address for Notices:
932 Southwood Boulevard
Incline Village, NV 89451
Attention: General Counsel
Telephone: (775) 832-8500
Facsimile: (775) 832-8501

Exhibit A - Form of Note

See attached.

Exhibit B - Form of Compliance Certificate

See attached.

Pursuant to 17 CFR 240.24b-2, confidential information has been omitted in places marked "* * *" and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

ROYALTY PURCHASE AND SALE AGREEMENT

dated as of October 18, 2013

between

DEPOMED, INC.,

DEPO DR SUB, LLC, as Seller,

and

PDL BIOPHARMA, INC., as Purchaser

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ROYALTY PURCHASE AND SALE AGREEMENT

This ROYALTY PURCHASE AND SALE AGREEMENT (this "**Royalty Purchase and Sale Agreement**") dated as of October 18, 2013 is among Depomed, Inc., a California corporation ("**Depomed**"), Depo DR Sub, LLC, a Delaware limited liability company (the "**Seller**," and together with Depomed, the "**Selling Parties**") and PDL BioPharma, Inc., a Delaware corporation (the "**Purchaser**").

W I T N E S S E T H :

WHEREAS, immediately prior to the Contribution (as defined below), Depomed had the right to receive certain royalty and other payments with respect to the DM Portfolio Products under each of the License Agreements (in each case, as defined below);

WHEREAS, prior to the Closing (as defined below), Depomed contributed and assigned to the Seller the Contributed Assets (as defined below); and

WHEREAS the Seller desires to sell, assign, transfer and convey to the Purchaser, free and clear of all Liens (as defined below), other than Permitted Liens (as defined below), and the Purchaser desires to purchase, acquire and accept from the Seller, the Subject Assets described herein, upon and subject to the terms and conditions set forth in this Royalty Purchase and Sale Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual agreements, representations and warranties set forth herein and of other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto covenant and agree as follows:

ARTICLE I
DEFINED TERMS AND RULES OF CONSTRUCTION

Section 1.1 Defined Terms. The following terms, as used herein, shall have the following respective meanings:

"**Actual Knowledge**" means the actual knowledge of *** * *.**

"**Adverse Change**" means any event, circumstance or change that could reasonably be expected to result, individually in the aggregate, in (a) an adverse effect in any material respect on the legality, validity or enforceability of any of the Transaction Documents, any of the License Agreements or the back-up security interest granted pursuant to Section 2.1(e), (b) an adverse effect in any material respect on the right or ability of a Selling Party or any valid successor thereto to perform any of its obligations under any of the Transaction Documents to which it is a party, or the right or ability of a Selling Party or any valid successor thereto to perform any of its obligations under any of the License Agreements, or the right or ability of a Selling Party or any valid successor thereto to consummate the transactions contemplated hereunder or under any of

the other Transaction Documents to which it is a party, (c) an adverse effect in any material respect on the rights or remedies of a Selling Party or any valid successor thereto or the Purchaser under any of the Transaction Documents or any of the License Agreements, (d) an adverse effect on the timing, amount or duration of the Royalty Payments or the right of the Purchaser to receive the Royalty Payments, or (e) an adverse effect on the Subject Assets.

"**Affiliate**" means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified. "**Control**" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "**Controlling**" and "**Controlled**" have meanings correlative thereto.

"**Applicable Law**" means, with respect to any Person, all laws, rules, regulations and orders of Governmental Authorities applicable to such Person or any of its properties or assets.

"**Assigned Rights**" means, collectively, the rights of Depomed under or in respect of each of the License Agreements to the extent applicable with respect to, and solely to the extent that any required consent to assignment of such right has been obtained, (a) any right to receive royalty or audit reports, summaries or other information from a Licensee; (b) any right to audit, inspect or otherwise review any of the records of a Licensee or the right to receive any related audit reports; (c) any right to enforce the DM Portfolio Intellectual Property Rights against a breaching Licensee; (d) any right to make indemnification claims and receive indemnity and reimbursements in respect of infringement of DM Portfolio Intellectual Property Rights of Depomed; (e) any right to disapprove or consent to an assignment or transfer (by operation of law or otherwise) pursuant to a License Agreement; and (f) any right to bring any action, demand, proceeding or claim, in law or in equity, with respect to the enforcement of any rights under or relating to a License Agreement to receive Royalty Payments or any of the foregoing Assigned Rights.

"**Bankruptcy Event**" means the occurrence of any of the following in respect of a Person: (a) an admission in writing by such Person of its inability to pay its debts generally or a general assignment by such Person for the benefit of creditors; (b) the filing of any petition or answer by such Person seeking to adjudicate itself as bankrupt or insolvent, or seeking for itself any liquidation, winding-up, reorganization, arrangement, adjustment, protection, relief or composition of such Person or its debts under any Applicable Law relating to bankruptcy, insolvency, receivership, winding-up, liquidation, reorganization, examination, relief of debtors or other similar Applicable Law now or hereafter in effect, or seeking, consenting to or acquiescing in the entry of an order for relief in any case under any such Applicable Law, or the appointment of or taking possession by a receiver, trustee, custodian, liquidator, examiner, assignee, sequestrator or other similar official for such Person or for any substantial part of its property; (c) corporate or other entity action taken by such Person to authorize any of the actions set forth in clause (a) or clause (b) above; or (d) without the consent or acquiescence of such Person, the entering of an order for relief or approving a petition for relief or reorganization or any other petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or other similar relief under any present or future bankruptcy, insolvency or similar Applicable Law, or the filing of any such petition against such Person, or, without the

consent or acquiescence of such Person, the entering of an order appointing a trustee, custodian, receiver or liquidator of such Person or of all or any substantial part of the property of such Person, in each case where such petition or order shall remain unstayed or shall not have been stayed or dismissed within 90 days from entry thereof; provided that in the case of an involuntary petition, such Person has not challenged such petition within 90 days thereof.

"**Bill of Sale**" means that certain bill of sale dated as of the Closing Date executed by Depomed, the Seller and the Purchaser substantially in the form of Exhibit A to the Disclosure Letter.

"**Biovail Manufacturing Transfer Agreement**" means the Manufacturing Transfer Agreement (Controlled Release Metformin Formulations - USA) dated December 13, 2005, between Depomed and Biovail Laboratories International SRL.

"**Biovail Supply Agreement**" means the Supply Agreement (Extended Release Metformin Formulations - U.S.A.) dated December 13, 2005, between Depomed, Inc. and Biovail Laboratories International SRL.

"**Business Day**" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by Applicable Law to remain closed.

"**Closing**" has the meaning set forth in Section 6.1.

"**Closing Date**" has the meaning set forth in Section 6.1.

"**Collection Account**" means a segregated account of the Seller, subject to the Control Agreement in favor of Purchaser, established for the benefit of the Seller and Purchaser and maintained at Wells Fargo Bank pursuant to the terms of the Control Agreement (or such other account as established pursuant to Section 5.4(a)).

"**Confidential Information**" shall mean, as it relates to any party hereto (or its Affiliates) who provides information (the "**Disclosing Party**") to the other party hereto (the "**Receiving Party**"), all information (whether written or oral, or in electronic or other form) furnished before or after the date hereof by or on behalf of the Disclosing Party, including information that relates to the Contributed Assets or any part thereof, the License Agreements, the DM Portfolio Products and the DM Portfolio Intellectual Property Rights, including: (a) any reports, data, materials or other documents of any kind relating in any way, directly or indirectly, to this Disclosing Party or its Affiliates, the Contributed Assets or any part thereof or the circumstances giving rise to the Royalty Payments or any part thereof, and including reports, data, materials or other documents of any kind delivered pursuant to or under any of the License Agreements; and (b) any inventions, devices, improvements, formulations, discoveries, compositions, ingredients, patents, patent applications, know-how, processes, trial results, research, developments or any other intellectual property, trade secrets or information involving or relating in any way, directly or indirectly, to the DM Portfolio Intellectual Property Rights or any infringement thereof. Notwithstanding the foregoing definition, "Confidential Information" shall not include information that is (i) independently developed or discovered by a Receiving Party without use of any Confidential Information as demonstrated by the Receiving Party, (ii) already in the public domain at the time the information is disclosed by a Disclosing Party or has become part of the public domain after such disclosure through no breach by a Receiving Party of this

Royalty Purchase and Sale Agreement, (iii) obtained by a Receiving Party from other sources not known to have an obligation of confidentiality to Disclosing Party, (iv) required to be disclosed in any document to be filed with any Governmental Authority or (v) required to be disclosed by court or administrative order, or under securities laws, rules and regulations applicable to any party hereto or pursuant to the rules and regulations of any stock exchange or stock market on which the securities of any party hereto (or its Affiliates) may be listed for trading.

"**Contributed Assets**" means, collectively, (a) the Subject Assets and (b) the Assigned Rights.

"**Contribution**" has the meaning set forth in Section 2.1(a).

"**Contribution Agreement**" means that certain contribution agreement to be entered into between Depomed and the Seller substantially in the form of Exhibit D to the Disclosure Letter, pursuant to which such parties shall effect the Contribution.

"**Control Agreement**" means the Control Agreement, dated as of the Closing Date, among Wells Fargo Bank, Seller and the Purchaser or, with respect to any Collection Account established after the Closing Date, an agreement, satisfactory in form and substance to the Purchaser and executed by the financial institution or securities intermediary at which such Collection Account is maintained, pursuant to which such financial institution or securities intermediary confirms and acknowledges the Purchaser's security interest in such account, and agrees that the financial institution or securities intermediary, as the case may be, will comply with instructions originated by the Purchaser as to disposition of funds in such account, without further consent by the Seller.

"**Depomed**" has the meaning set forth in the preamble.

"**Designated DM Portfolio Products**" means (i) "Products" as defined as of the date of this Royalty Purchase and Sale Agreement in the Santarus Agreement; and (ii) the "500mg Product" and "1000mg Product" as defined as of the date of this Royalty Purchase and Sale Agreement in the Valeant Agreement.

"**Disclosure Letter**" means the disclosure letter dated as of the date hereof and delivered to the Purchaser by the Selling Parties in respect of this Royalty Purchase and Sale Agreement.

"**Disputes**" has the meaning set forth in Section 3.11(e).

"**Distribution Report**" means a report, prepared on a calendar quarter basis on behalf of the Seller and certified by an Executive Officer as to the accuracy of all amounts included in such report, setting forth, with respect to the applicable calendar quarter and in such form as mutually agreed as between the Selling Parties and the Purchaser, (a) the aggregate amount of payments received by the Selling Parties during such calendar quarter under or in respect of the License Agreements, (b) with respect to such aggregate amount, (i) the amounts thereof constituting Royalty Payments, (ii) the amount thereof constituting any indemnity payments and cost reimbursements that are expressly *** * ***, (iii) the amount thereof allocable to Royalty Payables, and (iv) the amount of Reimbursable Expenses incurred during such calendar quarter, and, in each case, the basis for such calculations; (c) the amount of any *** * *** with respect to payments made during such calendar quarter and the basis for such calculation; (d) the amount of any

payments made *** * *** and that was not deposited into the Collection Account; (e) the gross amount of proceeds deposited into the Collection Account during such calendar quarter; (f) the gross amount of distributions made from the Collection Account during such calendar quarter; and (g) a reconciliation of amounts payable to, versus actually paid to, or swept or withheld by, each of the Selling Parties and the Purchaser with respect to payments received during such calendar quarter.

"**Dollar**" or the sign "$" means United States dollars.

"**DM Portfolio Intellectual Property Rights**" means, as the following relates to the DM Portfolio Products and solely to the extent owned or controlled by Depomed, all intellectual property rights arising from or associated with the following, whether protected, created or arising under the laws of the United States or any other jurisdiction: (i) trade names, trademarks and service marks (registered and unregistered), domain names and other Internet addresses or identifiers, trade dress and similar rights, and applications (including intent to use applications and similar reservations of marks and all goodwill associated therewith) to register any of the foregoing (collectively, "**Marks**"); (ii) Patents; (iii) trade secrets, know-how, inventions, methods, processes and processing instructions, technical data, specifications, research and development information, technology including rights and licenses, product roadmaps, customer lists and any other information, in each case to the extent any of the foregoing derives economic value (actual or potential) from not being generally known to other persons who can obtain economic value from its disclosure or use, excluding any Patents that may cover or protect any of the foregoing (collectively, "**Trade Secrets**"); and (iv) moral rights, publicity rights, data base rights and any other proprietary or intellectual property rights of any kind or nature that do not comprise or are not protected by Marks, Patents or Trade Secrets.

"**DM Portfolio Patents**" has the meaning set forth in Section 3.11(a).

"**DM Portfolio Product**" means, collectively: (i) "Products" as defined as of the date of this Royalty Purchase and Sale Agreement in the BII Agreement; (ii) "Licensed Product" as defined as of the date of this Royalty Purchase and Sale Agreement in the Janssen Agreement; (iii) "Products" as defined as of the date of this Royalty Purchase and Sale Agreement in the Merck Agreement; (iv) "Products" as defined as of the date of this Royalty Purchase and Sale Agreement in the Santarus Agreement; (v) "Licensed Product" as defined as of the date of this Royalty Purchase and Sale Agreement in the LG Agreement; (vi) "500mg Product" and "1000mg Product" as defined as of the date of this Royalty Purchase and Sale Agreement in the Valeant Agreement; and (vii) in the case a New Arrangement entered into by a Selling Party in accordance with the terms hereof, the analogous term for "product," "licensed product," or comparable concept as defined in the New License Agreement.

*** * ***

"**Excluded Liabilities and Obligations**" has the meaning set forth in Section 2.3.

"**Executive Officer**" means the chief executive officer, chief financial officer and the general counsel of Depomed.

"**FDA**" means the U.S. Food and Drug Administration and any successor agency thereto.

"**GAAP**" means generally accepted accounting principles in effect in the United States from time to time.

"**Glumetza**" means the extended-release formulation(s) of Metformin as the single active pharmaceutical ingredient covered or claimed by the DM Portfolio Patents, including without limitation the formulation that is the subject of Depomed's NDA No. 21-748 and/or IND No. 60,747 and/or sNDAs thereof, and known under the brand name Glumetza®, as well as any currently marketed products of Santarus pursuant to the Santarus Agreement, as well as any 1000 mg Metformin extended-release monotherapy tablet formulation based on one or more of the DM Portfolio Patents for which regulatory approval may be obtained by or on behalf of Depomed during the term of this Royalty Purchase and Sale Agreement.

"**Governmental Authority**" means the government of the United States, any other nation or any political subdivision thereof, whether state or local, and any agency, authority (including supranational authority), commission, instrumentality, regulatory body, court, central bank or other Person exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government, including each Patent Office, the FDA and any other government authority in any jurisdiction.

*** * ***

"**Knowledge**" means, with respect to *** * *.**

"**License Agreements**" means, collectively, the following license agreements:

(i) that certain License and Services Agreement, effective as of March 4, 2011, by and between Boehringer Ingelheim International GMBH and Depomed (as amended, extended, supplemented or otherwise modified from time to time, the "**BII Agreement**");

(ii) that certain License Agreement, effective as of August 5, 2010, by and between Janssen Pharmaceutica N.V. and Depomed (as amended, extended, supplemented or otherwise modified from time to time, the "**Janssen Agreement**");

(iii) that certain Non-Exclusive License, Covenant Not to Sue and Right of Reference Agreement, effective as of July 21, 2009, by and between Merck & Co., Inc. and Depomed (as amended, extended, supplemented or otherwise modified from time to time, the "**Merck Agreement**");

(iv) that certain Commercialization Agreement, effective as of August 22, 2011, by and between Santarus, Inc. and Depomed (as amended, extended, supplemented or otherwise modified from time to time, the "**Santarus Agreement**");

(v) that certain Amended License Agreement, effective as of January 9, 2007, between LG Life Sciences Ltd. and Depomed (as amended, extended, supplemented or otherwise modified from time to time, the "**LG Agreement**");

(vi) that certain Amended and Restated License Agreement (Extended Release Metformin Formulations-Canada), dated as of December 13, 2005, between Biovail Laboratories International SRL and Depomed (as amended, extended, supplemented or otherwise modified from time to time, the "**Valeant Agreement**"); and

(vii) any New License Agreement.

"**Licensee**" means:

(i) with respect to the BII Agreement, Boehringer Ingelheim International GMBH and any successor or assignee thereunder;

(ii) with respect to the Janssen Agreement, Janssen Pharmaceutica N.V. and any successor or assignee thereunder;

(iii) with respect to the Merck Agreement, Merck & Co., Inc. and any successor or assignee thereunder;

(iv) with respect to the Santarus Agreement, Santarus, Inc. and any successor or assignee thereunder;

(v) with respect to the LG Agreement, LG Life Sciences Ltd. and any successor or assignee thereunder;

(vi) with respect to the Valeant Agreement, Biovail Laboratories International SRL and any successor or assignee thereunder; and

(vii) with respect to any New License Agreement entered into by a Selling Party in accordance with the terms hereof, the licensee party to the New License Agreement.

"**Lien**" means any security interest, mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or otherwise), charge against or interest in property or other priority or preferential arrangement in the nature of a security interest, in each case to secure payment of a debt or other liability or performance of an obligation, including any conditional sale or any sale with recourse.

"**Loss**" means any loss, assessment, award, cause of action, claim, charge, cost, expense (including reasonable expenses of investigation and reasonable attorneys' fees and expenses), fine, judgment, liability, obligation, penalty or Set-off.

"**Lupin Agreement**" means the Settlement and License Agreement dated as of February 22, 2012, between Depomed, Santarus, Inc. and Lupin Limited.

"**Metformin**" means metformin, and any salts, esters, free acid forms, free base forms, racemates, enantiomers, solvates (including hydrates), polymorphic forms, complexes, crystal forms, and congeners thereof.

"**New Arrangement**" has the meaning set forth in Section 5.6.

"**New License Agreement**" has the meaning set forth in Section 5.6.

"**Patent**" means any patents, inventor certificates, patent applications (including provisionals, continuations, divisionals, and continuations in part), utility models and rights equivalent thereto, patents issuing from any applications, reissues, reexaminations, extensions (including patent term extension, supplemental protection certificates, and any extension of term by any appropriate Governmental Authority), and post-grant proceedings and all foreign equivalents thereof.

"**Patent Office**" means the applicable patent office, including the United States Patent and Trademark Office and any comparable foreign patent office or any other comparable Governmental Authority within or outside the U.S., for any DM Portfolio Intellectual Property Rights that are Patents.

"**Permitted Liens**" means any: (a) Liens in favor of Purchaser or its Affiliates; (b) Liens created, permitted or required by the Transaction Documents in favor of the Purchaser and its Affiliates; and (c) Liens incurred by the Purchaser.

"**Person**" means any natural person, firm, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, Governmental Authority or any other legal entity, including public bodies, whether acting in an individual, fiduciary or other capacity.

"**Purchase Price**" has the meaning set forth in Section 2.2.

"**Purchaser**" has the meaning set forth in the preamble.

"**Purchaser Account**" means the account of the Purchaser for which the Purchaser has instructed the Selling Parties in writing to direct all payments owed the Purchaser under the Transaction Documents, which account the Purchaser may change from time-to-time by furnishing written notice to the Selling Parties.

"**Purchaser Indemnified Party**" has the meaning set forth in Section 7.1.

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"**Regulatory Agency**" means a Governmental Authority with responsibility for the approval of the marketing and sale of pharmaceuticals or other regulation of pharmaceuticals in any jurisdiction.

"**Regulatory Approvals**" means, collectively, all regulatory approvals, registrations, certificates, authorizations, permits and supplements thereto, as well as associated materials (including the product dossier) pursuant to which any DM Portfolio Products may, subject to the applicable License Agreement, be marketed, sold and distributed in a jurisdiction, issued by the appropriate Regulatory Agency.

"**Reimbursable Expenses**" means, net of any recoveries or reimbursements paid to a Selling Party from a third party (other than the Purchaser), any documented, out-of-pocket costs and expenses of any Selling Party reasonably incurred in connection with (a) the maintenance and prosecution of any DM Intellectual Property Rights and any infringement relating thereto (but only to the extent such maintenance or prosecution is required under the terms of a License Agreement or is required pursuant to the terms hereof), (b) the enforcement of the License Agreement (except as provided in Section 5.5(d)), (c) the entering into any New License Agreements if incurred at the direction of Purchaser, and (d) any performance of any obligations, the cost of which are expressly borne by the Purchaser hereunder (including pursuant to Section 5.5(e)), in each case to the extent (i) such costs and expenses relate directly to the DM Portfolio Products (in other words, if any such costs and expenses relate only partially to the DM Portfolio Products, then in such proportion as such costs and expenses relate to the DM Portfolio Products) and (ii) not reimbursed by a Licensee in accordance with the applicable Licensee Agreement or otherwise reimbursed by the Purchaser hereunder.

"**Reversionary Interest**" has the meaning set forth in Section 5.8.

"**Reversionary Interest Commencement Date**" has the meaning set forth in Section 5.8.

"**Reversionary Interest Threshold**" means $481,000,000.

"**Royalty Payables**" means any payment obligations of a Selling Party under Article 4 of the Biovail Manufacturing Transfer Agreement and the related Biovail Supply Agreement that are based on either Net Sales or Depomed Revenues (each as defined in the Biovail Manufacturing Transfer Agreement) and result from the sale of DM Portfolio Products to which the Royalty Payments relate.

"**Royalty Payment Instruction**" means the irrevocable direction to each of the Licensees under the License Agreements substantially in the form set forth in Exhibit B to the Disclosure Letter.

"**Royalty Payments**" means:

(a) all royalties, milestone payments and other amounts paid, owed, accrued or otherwise required to be paid to a Selling Party, in each case accruing from and after the Royalty Payments Commencement Date, by the Licensees (and any Sublicensees thereof), pursuant to, and subject to the terms and conditions of the License Agreements, including any payments or consideration paid or payable to the Selling Parties in connection with any amendments, restatements, supplements, modifications, waiver or replacement of the License Agreements;

(b) all accounts (as defined under the UCC) evidencing the rights to the payments and amounts described in clause (a) above; and

(c) all proceeds (as defined under the UCC) of any of the foregoing;

provided that (A) Royalty Payments shall exclude (without duplication of any amounts deducted or reimbursed by the Purchaser as Reimbursable Expenses):

(i) *** * ***;

(ii) *** * ***; and

(B) Royalty Payments shall be calculated net of Reimbursable Expenses and Royalty Payables.

"**Royalty Payments Commencement Date**" means October 1, 2013.

"**Royalty Purchase and Sale Agreement**" has the meaning set forth in the preamble.

"**Royalty Reports**" means reports provided by Licensees (including any certifications in respect thereof) to a Selling Party pursuant to and in accordance with the License Agreements setting forth calculations for royalty payments required under such License Agreement and such other information as specified in the applicable License Agreement with respect to the applicable DM Portfolio Product for the relevant period.

"**SEC**" means the U.S. Securities and Exchange Commission.

"**Seller**" has the meaning set forth in the preamble.

"**Seller Account**" means such account of the Seller as the Seller shall notify the Purchaser in writing from time to time.

"**Seller Indemnified Party**" has the meaning set forth in Section 7.2.

"**Seller Organizational Documents**" means the certificate of formation of the Seller dated as of October 16, 2013 and the limited liability company agreement of the Seller dated as of the date hereof.

"**Selling Party**" has the meaning set forth in the preamble.

"**Set-off**" means any *** * *.**

"**Subject Assets**" means all of Depomed's or the Seller's, as applicable, right, title and interest in, to and under each of the License Agreements to receive the Royalty Payments, subject to the Reversionary Interest.

"**Sublicensee**" means any licensee of a Licensee under any of the License Agreements.

"**Subsidiary**" of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person.

"**Transaction Documents**" means this Royalty Purchase and Sale Agreement, the Bill of Sale, the Royalty Payment Instructions, the Control Agreement, the Disclosure Letter and the Contribution Agreement.

"**UCC**" means the Uniform Commercial Code as in effect from time to time in the State of Delaware; provided, that, if, with respect to any financing statement or by reason of any provisions of Applicable Law, the perfection or the effect of perfection or non-perfection of the back-up security interest or any portion thereof granted pursuant to Section 2.1(e) is governed by the Uniform Commercial Code as in effect in a jurisdiction of the United States other than the State of Delaware, then "UCC" means the Uniform Commercial Code as in effect from time to time in such other jurisdiction for purposes of the provisions of this Royalty Purchase and Sale Agreement and any financing statement relating to such perfection or effect of perfection or non-perfection.

"**U.S.**" or "**United States**" means the United States of America, its 50 states, each territory thereof and the District of Columbia.

Section 1.2 Rules of Construction. Unless the context otherwise requires, in this Royalty Purchase and Sale Agreement:

(a) A term has the meaning assigned to it and an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP.

(b) Unless otherwise defined, all terms that are defined in the UCC shall have the meanings stated in the UCC.

(c) Words of the masculine, feminine or neuter gender shall mean and include the correlative words of other genders.

(d) The definitions of terms shall apply equally to the singular and plural forms of the terms defined.

(e) The terms "include", "including" and similar terms shall be construed as if followed by the phrase "without limitation".

(f) Unless otherwise specified, references to an agreement or other document include references to such agreement or document as from time to time amended, restated, reformed, supplemented or otherwise modified in accordance with the terms thereof (subject to any restrictions on such amendments, restatements, reformations, supplements or modifications set forth herein or in any of the other Transaction Documents) and include any annexes, exhibits and schedules attached thereto.

(g) References to any Applicable Law shall include such Applicable Law as from time to time in effect, including any amendment, modification, codification, replacement or reenactment thereof or any substitution therefor.

(h) References to any Person shall be construed to include such Person's successors and permitted assigns (subject to any restrictions on assignment, transfer or delegation set forth herein or in any of the other Transaction Documents), and any reference to a Person in a particular capacity excludes such Person in other capacities.

(i) The word "will" shall be construed to have the same meaning and effect as the word "shall".

(j) The words "hereof", "herein", "hereunder" and similar terms when used in this Royalty Purchase and Sale Agreement shall refer to this Royalty Purchase and Sale Agreement as a whole and not to any particular provision hereof, and Article, Section and Exhibit references herein are references to Articles and Sections of, and Exhibits to, this Royalty Purchase and Sale Agreement unless otherwise specified.

(k) In the computation of a period of time from a specified date to a later specified date, the word "from" means "from and including" and each of the words "to" and "until" means "to but excluding".

(l) Where any payment is to be made, any funds are to be applied or any calculation is to be made under this Royalty Purchase and Sale Agreement on a day that is not a Business Day, unless this Royalty Purchase and Sale Agreement otherwise provides, such payment shall be made, such funds shall be applied and such calculation shall be made on the succeeding Business Day, and payments shall be adjusted accordingly.

(m) Any reference herein to a term that is defined by reference to its meaning in any of the License Agreements shall refer to such term's meaning in such License Agreement (including any other defined terms in such License Agreement that are included in such term's meaning thereunder) as in existence on the date hereof.

ARTICLE II
CONTRIBUTION, PURCHASE AND SALE OF THE SUBJECT ASSETS

Section 2.1 Contribution, Purchase and Sale.

(a) On or prior to the Closing Date, Depomed shall have contributed, assigned, transferred, conveyed and granted to the Seller, and the Seller shall have, pursuant to the terms of the Contribution Agreement, acquired and accepted from Depomed, all of Depomed's rights, title and interest in and to the Contributed Assets, free and clear of any and all Liens, other than Permitted Liens (the "**Contribution**").

(b) Subject to the terms and conditions of this Royalty Purchase and Sale Agreement, on the Closing Date, the Seller hereby sells, assigns, transfers, conveys and grants to the Purchaser, and the Purchaser hereby purchases, acquires and accepts from the Seller, all of the Seller's rights, title and interest in and to the Subject Assets, free and clear of any and all Liens, other than Permitted Liens.

(c) The Selling Parties and the Purchaser intend and agree that the sale, assignment, transfer, conveyance and granting of the Subject Assets under this Royalty Purchase and Sale Agreement shall be, and are, a true, complete, absolute and irrevocable assignment and sale by the Seller to the Purchaser of the Subject Assets that is absolute and irrevocable and that such assignment and sale shall provide the Purchaser with the full benefits of ownership of the Subject Assets. Neither the Selling Parties, on the one hand, nor the Purchaser, on the other, intends the transactions contemplated hereby to be, or for any purpose characterized as, a loan from the Purchaser to the Seller or a pledge or assignment or a security agreement. Each Selling Party waives any right to contest or otherwise assert that this Royalty Purchase and Sale Agreement does not constitute a true, complete, absolute and irrevocable sale and assignment by the Seller to the Purchaser of the Subject Assets under Applicable Law, which waiver shall

be enforceable against the Selling Parties in any Bankruptcy Event in respect of a Selling Party. The sale, contribution, assignment, transfer, conveyance and granting of the Subject Assets shall be reflected on the Selling Parties' financial statements and other records as a sale of assets to the Purchaser (except to the extent GAAP or the rules of the SEC require otherwise with respect to Depomed's consolidated financial statements).

(d) Each of the Selling Parties hereby authorizes the Purchaser or its designee to execute, record and file, and consents to the Purchaser or its designee executing, recording and filing, at the Purchaser's sole cost and expense, financing statements in the appropriate filing offices under the UCC (and continuation statements with respect to such financing statements when applicable), and amendments thereto or assignments thereof, in such manner and in such jurisdictions as are necessary or appropriate (i) to evidence or perfect (x) the sale, contribution, assignment, transfer, conveyance and grant by Depomed to the Seller, and the acquisition and acceptance by the Seller from Depomed, of the Contributed Assets, and (y) the sale, assignment, transfer and conveyance by the Seller to the Purchaser, and the purchase, acquisition and acceptance by the Purchaser from the Seller, of the Subject Assets and (ii) to perfect the security interest in the Contributed Assets granted by the Selling Parties to the Purchaser pursuant to Section 2.1(e).

(e) Notwithstanding that the Selling Parties and the Purchaser expressly intend for the sale, contribution, assignment, transfer, conveyance and granting of the Subject Assets to be a true, complete, absolute and irrevocable sale and assignment, in the event that any transfer contemplated by this Royalty Purchase and Sale Agreement is held not to be a sale, each of the Selling Parties hereby assigns, conveys, grants and pledges to the Purchaser, as security for its obligations created hereunder, a security interest in and to all of such Selling Party's right, title and interest in, to and under the Contributed Assets, whether now owned or hereafter acquired, and any proceeds (as such term is defined in the UCC) thereof and, solely in such event, this Royalty Purchase and Sale Agreement shall constitute a security agreement.

Section 2.2 Purchase Price. In full consideration for the sale assignment, transfer, conveyance and granting of the Subject Assets to the Purchaser, and subject to the terms and conditions set forth herein, the Purchaser shall pay (or cause to be paid) to the Seller, or the Seller's designee, on the Closing Date, the sum of $240,500,000, in immediately available funds by wire transfer to the Seller Account (the "**Purchase Price**").

Section 2.3 No Assumed Obligations. Notwithstanding any provision in this Royalty Purchase and Sale Agreement or any other writing to the contrary, the Purchaser is purchasing, acquiring and accepting only the Subject Assets and is not assuming any liability or obligation of

the Seller or any of the Seller's Affiliates of whatever nature, whether presently in existence or arising or asserted hereafter (including any liability or obligation of a Selling Party under any of the License Agreements). All such liabilities and obligations shall be retained by and remain liabilities and obligations of the Selling Parties or their Affiliates, as the case may be (the "**Excluded Liabilities and Obligations**").

Section 2.4 Excluded Assets. The Purchaser does not, by purchase, acquisition or acceptance of the Subject Assets, purchase, acquire or accept any of the DM Portfolio Intellectual Property Rights. Notwithstanding anything to the contrary herein, Depomed may continue to license and sell the DM Portfolio Products (or products similar thereto) and otherwise license the DM Portfolio Intellectual Property without restriction (except as expressly set forth in Section 5.5(g) hereof or elsewhere herein) and no such sales or licenses shall give rise to any obligation to make payments in respect thereof to Purchaser, except to the extent of the Subject Assets.

Section 2.5 Payments.

(a) Payments in Respect of Royalty Payments. In connection with the purchase of the Subject Assets, the Purchaser shall be entitled to receive the Royalty Payments, subject to the Reversionary Interest.

(b) Payment Procedures. Subject to the procedures set forth in Section 5.4, any payments to be made by a party to this Royalty Purchase and Sale Agreement or under any other Transaction Document shall be made by wire transfer of immediately available funds to such party.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF THE SELLER

Except as set forth in Exhibit C to the Disclosure Letter, each of the Selling Parties, on a joint and several basis, hereby represents and warrants to the Purchaser as of the date hereof and as of the Closing Date as follows:

Section 3.1 Organization; Operations of Seller.

(a) Depomed is a corporation duly organized, validly existing and in good standing under the laws of the State of California and has all powers and authority, and all licenses, permits, franchises, authorizations, consents and approvals, required to own its property and conduct its business as now conducted (except where the failure to have such licenses, permits, franchises, authorizations, consents or approvals would not reasonably be expected to result in an Adverse Change) and to execute, deliver, and perform its obligations under the Transaction Documents and to exercise its rights and to perform its obligations under each of the License Agreements. Depomed is duly qualified to transact business and is in good standing in each jurisdiction in which such qualification or good standing is required by Applicable Law (except where the failure to be so qualified or in good standing could not reasonably be expected to result in an Adverse Change).

(b) The Seller is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware and has all powers and authority, and all licenses, permits, franchises, authorizations, consents and approvals, required to own its property and conduct its business as now conducted (except where the failure to have such licenses, permits, franchises, authorizations, consents or approvals would not reasonably be expected to result in an Adverse Change) and to execute, deliver, and perform its obligations under the Transaction Documents and to exercise its rights and to perform its obligations under each of the License Agreements. The Seller is duly qualified to transact business and is in good standing in every jurisdiction in which such qualification or good standing is required by Applicable Law (except where the failure to be so qualified or in good standing could not reasonably be expected to result in an Adverse Change).

(c) The Seller was formed on October 16, 2013 for the sole purpose of acquiring the Contributed Assets as contemplated by the Contribution, selling the Subject Assets to the Purchaser as contemplated hereby and otherwise performing its obligations under the Transaction Documents. The Seller has not been, is not, and will not be engaged, in any business unrelated to the effecting the transactions contemplated by the Transaction Documents. The sole assets of the Seller that it has owned or will own consist exclusively of the Contributed Assets and any rights arising under the Transaction Documents. Since the date of the Seller's formation, the Seller has not incurred any obligations or liabilities or engaged in any business activities of any type or kind whatsoever or entered into any agreements or arrangements with any Person, except as required to execute and deliver the Transaction Documents and to consummate the transactions contemplated thereby. The Seller has no obligations or liabilities, except those incurred in connection with, and pursuant to the Transaction Documents and the transactions contemplated thereby.

Section 3.2 No Conflicts.

(a) None of the execution and delivery by a Selling Party of any of the Transaction Documents, the performance by a Selling Party of the obligations contemplated hereby or thereby or the consummation of the transactions contemplated hereby or thereby will: (i) contravene, conflict with, result in a breach, violation, cancellation or termination of, constitute a default (with or without notice or lapse of time, or both) under, require prepayment under, give any Person the right to exercise any remedy or obtain any additional rights under, or accelerate the maturity or performance of or payment under, in any respect, (A) any Applicable Law or any judgment, order, writ, decree, permit or license of any Governmental Authority, to which a Selling Party or any of its Subsidiaries or any of their respective assets or properties may be subject or bound, (B) any legally effective term or provision of any contract, agreement, indenture, lease, license, deed, commitment, obligation or instrument to which a Selling Party or any of its Subsidiaries is a party or by which a Selling Party or any of its Subsidiaries or any of their respective assets or properties is bound or committed (including the License Agreements) or (C) any term or provision of any of the organizational documents of a Selling Party or any of its Subsidiaries, except in the case of clauses (A) and (B) as would not, individually or in the aggregate, reasonably be expected to result in an Adverse Change; (ii) give rise to any additional right of termination, cancellation or acceleration of any right or obligation of a Licensee or any of its Sublicensees under a License Agreement, or (iii) except as provided in any of the

(b) Transaction Documents, result in or require the creation or imposition of any Lien on the Contributed Assets or the Subject Assets.

(c) Except for Permitted Liens and liens for taxes not yet due and payable or that are not delinquent or are being contested in good faith, neither Selling Party has granted, nor does there exist, any Lien on the Transaction Documents, the License Agreements or the Contributed Assets nor does there exist any Lien on the DM Portfolio Intellectual Property Rights.

Section 3.3 Authorization.

(a) Each Selling Party has the legal right under the terms of each of the License Agreements after giving effect to, and under, Applicable Law to enter into this Royalty Purchase and Sale Agreement and each of the other Transaction Documents, including, without limitation, the right to sell, contribute, assign, transfer, convey and grant the Contributed Assets to the Seller and to sell, assign, transfer, convey and grant the Subject Assets to the Purchaser, as the case may be, in each case as contemplated hereby and the other Transaction Documents.

(b) Each Selling Party has all corporate or limited liability company, as applicable, power and authority to execute and deliver, and perform its obligations under, each of the Transaction Documents and to consummate the transactions contemplated hereby and thereby. The execution and delivery of each of the Transaction Documents and the performance by each Selling Party of its obligations hereunder and thereunder have been duly authorized by such Selling Party. Each of the Transaction Documents has been duly executed and delivered by each Selling Party. Each of the Transaction Documents constitutes the legal, valid and binding obligation of each Selling Party, enforceable against such Selling Party in accordance with its respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or similar Applicable Laws affecting creditors' rights generally and general equitable principles.

Section 3.4 Ownership.

(a) The Seller is the exclusive owner of the entire right, title (legal and equitable) and interest in, to and under the Contributed Assets and has good and valid title thereto, free and clear of all Liens (other than Permitted Liens), and prior to the Contribution, Depomed was the exclusive owner of the entire right, title (legal and equitable) and interest in, to and under the Contributed Assets and had good and valid title thereto, free and clear of all Liens (other than Permitted Liens). The Subject Assets sold, assigned, transferred, conveyed and granted to the Purchaser on the Closing Date have not been pledged, sold, contributed, assigned, transferred, conveyed or granted by either Selling Party to any other Person (other than the Contribution). At the time of the Contribution, Depomed had full right to contribute, assign, transfer, convey and grant the Contributed Assets to the Seller, and following the Contribution, the Seller has full right to sell, contribute, assign, transfer, convey and grant the Subject Assets to the Purchaser. Upon the sale, assignment, transfer, conveyance and granting by the Seller of the Subject Assets to the Purchaser, the Purchaser shall acquire good, valid and marketable title to the Subject Assets free and clear of all Liens, other than Permitted Liens, and shall be the exclusive owner of the Subject Assets.

(b) Subject to the Reversionary Interest as contemplated hereby, no Person other than the Purchaser has any right to receive the Royalty Payments payable under each of the License Agreements (other than to the extent the Purchaser assigns its right to receive the Royalty Payments payable under any of the License Agreements to any other Person).

Section 3.5 Governmental and Third Party Authorizations. The execution and delivery by the Selling Parties of the Transaction Documents, the performance by each of the Selling Parties of its respective obligations hereunder and thereunder and the consummation of any of the transactions contemplated hereunder and thereunder (including the sale, contribution, assignment, transfer, conveyance and granting of the Contributed Assets to the Seller and sale, assignment, transfer, conveyance and granting of the Subject Assets to the Purchaser as contemplated hereby) do not require any consent, approval, license, order, authorization or declaration from, notice to, action or registration by or filing with any Governmental Authority or any other Person, except for the filing of UCC financing statements, the notice to each of the Licensees contained in the Royalty Payment Instructions and those previously obtained.

Section 3.6 No Litigation. Except as disclosed under Part II, Item 1 of Depomed's quarterly report on Form 10-Q filed with the SEC on August 8, 2013, there is no (a) action, suit, arbitration proceeding, claim, demand, citation, summons, subpoena, investigation or other proceeding (whether civil, criminal, administrative, regulatory, investigative or informal) pending or, to the Knowledge of the Selling Parties, threatened, against, relating to or affecting any DM Portfolio Product or the Subject Assets (including under the License Agreements), at law or in equity, or (b) inquiry or investigation (whether civil, criminal, administrative, regulatory, investigative or informal) by or before a Governmental Authority pending or, to the Knowledge of the Selling Parties, threatened in writing, against a Selling Party or any of its Subsidiaries against, relating to or affecting any DM Portfolio Product or the Subject Assets (including under the License Agreements) that, in each case, (i) if adversely determined, could reasonably be expected to result in an Adverse Change, or (ii) challenges or seeks to prevent, enjoin, alter, delay, make illegal or otherwise interfere with the consummation of any of the transactions contemplated by any of the Transaction Documents. To the Knowledge of the Selling Parties, no event has occurred or circumstance exists that may give rise to or serve as a basis for the commencement of any such action, suit, arbitration, claim, investigation, proceeding or inquiry.

Section 3.7 Solvency. Upon consummation of the transactions contemplated by the Transaction Documents and the application of the proceeds therefrom, (a) the present fair saleable value of each of the Selling Parties' property and assets will be greater than the sum of its debts and liabilities, including contingent liabilities, (b) the present fair saleable value of each of the Selling Parties' property and assets will be greater than the amount that would be required to pay such Selling Party's probable liabilities on its existing debts and other liabilities, including contingent liabilities, as they become absolute and matured, (c) neither of the Selling Parties will have unreasonably small capital with which to conduct its business in which it is engaged as such business is now conducted and is proposed to be conducted, and (e) neither of the Selling Parties has incurred, intends to incur, or believes (nor should it reasonably believe) that it will incur, debts and liabilities, including contingent liabilities, beyond its ability to pay such debts and liabilities as they become absolute and matured. No step has been taken or is intended by either

of the Selling Parties or, so far as each Selling Party is aware, any other Person to make either Selling Party subject to a Bankruptcy Event.

Section 3.8 Tax Matters. Each of the Selling Parties has filed (or caused to be filed) all material tax returns required by Applicable Law to have been filed by such Selling Party and has paid or remitted all taxes required to be paid by it where the failure to pay would result in a Lien on any of the Subject Assets, except any such taxes that are not yet due or delinquent or are being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP have been set aside on its books.

Section 3.9 No Brokers' Fees. Neither Selling Party has taken any action that would entitle any person or entity to any commission or broker's fee in connection with the transactions contemplated by the Transaction Documents.

Section 3.10 Compliance with Laws. None of the Selling Parties or any of their Subsidiaries (a) has violated or is in violation of or has been given notice of any violation of, or, to the Knowledge of the Selling Parties, is under investigation with respect to or has been threatened to be charged with any violation of, any Applicable Law or any judgment, order, writ, decree, injunction, stipulation, consent order, permit or license granted, issued or entered by any Governmental Authority or (b) is subject to any judgment, order, writ, decree, injunction, stipulation, consent order, permit or license granted, issued or entered by any Governmental Authority, in each case with respect to clause (a) and (b) above, that could reasonably be expected to result in an Adverse Change.

Section 3.11 Intellectual Property Matters.

(a) Exhibit C to the Disclosure Letter sets forth an accurate and complete list of each DM Portfolio Intellectual Property Right that is a Patent (the "**DM Portfolio Patents**"), including for each such Patent: (i) the jurisdictions in which such Patent is pending, allowed, granted or issued, (ii) the patent number or pending patent application serial number, (iii) the scheduled expiration date of such issued Patent, including extensions granted and applied for, (iv) the scheduled expiration date of each Patent issuing from such pending patent applications once issued and (v) the owner of such Patent.

(b) To the Knowledge of the Selling Parties, each DM Portfolio Patent issued in the United States or the European Patent Office includes at least one valid and enforceable claim that covers one or more of the DM Portfolio Products. To the Knowledge of the Selling Parties, each DM Portfolio Patent set forth on Section 3.11(b) of Exhibit C to the Disclosure Letter includes at least one valid and enforceable claim covering the DM Portfolio Product identified as being covered by such DM Portfolio Patent. *** * ***

(c) There are no unpaid maintenance or renewal fees payable by the Seller to any third party that currently are overdue for any of the DM Portfolio Patents. No DM Portfolio Patents have lapsed or been abandoned, cancelled or expired. Each individual associated with the filing and prosecution of the DM Portfolio Patents, including the named inventors of the DM Portfolio Patents, has complied in all material respects with all applicable duties of candor and good faith in dealing with any Patent Office, including any duty to disclose to any Patent Office

all information known by such inventors to be material to the patentability of each of the DM Portfolio Patents (including any relevant prior art), in each case, in those jurisdictions where such duties exist.

(d) Subsequent to the issuance of the DM Portfolio Patents, neither Selling Party has filed any disclaimer or made or permitted any other voluntary reduction in the scope of the DM Portfolio Patents. Except as set forth on Exhibit C to the Disclosure Letter, neither Selling Party has been nor is currently involved in any interference, re-examination, opposition, derivation or other post-grant proceedings involving any of the DM Portfolio Patents and no allowable or allowed subject matter of the DM Portfolio Patents is subject to any competing conception claims of allowable or allowed subject matter of any Patents of any third party and have not been the subject of any interference, re-examination, opposition, derivation or other post-grant proceedings.

(e) Except as disclosed under Part II, Item 1 of Depomed's quarterly report on Form 10-Q filed with the SEC on August 8, 2013 or set forth on Exhibit C to the Disclosure Letter, there is no opposition, interference, reexamination, derivation or other post-grant proceeding, injunction, claim, suit, action, citation, summon, subpoena, hearing, inquiry, investigation (by the International Trade Commission or otherwise), complaint, arbitration, mediation, demand, decree or other dispute, disagreement, proceeding or claim (collectively, "**Disputes**") pending, or, to the Knowledge of the Selling Parties, threatened, involving a Selling Party, or, to the Knowledge of the Selling Parties, pending or threatened against any other Person (including each of the Licensees) challenging the legality, validity, enforceability or ownership of or otherwise relating to any of the DM Portfolio Patents or that could give rise to any Set-off against the Royalty Payments. There are no Disputes pending, or to the Knowledge of the Selling Parties, threatened in writing, involving a Selling Party and any DM Portfolio Product, and, to the Knowledge of the Selling Parties, pending or threatened in writing against any other Person (including each of the Licensees) and relating to any DM Portfolio Product. To the Knowledge of the Selling Parties, none of the DM Portfolio Patents nor DM Portfolio Products is subject to any outstanding injunction, judgment, order, decree, ruling, settlement or other disposition of a Dispute.

(f) There is no pending or, to the Knowledge of the Selling Parties, threatened in writing, and no event has occurred or circumstance exists that (with or without notice or lapse of time, or both) could reasonably be expected to give rise to or serve as a basis for any, action, suit or proceeding, or any investigation or claim by any Person to which a Selling Party or, to the Knowledge of the Selling Parties, any of the Licensees or its Sublicensee is or could be a party, that claims that the manufacture, use, marketing, sale, offer for sale, importation or distribution of any Designated DM Portfolio Product by any of the Licensees, their Affiliate or their Sublicensees pursuant to the License Agreements does or could infringe on any patent or other intellectual property rights of any other Person or constitute misappropriation of any other Person's trade secrets or other intellectual property rights. Neither Selling Party has received any written notice of any action, suit, proceeding or investigation or claim by any Person, and, to the Knowledge of the Selling Parties, neither the Licensees nor any Sublicensees have received any written notice of any action, suit, proceeding or investigation or claim by any Person that claims that the manufacture, use, marketing, sale, offer for sale, importation or distribution of any DM Portfolio Product by any of the Licensees, their Affiliate or their Sublicensees pursuant to the

License Agreements does or could infringe on any patent or other intellectual property rights of any other Person or constitute misappropriation of any other Person's trade secrets or other intellectual property rights. To the Knowledge of the Selling Parties, there are no issued Patents owned by any third party that limit or would be infringed by the manufacture, use, marketing, sale, offer for sale, importation or distribution of any Designated DM Portfolio Product in any country in which any Designated DM Portfolio Product is currently manufactured, used, marketed, sold, offered for sale or imported pursuant to the License Agreements and there are no pending patent applications owned by any third party containing claims that, if a Patent issues thereon, would limit or be infringed by the manufacture, use, marketing, sale, offer for sale, importation or distribution of any Designated DM Portfolio Product by a Selling Party, the Licensees or any of their respective licensees in any country in which any Designated DM Portfolio Product is currently manufactured, used, marketed, sold, offered for sale or imported pursuant to the License Agreements. To the Knowledge of the Selling Parties, there are no issued Patents owned by any third party that limit or would be infringed *** * *** and there are no pending patent applications owned by any third party containing claims that, if a Patent issues thereon, would limit or be infringed *** * ***.

(g) Except as disclosed in Depomed's reports and other information filed with, or furnished to, the SEC prior to the Closing Date, to the Knowledge of the Selling Parties, there is no third party infringing any DM Portfolio Patents to the extent relating to the DM Portfolio Products. Neither Selling Party has received any notice under any of the License Agreements of infringement of any of the DM Portfolio Patent.

(h) Each of the Selling Parties and, to the Knowledge of the Selling Parties, the Licensees has taken commercially reasonable precautions to protect the secrecy, confidentiality and/or value of any DM Portfolio Intellectual Property Rights that are know-how or other trade secrets of the Selling Parties licensed under the License Agreements, except where the failure to do so could not reasonably be expected to result in an Adverse Change.

(i) Except for the DM Portfolio Intellectual Property Rights, neither of Selling Parties nor any of Affiliates of either Selling Party controls any Patents that, absent a license, would be infringed by the manufacture, use, sale, offer for sale or importation of any DM Portfolio Product.

(j) Neither Selling Party has received nor is otherwise in possession of any written legal opinion with respect to any third party intellectual property rights relating to any DM Portfolio Patents or DM Portfolio Products, including any freedom-to-operate, product clearance, patentability or right-to-use opinion.

(k) *** * ***

(l) *** * ***

(m) The date of Regulatory Approval referred to in Section 24.2 of the Supply Agreement dated as of December 13, 2005, between Biovail Laboratories International SRL and Depomed is December 27, 2007.

(n) No claims of any DM Portfolio Patent are being asserted by Depomed or any other Person in any action, suit or proceeding of any kind other than as disclosed on Exhibit C to the Disclosure Letter.

Section 3.12 License Agreements.

(a) Other than the Transaction Documents and the License Agreements, there is no contract, agreement or other arrangement (whether written or oral) to which a Selling Party or any of its Subsidiaries is a party or by which any of their respective assets or properties is bound or committed (i) that creates a Lien on, affects or otherwise relates to the Subject Assets or each of the License Agreements as it relates to the Subject Assets, or (ii) for which breach, nonperformance, termination, cancellation or failure to renew could reasonably be expected to result in an Adverse Change.

(b) Each of the License Agreements is in full force and effect and is the legal, valid and binding obligation of Depomed and, to the Knowledge of the Selling Parties, the applicable Licensee, enforceable against Depomed and, to the Knowledge of the Selling Parties, the applicable Licensee in accordance with its terms, subject, as to enforcement of remedies, to bankruptcy, insolvency, reorganization, moratorium or similar Applicable Laws affecting creditors' rights generally and general equitable principles. The execution and delivery of, and performance of obligations under, each of the License Agreements were and are within the powers of the Selling Parties *** * ***. Each of the License Agreements was duly authorized by all necessary action on the part of, and validly executed and delivered by, Depomed and, to the Knowledge of the Selling Parties, the applicable Licensee. *** * *** Following the execution and delivery of the Transaction Documents and the performance of the parties' rights and obligations hereunder and thereunder, *** * *** in accordance with its terms, subject, as to enforcement of remedies, to bankruptcy, insolvency, reorganization, moratorium or similar Applicable Laws affecting creditors' rights generally and general equitable principles. *** * ***

(c) Neither Selling Party has waived any rights or defaults under any of the License Agreements or released any of the Licensees, in whole or in part, from any of their obligations thereunder. There are no pending requests for waivers or modifications in respect of the License Agreements. Neither of the Selling Parties nor, to the Knowledge of the Selling Parties, any Licensee has agreed to amend or waive any provision of the License Agreements, and there is no current proposal to do so.

(d) *** * ***

(e) *** * ***

(f) Neither Selling Party has consented to any assignment, pledge, sale or other transfer (including licenses) by any Licensee of any of such Licensee's rights or obligations under its Licensee Agreement, and neither Selling Party has any Knowledge of any such assignment, pledge, sale or other transfer (including licenses) by any Licensee. Except as contemplated by Section 2.1, neither Selling Party has assigned, sold or otherwise transferred any of its rights or obligations, in whole or in part, under the License Agreements nor has granted, incurred or suffered to exist any Liens (other than Permitted Liens and liens for taxes

not yet due and payable or that are not delinquent or are being contested in good faith) on the License Agreements or any of its rights thereunder or on any of the Subject Assets, and neither Selling Party has received any notice from any Licensee of such Licensee's intent to assign, pledge, sell or otherwise transfer (including license) any of such Licensee's rights or obligations under its License Agreement.

(g) Neither of the Selling Parties nor any of the Licensees has made any claim of indemnification under any of the Licensee Agreements.

(h) Neither of the Selling Parties has exercised its rights to conduct an audit under any of the License Agreements.

(i) To the Knowledge of the Selling Parties, each of the Selling Parties has received all amounts due and payable to it under each of the License Agreements.

(j) To the Knowledge of the Selling Parties, each of the Licensees has complied in all material respects with its obligations to develop the DM Portfolio Products and seek and obtain Regulatory Approval for the DM Portfolio Products pursuant to its License Agreement.

Section 3.13 UCC Matters.

(a) Depomed and the Seller's exact legal names are, and since the date of their organization on August 7, 1995 and October 16, 2013, respectively, have been, "Depomed, Inc." and "Depo DR Sub, LLC," respectively. Depomed's chief executive office is, and since such date of organization has been, located in, and its jurisdiction of organization is, and since such date of organization has been, the State of California. Each of Depomed and the Seller is a registered organization under the laws of the State of Delaware. Since the applicable date of organization, neither Selling Party has been the subject of any merger or other corporate or other reorganization in which such Selling Party's identity or status was materially changed, except in each case when it was the surviving or resulting Person.

(b) Assuming that the Purchaser has not agreed to subordinate any claims and rights created by any Transaction Documents in and to the Subject Assets, such claims and rights of the Purchaser are not subordinated to any creditor of either Selling Party or any other Person.

Section 3.14 Margin Stock. Neither Selling Party is engaged in the business of extending credit for the purpose of buying or carrying margin stock, and no portion of the Purchase Price shall be used by either Selling Party for a purpose that violates Regulation T, U or X promulgated by the Board of Governors of the Federal Reserve System from time to time.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser hereby represents and warrants to the Selling Parties as of the date hereof and as of the Closing Date as follows:

Section 4.1 Organization. The Purchaser is a corporation, duly organized, validly existing and in good standing under the laws of the State of Delaware, and has all powers and authority, and all licenses, permits, franchises, authorizations, consents and approvals of all Governmental Authorities, required to own its property and conduct its business as now conducted.

Section 4.2 No Conflicts. None of the execution and delivery by the Purchaser of any of the Transaction Documents to which the Purchaser is party, the performance by the Purchaser of the obligations contemplated hereby or thereby or the consummation of the transactions contemplated hereby or thereby will contravene, conflict with, result in a breach, violation, cancellation or termination of, constitute a default (with or without notice or lapse of time, or both) under, require prepayment under, give any Person the right to exercise any remedy or obtain any additional rights under, or accelerate the maturity or performance of or payment under, in any respect, (i) any Applicable Law or any judgment, order, writ, decree, permit or license of any Governmental Authority to which the Purchaser or any of its assets or properties may be subject or bound, (ii) any term or provision of any contract, agreement, indenture, lease, license, deed, commitment, obligation or instrument to which the Purchaser is a party or by which the Purchaser or any of its assets or properties is bound or committed or (iii) any term or provision of any of the organizational documents of the Purchaser.

Section 4.3 Authorization. The Purchaser has all powers and authority to execute, deliver, and perform its obligations under, the Transaction Documents to which it is party and to consummate the transactions contemplated hereby and thereby. The execution and delivery of each of the Transaction Documents to which the Purchaser is party and the performance by the Purchaser of its obligations hereunder and thereunder have been duly authorized by the Purchaser. Each of the Transaction Documents to which the Purchaser is party has been duly executed and delivered by the Purchaser. Each of the Transaction Documents to which the Purchaser is party constitutes the legal, valid and binding obligation of the Purchaser, enforceable against the Purchaser in accordance with its respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or similar Applicable Laws affecting creditors' rights generally and general equitable principles.

Section 4.4 Governmental and Third Party Authorizations. The execution and delivery by the Purchaser of the Transaction Documents to which the Purchaser is party, the performance by the Purchaser of its obligations hereunder and thereunder and the consummation of any of the transactions contemplated hereunder and thereunder do not require any consent, approval, license, order, authorization or declaration from, notice to, action or registration by or filing with any Governmental Authority or any other Person, except as described in Section 3.5.

Section 4.5 No Litigation. There is no (a) action, suit, arbitration proceeding, claim, demand, citation, summons, subpoena, investigation or other proceeding (whether civil, criminal, administrative, regulatory, investigative or informal) pending or, to the knowledge of the Purchaser, threatened by or against the Purchaser, at law or in equity, or (b) inquiry or investigation (whether civil, criminal, administrative, regulatory, investigative or informal) by or before a Governmental Authority, to the knowledge of the Purchaser, pending or threatened against the Purchaser, that, in each case, challenges or seeks to prevent, enjoin, alter, delay, make

illegal or otherwise interfere with the consummation of any of the transactions contemplated by any of the Transaction Documents to which the Purchaser is party.

Section 4.6 Access to Information. The Purchaser acknowledges that it has (a) reviewed the License Agreements and such other documents and information relating to the DM Portfolio Intellectual Property Rights and the DM Portfolio Products and (b) had the opportunity to ask such questions of, and to receive answers from, representatives of the Seller concerning the License Agreements, the DM Portfolio Intellectual Property Rights and the DM Portfolio Products, in each case, as it deemed necessary to make an informed decision to purchase, acquire and accept the Subject Assets in accordance with the terms of this Royalty Purchase and Sale Agreement. The Purchaser has such knowledge, sophistication and experience in financial and business matters that it is capable of evaluating the risks and merits of purchasing, acquiring and accepting the Subject Assets in accordance with the terms of this Royalty Purchase and Sale Agreement.

ARTICLE V
COVENANTS

The parties hereto covenant and agree as follows:

Section 5.1 Notices; Books and Records; Audit Right.

(a) The Selling Parties shall provide to the Purchaser:

(i) *** * *,** as promptly as practicable (but in no event more than five Business Days) following receipt by a Selling Party of written notice of *** * ***, written notice thereof (including reasonable details to enable the Purchaser to understand the applicable matters involved including, as applicable, the events or circumstances that gave rise to such matters, the relief and/or remedies being sought, any proposed corrective action to be taken, relevant timelines involved with such matters and such other information to enable *** * *,** together with a copy of such written notice received by a Selling Party along with any related materials with respect thereto;

(ii) *** * *,** as promptly as practicable (but in no event more than five Business Days) following receipt by a Selling Party of any written notice, demand, certificate, correspondence, report or other communication relating *** * *,** written notice thereof (including reasonable details to enable the Purchaser to understand the applicable matters involved and the relevant timeline involved with such matters, together with a copy of such written notice, demand, certificate, correspondence, report or other communication received by a Selling Party);

(iii) Within 30 days after the end of each calendar quarter, a Distribution Report, along with, *** * *,** reasonable documentation relating to *** * ***;

(iv) Subject to Section 5.1(e), concurrently with the delivery of the Distribution Report, a copy of each Royalty Report received and bank account statements for the Collection Account with respect to such calendar quarter;

(v) *** * *,** as promptly as practicable (but in no event more than five Business Days) following receipt of any written notices given or received by Depomed under *** * *,** copies of such notices;

(vi) *** * *,** as promptly as practicable (but in no event more than five Business Days) after obtaining *** * ***;

(vii) As promptly as practicable (and in any event within five Business Days) after obtaining Actual Knowledge of any of the following: (A) the occurrence of a Bankruptcy Event in respect of a Selling Party; (B) any breach or default by a Selling Party of or under any covenant, agreement or other provision of any Transaction Document; (C) any representation or warranty made by a Selling Party in any of the Transaction Documents or in any certificate delivered to the Purchaser pursuant to this Royalty Purchase and Sale Agreement shall prove to be untrue, inaccurate or incomplete in any significant respect on the date as of which made; or (D) any change, effect, event, occurrence, state of facts, development or condition that could reasonably be expected to result in an Adverse Change, written notice thereof; and

(viii) Not less than 30 days prior to (or such shorter period as may be reasonably acceptable to the Purchaser) any change in, or amendment or alteration of, Depomed's (i) legal name, (ii) form or type of organizational structure or (iii) jurisdiction of organization, written notice thereof.

(b) Each party shall keep and maintain, or cause to be kept and maintained, proper books and records relating to Royalty Payments and other payments or reimbursements received or paid hereunder, and in the case of the Selling Parties, under each of the License Agreement, which books and records shall be maintained for three years following the last date in which the Purchaser is entitled to receive Royalty Payments hereunder or such longer period as required by Applicable Law. For so long as the Purchaser is entitled to receive Royalty Payments hereunder and for a period of three years thereafter, upon prior written notice to a Selling Party, the Purchaser has the right to require an audit of such books and records to verify the accuracy of the Royalty Payments to the Purchaser hereunder and the accuracy of any Royalty Report or Distribution Report or of information contained in any certificate of an officer of a Selling Party provided to the Purchaser pursuant to Section 5.1(e) of this Royalty Purchase and Sale Agreement.

(c) Any such audit shall occur (i) not more than once in any calendar year, (ii) upon not less than 30 days prior written notice, and (iii) during normal business hours, and shall be conducted by a nationally recognized independent accounting firm selected and engaged by the Purchaser, subject to the reasonable consent of the Selling Parties (which consent shall not be unreasonably withheld, conditioned or delayed), which accounting firm shall agree to keep all such books and records and any other information confidential to the extent required hereunder and under the License Agreements (provided that nothing herein shall require the Selling Parties to disclose any information to the Purchaser or any such independent accounting firm to the extent such disclosure would constitute a breach by a Selling Party of any confidentiality obligations under a License Agreement as in effect on the date hereof). If such audit results in

a determination that for any period covered by such audit, based on payments received by the Selling Parties under the License Agreements and withdrawals made to the Collection Account during such period, there was an under-payment of Royalty Payments to the Purchaser, such amount shall be promptly paid by the Selling Parties to the Purchaser, plus interest, calculated on a 365-day or 366-day basis, as applicable, at a rate equal to the then current prime rate of interest quoted in the Money Rates section of the on-line edition of the Wall Street Journal (at http://www.interactive.wsj.com) plus two percent (2%), for the period from and including the date when such amount should have been paid by a Selling Party to the Purchaser in accordance with this Royalty Purchase and Sale Agreement through but excluding the date of payment of such amount, together with all interest thereon in accordance with this Section 5.1(c). The fees and expenses of the independent accounting firm shall be borne by the Purchaser, unless the audit shows an under-payment of more than five percent (5%) for any calendar year of Royalty Payments received by Purchaser during such period.

(d) *** * ***

(e) *** * ***

Section 5.2 Public Announcement; Confidentiality.

(a) After the execution of this Royalty Purchase and Sale Agreement, each party may make public disclosure with respect to this Royalty Purchase and Sale Agreement and the transactions contemplated hereby; provided that (A) any such public disclosure in the form of a press release shall be in a form mutually acceptable to the Purchaser and the Selling Parties, (B) each of the Purchaser and Depomed shall provide the other a reasonable prior opportunity to review any such public disclosure to be contained in any current report on Form 8-K to be filed with the SEC in connection with the execution of this Royalty Purchase and Sale Agreement (it being understood that no further prior review shall be required for any disclosure contained in any other report filed with, or furnished to, the SEC so long as such disclosure is consistent with such prior disclosure or is otherwise required to be disclosed as determined in the good faith judgment of the disclosing party, pursuant to GAAP or Applicable Law), and (C) the parties shall cooperate with respect to any requests to be submitted to the SEC or other Governmental Authority for confidential treatment of portions of this Royalty Purchase and Sale Agreement (and any other Transaction Documents).

(b) Except as required by Applicable Law or the rules and regulations of any securities exchange or trading system or any Governmental Authority and except as otherwise set forth in this Section 5.2, any Receiving Party who is provided or furnished with any Confidential Information pursuant to the provisions of this Agreement will treat and hold as confidential and will cause each of its Affiliates, directors, officers, employees, agents, representatives and similarly situation persons to whom any such information is disclosed, in the same manner that it treats and holds the confidentiality of its own proprietary and confidential information, and not disclose to any Person any and all Confidential Information furnished to it by the Disclosing Party, and to use such Confidential Information only in connection with the Transaction Documents and the performance of the transactions contemplated hereby. Notwithstanding the foregoing, except to the extent that such disclosure would not be permitted under the terms of any confidentiality obligations under any License Agreement (in which case,

the Disclosing Party shall designate the Confidential Information as restricted from such further disclosure), the Receiving Party may disclose Confidential Information on a need-to-know basis to its directors, employees, managers, officers, agents, advisors, lawyers, bankers, lenders, investors (and potential lenders and investors) and, in the case of the Purchaser, transferees or assignees of the Subject Assets; provided, however, that such Persons shall be informed of the confidential nature of such information and shall be obligated to keep such Confidential Information confidential pursuant to obligations of confidentiality no less onerous than those set forth herein.

(c) In the event that the Selling Parties or the Purchaser receives a subpoena, or other validly-issued administrative or judicial process, requesting that Confidential Information of the other party hereto be disclosed, it will promptly notify such other party of such receipt. The party hereto receiving such request will thereafter be entitled to comply with such subpoena or other process, only to the extent required by Applicable Law.

Section 5.3 Commercially Reasonable Efforts; Further Assurances.

(a) Subject to the terms and conditions of this Royalty Purchase and Sale Agreement, each party hereto will use commercially reasonable efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary under Applicable Laws to consummate the transactions contemplated by the Transaction Documents to which either Selling Party or the Purchaser, as applicable, is party, including to (i) perfect the Contribution, (ii) perfect, vest and maintain in the Purchaser consistent with the terms hereof good, valid and marketable rights and interests in and to the Subject Assets, free and clear of all Liens (other than Permitted Liens), (iii) execute and deliver such other documents, certificates, instruments, agreements and other writings and to take such other actions as may be necessary, or reasonably requested by the other party hereto, in order to consummate or implement expeditiously the transactions contemplated by any Transaction Document to which either Selling Party or the Purchaser, as applicable, is party, (iv) create, evidence and perfect the Purchaser's back-up security interest granted pursuant to Section 2.1(e) (including the execution of a Control Agreement with respect to the Collection Account), and (v) enable the Purchaser to exercise or enforce any of the Purchaser's rights under any Transaction Document to which either Selling Party or the Purchaser, as applicable, is party.

(b) The Selling Parties and the Purchaser shall cooperate and provide assistance as reasonably requested by a party hereto, at the expense of such party hereto (except as otherwise set forth herein), in connection with any litigation, arbitration, investigation or other proceeding (whether threatened, existing, initiated or contemplated prior to, on or after the date hereof) to which such party hereto, any of its Affiliates or controlling persons or any of their respective officers, directors, equityholders, controlling persons, managers, agents or employees is or may become a party or is or may become otherwise directly or indirectly affected or as to which any such Persons have a direct or indirect interest, in each case relating to any Transaction Document, the Subject Assets or the transactions described herein or therein but in all cases excluding any litigation brought by a Selling Party (for itself or on behalf of any Seller Indemnified Party) against the Purchaser or brought by the Purchaser (for itself or on behalf of any Purchaser Indemnified Party) against a Selling Party; provided that nothing herein shall require the disclosure of any information that would impair the attorney-client privilege

applicable thereto; provided, further, that, the parties agree to take all such reasonable steps to allow for the disclosure of any such information in a manner that will not impair the attorney-client privilege, including entering into a joint defense agreement or other agreement with one another in order to maintain the attorney-client privilege of any such information disclosed.

(c) Each Selling Party and the Purchaser shall comply with all Applicable Laws with respect to the Transaction Documents, the License Agreements, the Subject Assets and all ancillary agreements related thereto.

(d) Neither Selling Party shall enter into any contract, agreement or other legally binding arrangement (whether written or oral), or grant any right to any other Person, in any case that would conflict with the Transaction Documents or the rights granted to the Purchaser hereunder or thereunder, or impair either Seller Party's ability to perform its obligations under the Transaction Documents, or, except as permitted hereby, impair any of the Purchaser's rights and remedies under the Transaction Documents.

Section 5.4 Royalty Payments on Account of the Subject Assets; Royalty Payment Instruction.

(a) Promptly following the execution of this Agreement, Depomed shall deliver a Royalty Payment Instruction to each Licensee or otherwise direct each Licensee to make all Royalty Payments to the Collection Account. Funds deposited into the Collection Account shall be swept on a weekly basis into the Purchaser Account. No Selling Party shall terminate, or otherwise have any right to terminate, amend or modify, the Control Agreement or change the Collection Account, without the Purchaser's prior written consent. Any such consent, which the Purchaser may grant or withhold in its sole and absolute discretion, shall be subject to the satisfaction of each of the following conditions to the satisfaction of the Purchaser: (i) any successor financial institution at which the Collection Account will be maintained shall be acceptable to the Purchaser; (ii) the Purchaser, the Seller and such successor financial institution shall have entered into a Control Agreement; (iii) all funds and items in the Collection Account that is to be terminated shall be transferred to the new account held at the successor financial institution prior to the termination of the then existing Collection Account; and (iv) the Purchaser shall have received evidence that all Licensees have been instructed to remit all future amounts payable under the License Agreements to the new account at the successor financial institution. All amounts in respect of Royalty Payments deposited in the Collection Account shall be held by the Seller in the Collection Account in trust for the benefit of the Purchaser.

(b) The Collection Account shall be the account into which all payments (other than reimbursement payments under clause (A)(i) of the provisio to the definition of Royalty Payments) made to a Selling Party in respect of any License Agreement are to be remitted. All amounts deposited into the Collection Account shall be swept from the Collection Account into the Purchaser Account on a weekly basis; provided, however, that the Seller shall be permitted to withdraw from the Collection Account in advance of any sweep any estimated amounts owed a Selling Party in respect of estimated Reimbursable Expenses and Royalty Payables and any amounts deposited in such Collection Account constituting any indemnity payments

and cost reimbursements that are expressly excluded from the definition of Royalty Payments.

(c) If any Licensee, any Sublicensee or any other Person (notwithstanding the terms of the Royalty Payment Instruction with respect to its License Agreement) makes any payment in respect of the Subject Assets directly to either Selling Party (or to any of their Subsidiaries) other than payments made to the Collection Account, then (i) the portion of such payment that represents Royalty Payments owed to the Purchaser at such time shall be held by such Selling Party (or such Subsidiary) in trust for the benefit of the Purchaser, and (ii) such Selling Party promptly, and in any event no later than five Business Days following the receipt by such Selling Party (or such Subsidiary) of such portion of such payment, shall remit, or cause to remitted, such portion of such payment to the Collection Account in the exact form received with all necessary endorsements.

(d) If any Licensee takes any Set-off in accordance with the terms of its License Agreement where such Set-off (or any portion thereof) is made in respect of any event occurring, circumstance existing or action taken prior to the Royalty Payments Commencement Date but has the effect of reducing amounts to be paid to the Purchaser following the Closing Date, then the Selling Parties shall cause the amount of such Set-off (or portion thereof, as the case may be) to be paid promptly (but in no event later than five Business Days following such Set-off) to the Purchaser Account.

(e) Within 5 Business Days of the delivery of any Distribution Report, the parties shall make such payments as necessary to correct any underpayments or overpayments to the Purchaser as identified in such Distribution Report (taking into account any payments due to the Seller pursuant to Section 5.8).

(f) All amounts payable by a Selling Party to the Purchaser or the Purchaser to a Selling Party under this Royalty Purchase and Sale Agreement but not paid within such 5 Business Day period, unless contesting in good faith any such amounts owed, shall accrue interest from and including the date that is the 5th Business Day following delivery of the applicable Distribution Report through but excluding the date such payment, together with all interest thereon in accordance with this Section 5.4(e), is made by the applicable party at a rate, calculated on a 365-day or 366-day basis, as applicable, equal to the then current prime rate of interest quoted in the Money Rates section of the on-line edition of the Wall Street Journal (at http://www.interactive.wsj.com) plus two percent (2%).

(g) Neither Selling Party shall amend, modify, supplement, restate, waive, cancel or terminate any Royalty Payment Instruction without the prior written consent of the Purchaser, except to the extent necessary to effect a change in the Collection Account in accordance with Section 5.4(a).

Section 5.5 License Agreements.

(a) *** * ***

(b) *** * ***

(c) *** * ***

(d) *** * ***

(e) *** * ***

(f) Subject to the provisions of each of the License Agreements and any rights of Licensees thereunder and any limitations that Selling Party reasonably requires to protect the attorney-client privilege based on advice from outside counsel (provided that, where so advised, the Selling Parties shall enter into a joint defense agreement or other agreement with the Purchaser in order to maintain the attorney-client privilege of any information shared with the Purchaser), each Selling Party shall make available its relevant records and personnel to the Purchaser in connection with any prosecution of litigation by either Selling Party or the Purchaser against any Licensees to enforce any of the Purchaser's rights under this Royalty Purchase and Sale Agreement or any of the License Agreements, and shall at the Purchaser's expense (unless otherwise provided for herein), provide reasonable assistance and authority to file and bring the litigation, including, if required to bring the litigation, being joined as a party plaintiff.

(g) *** * ***

Section 5.6 Termination of a License Agreement. *** * ***

(a) *** * *;**

(b) *** * ***

Section 5.7 Audits. No Selling Party shall cause an inspection or audit of any Licensee's books and records to be conducted pursuant to the terms of the applicable License Agreement without the prior written consent of the Purchaser, which consent shall not be unreasonably withheld or delayed. In the event that the Purchaser consents in writing to a request by a Selling Party to cause an inspection or audit of any Licensee's books and records, then, if requested by the Purchaser, at the Purchaser's expense and subject to the confidentiality limitations under the applicable License Agreement, the Purchaser shall be entitled to participate in such audit and inspection, including any audit and inspection of such Licensee's books and records with respect to each DM Portfolio Product, and to select such third party representatives to participate in such audit and inspection (including the use of any public accounting firm). In addition, the Selling Parties shall, upon the written request of the Purchaser and in any event in accordance with the terms of the License Agreement, cause an inspection or audit of any Licensee's books and records to be conducted pursuant to, and in accordance with the terms of the applicable License Agreement with respect to any DM Portfolio Products.

For the purposes of exercising the Purchaser's rights pursuant to this Section 5.7 in circumstances where the Purchaser is requesting that a Selling Party cause an inspection or audit to be made, the Selling Parties shall use such third party representatives as selected by the Purchaser (including the use of any public accounting firm) for such purpose. The Selling Parties and the Purchaser agree that all of the expenses of any inspection or audit carried out for the benefit of and at the request of the Purchaser that would otherwise be borne by a Selling

Party pursuant to the applicable License Agreement shall instead be borne by the Purchaser, including fees and expenses of any third party representatives and the Selling Parties' reasonable, documented out-of-pocket costs. To the extent that disclosure of an inspection or audit report prepared by any appropriately qualified third party representative (whether or not a public accounting firm) following the Purchaser's exercise of its rights under this Section 5.7 (whether the Purchaser is participating in an inspection or audit or requesting that a Selling Party cause an inspection or audit) is permitted pursuant to any of the License Agreements, the Selling Parties will, subject to the confidentiality restrictions under the applicable License Agreement, furnish to the Purchaser a copy of any inspection or audit report prepared in connection with such inspection or audit. *** * ***

Section 5.8 Reversionary Interest. Depomed shall be entitled to receive an amount equal to 50% of the Royalty Payments, net of any reasonable and documented out-of-pocket costs and expenses incurred by the Purchaser in connection with this Royalty Purchase and Sale Agreement (including costs and expenses associated with audits, defending any DM Intellectual Property Rights and enforcing the License Agreement or any of the Transaction Documents and any other costs and expenses borne by the Purchaser hereunder), once the Purchaser has received aggregate payments (excluding any amounts previously paid to the Purchaser that are subject to return by the Purchaser but including the amount of any taxes withheld for the benefit of Purchaser on such payments) in respect of Royalty Payments under this Royalty Purchase and Sale Agreement in an amount equal to the Reversionary Interest Threshold (Depomed's right to such Royalty Payments, the "**Reversionary Interest**," and the date that such Reversionary Interest Threshold has been met, the "**Reversionary Interest Commencement Date**"). Following the Reversionary Interest Commencement Date, within 5 Business Days of Purchaser's receipt of a Distribution Report, the Purchaser shall provide to the Selling Parties a report showing in reasonable detail the calculation of the payments in respect of the Reversionary Interest for the applicable calendar quarter and pay to Depomed the Reversionary Interest with respect to Royalty Payments received during such calendar quarter. At the request of Depomed, Purchaser shall provide supporting documentation with respect to any costs and expenses deducted from the Royalty Payments for purposes of calculating payments in respect of the Reversionary Interest. For so long as Depomed is entitled to receive payments in respect of the Reversionary Interest hereunder and for a period of three years thereafter, upon prior written notice to the Purchaser, the Selling Parties have the right to require an audit of such books and records to verify the accuracy of the calculation of payments in respect of the Reversionary Interest on the same terms, *mutatis mutandis*, as the audit rights of the Purchaser under Section 5.1(c).

Section 5.9 Tax Matters.

(a) Notwithstanding the accounting treatment thereof, for United States federal, state, local and foreign tax purposes, the Selling Parties and the Purchaser shall treat the transactions contemplated by the Transaction Documents as a sale for United States federal, state, local and foreign tax purposes. Accordingly, any and all Royalty Payments made pursuant to the License Agreements after the Closing Date shall be treated as made to the Purchaser (or, after the Reversionary Interest Commencement Date, such portion as applicable to the Seller, as applicable) for United States federal, state, local and foreign tax purposes. The parties shall cooperate to effect the foregoing treatment for United States federal, state, local and foreign tax

purposes in the event that, notwithstanding the Royalty Payment Instruction, any Licensee, any Sublicensee or any other Person makes any future remittance of Royalty Payments to a Selling Party which the Selling Party must remit to the Purchaser pursuant to Section 5.4 of this Royalty Purchase and Sale Agreement. The Selling Parties shall report the Royalty Payments hereunder on Form 1099-MISC or applicable form as royalties for United States federal, state and local income tax purposes. The Purchaser shall provide to the Selling Parties such properly completed and executed IRS Form W-9 or other applicable forms, certificates or documents as reasonably requested by Selling Parties from time to time for purposes of establishing the Purchaser's residency for tax purposes and any applicable exemptions or reductions from U.S. withholding taxes.

(b) The parties hereto agree not to take any position that is inconsistent with the provisions of this Section 5.8 on any tax return or in any audit or other administrative or judicial proceeding unless (i) the other party hereto has consented to such actions or (ii) the party hereto that contemplates taking such an inconsistent position has been advised by nationally recognized tax counsel in writing that there is no "reasonable basis" (within the meaning of Treasury Regulation Section 1.6662-3(b)(3)) for the position specified in this Section 5.8. If there is an inquiry by any Governmental Authority of the Selling Parties or the Purchaser related to this Section 5.8, the parties hereto shall cooperate with each other in responding to such inquiry in a reasonable manner consistent with this Section 5.8.

Section 5.10 Existence. Each Selling Party shall (a) preserve and maintain its existence (except as permitted under Section 9.4 in respect of Depomed), (b) use commercially reasonable efforts to preserve and maintain its rights, franchises and privileges, except to the extent the failure to do so would not reasonably be expected to result in an Adverse Change, and (c) qualify and remain qualified in good standing in each jurisdiction where the failure to preserve and maintain such qualifications could reasonably be expected to result in an Adverse Change.

Section 5.11 Seller Operations. The Seller was formed solely for the purpose of owning the Contributed Assets and the transfer of the Subject Assets to the Purchaser pursuant hereto and shall not engage in any business or other activity not expressly contemplated by the Transaction Documents. Except as permitted under Section 9.4, all of the equity interests in Seller have at all times been, and shall always be, owned, directly or indirectly, by Depomed. The Seller will not acquire or otherwise possess any assets or incur any liabilities, Liens (other than Permitted Liens) or other obligations (contractual or otherwise) except in connection with the performance of its obligations under the Transaction Documents or resulting out of the ownership of the Contributed Assets that are not Subject Assets. The Seller will at all times remain in existence as a limited liability company separate and distinct from Depomed or any other Person and will not consent to or enter into agreement or contract with respect to reorganization, merger, recapitalization or consolidation of the Seller with or into any other Person. Neither the Seller nor Depomed or any manager of the Seller shall amend or alter the Seller Organizational Documents, agree to dissolve the Seller or otherwise windup its affairs or allow or take any action for the Seller to become subject to any Bankruptcy Event. The Seller shall not fail to correct any known misunderstanding regarding the separate identity of the Seller and shall maintain its accounts, books and records separate from any other Person (including Depomed) and will not commingle any funds with any other Person (including Depomed), except to the extent set forth herein with respect to amounts deposited in the Collection Account.

Section 5.12 Enforcement of DM Portfolio Patents. *** * ***

Section 5.13 Compliance with Obligations under Certain Agreements. *** * ***

Section 5.14 Compliance with Terms of Certain Agreements.

(a) *** * ***
(b) *** * ***
(c) *** * ***

Section 5.15 Withdrawal of Certain Asserted Claims.

(a) *** * ***
(b) *** * ***

Section 5.16 Enforcement of DM Portfolio Patents * * *

ARTICLE VI
THE CLOSING

Section 6.1 Closing. The closing of the transactions contemplated hereby (the "**Closing**") shall take place contemporaneous with the execution of this Royalty Purchase and Sale Agreement (the "**Closing Date**"), at the offices of Gibson, Dunn & Crutcher, 333 South Grand Avenue, Los Angeles, CA 90071, or such other place as the parties hereto mutually agrees.

Section 6.2 Closing Deliverables of the Selling Parties. At or prior to the Closing, the Selling Parties shall have delivered or cause to be delivered to the Purchaser the following:

(a) this Royalty Purchase and Sale Agreement duly executed by each Selling Party;
(b) the Bill of Sale duly executed by each Selling Party;
(c) evidence, in form and substance reasonably satisfactory to the Purchaser, of the consummation of the Contribution, including delivery of the Contribution Agreement executed by each Selling Party;
(d) a certificate of an executive officer of each Selling Party (the statements made in which shall be true and correct on and as of the Closing Date): (i) attaching copies, certified by such officers as true and complete, of (x) the certificate of incorporation and bylaws of Depomed and the Seller Organizational Documents and (y) resolutions of the board of directors or other governing body of Depomed authorizing and approving the execution, delivery and performance by Depomed of the Transaction Documents and the transactions contemplated herein and therein and (ii) setting forth the incumbency of the officer or officers of each Selling

Party who have executed and delivered the Transaction Documents, including therein a signature specimen of each such officer or officers; and

(e) such other certificates, documents and financing statements as the Purchaser may have reasonably requested, including a financing statement reasonably satisfactory to the Purchaser to create, evidence and perfect the sale, assignment, transfer, conveyance and grant of the Subject Assets pursuant to Section 2.1 and the back-up security interest granted pursuant to Section 2.1(e).

Section 6.3 Closing Deliverables of the Purchaser. At the Closing, the Purchaser shall deliver or cause to be delivered to the Selling Parties the following:

(a) this Royalty Purchase and Sale Agreement duly executed by the Purchaser;

(b) the Bill of Sale duly executed by the Purchaser; and

(c) payment of the Purchase Price in accordance with Section 2.2.

Section 6.4 Post-Closing Matter. The Seller shall establish the Collection Account within 15 days of the Closing Date and the parties shall enter into a Control Agreement with respect to the Collection Account within 15 days of the Closing Date. Promptly upon establishment of the Collection Account, the Selling Parties shall execute and distribute to each Licensee a Royalty Payment Instructions with respect to the applicable License Agreement. The parties acknowledge and agree that the Collection Account to be established pursuant to this Section 6.4 shall provide for the regular sweeping of all funds in the Collection Account into the Purchaser Account on a basis of no less often than weekly.

ARTICLE VII
INDEMNIFICATION

Section 7.1 Indemnification by the Seller. Each Selling Party, on a joint and several basis, agrees to indemnify and hold each of the Purchaser and its Affiliates and any and all of their respective partners, directors, managers, members, officers, employees, agents and controlling persons (each, a "**Purchaser Indemnified Party**") harmless from and against, and will pay to each Purchaser Indemnified Party the amount of, any and all Losses (including reasonable attorneys' fees) awarded against or incurred or suffered by such Purchaser Indemnified Party, arising out of, or involving any third party claim, demand, action or proceeding arising out of, (i) any breach of any representation, warranty or certification made by a Selling Party in or pursuant to any of the Transaction Documents or a Distribution Report, (ii) any breach of or default by a Selling Party of any covenant or agreement of such Selling Party under any Transaction Document or any License Agreement, (iii) any Excluded Liabilities and Obligations, (iv) third party claims arising on or after the Closing Date and asserted against a Purchaser Indemnified Party with respect to the transactions contemplated in any Transaction Document or the License Agreements (other than to the extent any such Losses arise out of an alleged or actual violation of Applicable Law by any Purchaser Indemnified Party or an actual breach by any Purchaser Indemnified Party of any Transaction Document or an alleged or actual breach by any Purchaser Indemnified Party of any other agreement or obligation to which such

Purchaser Indemnified Party is a party or to which it or its assets are otherwise subject or bound), and (v) any fees, expenses, costs, liabilities or other amounts incurred or owed by a Selling Party or its Affiliates to any brokers, financial advisors or comparable other Persons retained or employed by it or for its benefit in connection with the transactions contemplated by this Royalty Purchase and Sale Agreement; provided, however, that the foregoing shall exclude any indemnification to any Purchaser Indemnified Party (A) that results from the bad faith, gross negligence or willful misconduct of such Purchaser Indemnified Party, or (B) to the extent resulting from acts or omissions of the Seller or any of its Affiliates based upon the written instructions from any Purchaser Indemnified Party (unless the Selling Party is otherwise liable for such Losses pursuant to the terms of this Royalty Purchase and Sale Agreement). Any amounts due to any Purchaser Indemnified Party hereunder shall be payable by the Selling Parties to such Purchaser Indemnified Party upon demand.

Section 7.2 Indemnification by the Purchaser. The Purchaser agrees to indemnify and hold each of the Selling Parties and their Affiliates and any and all of their respective partners, directors, managers, members, officers, employees, agents and controlling Persons (each, a "**Seller Indemnified Party**") harmless from and against, and will pay to each Seller Indemnified Party the amount of, any and all Losses (including reasonable attorneys' fees) awarded against or incurred or suffered by such Seller Indemnified Party, arising out of, or involving any third party claim, demand, action or proceeding arising out of, (i) any breach of any representation, warranty or certification made by the Purchaser in or pursuant to any of the Transaction Documents, (ii) any breach of or default under any covenant or agreement by the Purchaser to a Selling Party pursuant to any Transaction Document to which the Purchaser is party, (iii) any fees, expenses, costs, liabilities or other amounts incurred or owed by the Purchaser or its Affiliates to any brokers, financial advisors or comparable other Persons retained or employed by it or for its benefit in connection with the transactions contemplated by this Royalty Purchase and Sale Agreement, and (iv) acts or omissions of a Selling Party or any of its Affiliates based upon written instructions from any Purchaser Indemnified Party (unless the Selling Party is otherwise liable for such Losses pursuant to the terms of this Royalty Purchase and Sale Agreement); provided, however, that the foregoing shall exclude any indemnification to any Seller Indemnified Party (A) that results from the bad faith, gross negligence or willful misconduct of such Seller Indemnified Party, (B) to the extent resulting from the performance by a Selling Party or any other Person (excluding the Purchaser) or the failure of a Selling Party or any other Person (excluding the Purchaser) to perform any of its obligations under, or any breach of any of a Selling Party's representations and warranties in, any of the Transaction Documents or (C) to the extent resulting from acts or omissions of the Purchaser or any of its Affiliates based upon the written instructions from any Seller Indemnified Party. Any amounts due to any Seller Indemnified Party hereunder shall be payable by the Purchaser to such Seller Indemnified Party upon demand.

Section 7.3 Procedures. If any claim, demand, action or proceeding (including any investigation by any Governmental Authority) shall be brought or alleged against an indemnified party in respect of which indemnity is to be sought against an indemnifying party pursuant to Section 7.1 or Section 7.2, the indemnified party shall, promptly after receipt of notice of the commencement of any such claim, demand, action or proceeding, notify the indemnifying party in writing of the commencement of such claim, demand, action or proceeding, enclosing a copy of all papers served, if any; provided, that the omission to so notify such indemnifying party will

not relieve the indemnifying party from any liability that it may have to any indemnified party under Section 7.1 or Section 7.2 unless, and only to the extent that, the indemnifying party is actually prejudiced by such omission. In the event that any such action is brought against an indemnified party and it notifies the indemnifying party of the commencement thereof in accordance with this Section 7.3, the indemnifying party will be entitled, at the indemnifying party's sole cost and expense, to participate therein and, to the extent that it may wish, to assume the defense thereof, with counsel selected by such indemnifying party, and, after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Article VII for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation. In any such proceeding, an indemnified party shall have the right to retain its own counsel, but the reasonable fees and expenses of such counsel shall be at the expense of such indemnified party unless (a) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel, (b) the indemnifying party has assumed the defense of such proceeding and has failed within a reasonable time to retain counsel reasonably satisfactory to such indemnified party or (c) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential conflicts of interests between them based on the advice of counsel to the indemnified party. It is agreed that the indemnifying party shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees and expenses of more than one separate law firm (in addition to local counsel where necessary) for all such indemnified parties. The indemnifying party shall not be liable for any settlement of any proceeding effected without its prior written consent, but, if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any Loss by reason of such settlement or judgment. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement, compromise or discharge of any claim or pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement, compromise or discharge, as the case may be, (i) includes an unconditional written release of such indemnified party, in form and substance reasonably satisfactory to the indemnified party, from all liability on claims that are the subject matter of such claim or proceeding, (ii) does not include any statement as to an admission of fault, culpability or failure to act by or on behalf of any indemnified party and (iii) does not impose any continuing material obligation or restrictions on any indemnified party.

Section 7.4 Exclusive Remedy. Subject to Section 9.2, following the Closing, the indemnification afforded by this Article VII shall be the sole and exclusive remedy for any and all Losses awarded against or incurred or suffered by a Seller Indemnified Party or Purchaser Indemnified Party (as applicable) in connection with the transactions contemplated by the Transaction Documents, including with respect to any breach of any representation, warranty or certification made by a party hereto in or pursuant to any of the Transaction Documents or a Distribution Report or any breach of or default under any covenant or agreement by a party hereto pursuant to any Transaction Document. Notwithstanding the foregoing, the limitations set forth in this Section 7.4 shall not apply to a party's claim for indemnification hereunder in the case of fraud, bad faith or willful misconduct. In addition, it is understood and agreed among the

Selling Parties and the Purchaser that, notwithstanding this Section 7.4, the Purchaser may exercise any remedies available to it at law or in equity in the event that (i) a Bankruptcy Event has occurred with respect to a Selling Party or (ii) the back-up security interest granted to the Purchaser pursuant to Section 2.1(e) shall cease to create, or shall be asserted by a Selling Party not to create, in the event that the transfer contemplated by this Royalty Purchase and Sale Agreement is held not to be a sale, a valid, perfected, first priority security interest in the Subject Assets, except to the extent that any such loss of perfection or priority results from the failure of the Purchaser to make related filings or to continue previously filed financing statements and other documents prior to the expiration thereof or the failure of the Purchaser to enter into a Control Agreement with respect to the Collection Account.

ARTICLE VIII
TERMINATION

Section 8.1 Termination Date. This Royalty Purchase and Sale Agreement shall terminate on the third anniversary following the date upon which the later of the following occurs: (a) October 25, 2021, and (b) at such time as no Royalty Payments remain payable under any License Agreement and each of the License Agreements has expired by their terms.

Section 8.2 Effect of Termination. In the event of the termination of this Royalty Purchase and Sale Agreement pursuant to Section 7.01, this Royalty Purchase and Sale Agreement shall become void and of no further force and effect, except for those rights and obligations that have accrued prior to the date of such termination or relate to any period prior thereto, including the payment in accordance with the terms hereof of the Royalty Payments or other monetary payment on account of the Subject Assets. Notwithstanding the foregoing, Article I, Article VII, Article VIII, Article IX, and Section 5.2(b) shall survive such termination and there shall be no liability on the part of any party hereto, any of its Affiliates or controlling Persons or any of their respective officers, directors, equityholders, debtholders, members, partners, controlling Persons, managers, agents or employees, other than as provided for in this Section 8.02. Nothing contained in this Section 8.02 shall relieve any party hereto from liability for any breach of this Agreement that occurs prior to such termination, which liability shall survive such termination.

ARTICLE IX
MISCELLANEOUS

Section 9.1 Survival. All representations, warranties and covenants made herein and in any other Transaction Document or any certificate delivered pursuant to this Royalty Purchase and Sale Agreement shall survive the execution and delivery of this Royalty Purchase and Sale Agreement and the Closing until the termination of this Agreement; provided, however, that (i) the representations and warranties made pursuant to Sections 3.7, 3.8 and 3.14 shall survive for a period of two years from the Closing Date and (ii) the representations and warranties made pursuant to Section 3.6 shall survive for a period of four years from the Closing Date. No party hereto shall have any liability or obligations of any nature with respect to a representation and warranty after the termination of the survival thereof, unless the other party shall have delivered written notice to such party, pursuant to Section 7.3, for indemnification with respect to a breach of such representation and warranty prior to the date of such termination.

Section 9.2 Performance; Equitable Relief. Each of the parties hereto acknowledges that the other parties hereto will have no adequate remedy at law if it fails to perform any of its obligations under any of the Transaction Documents. In such event, each of the parties hereto agrees that the other parties hereto shall have the right, in addition to any other rights it may have (whether at law or in equity), to specific performance of this Royalty Purchase and Sale Agreement and to pursue any other equitable remedies including injunction. Each of the parties hereto may pursue such specific performance or other equitable remedies without going through any of the procedures set forth in Article VII. In furtherance of the foregoing, Depomed hereby guarantees, and shall be directly liable for, performance by the Seller in respect of all of the Seller's obligations arising out of or in relation to any of the Transaction Documents and the transactions contemplated thereby.

Section 9.3 Notices. Except as otherwise expressly provided herein, all notices, consents, waivers and other communications hereunder shall be in writing and shall be effective (a) upon receipt when sent through the mails, registered or certified mail, return receipt requested, postage prepaid, with such receipt to be effective the date of delivery indicated on the return receipt, (b) upon receipt when sent by an overnight courier, (c) on the date personally delivered to an authorized officer of the party to which sent or (d) on the date transmitted by facsimile or other electronic transmission with a confirmation of receipt, in all cases, with a copy emailed to the recipient at the applicable address, addressed to the recipient as follows:

if to a Selling Party, to:

Depomed, Inc.
7999 Gateway Boulevard, Suite 300
Newark, California
Attention: Legal Department
Telephone: (510) 744-8000
Facsimile: (510) 744-8001
Email: mgossling@depomed.com

with a copy to:
Cooley LLP
101 California St., 5th Floor
San Francisco, CA 94111
Attn: Gian-Michele aMarca
Email: gmamarca@cooley.com

if to the Purchaser, to:

PDL BioPharma, Inc.
932 Southwood Blvd.
Incline Village, Nevada 89451
Attention: General Counsel
Telephone: (775) 832-8500

Facsimile: (775) 832-8501
Email: general.counsel@pdl.com

with a copy to:

Gibson, Dunn & Crutcher LLP
333 South Grand Avenue
Los Angeles, California 90071-3197
Attention: Dhiya El-Saden, Esq.
Telephone: (213) 229-7196
Facsimile: (213) 229-6196
Email: delsaden@gibsondunn.com

Each party hereto may, by notice given in accordance herewith to the other party hereto, designate any further or different address to which subsequent notices, consents, waivers and other communications shall be sent. Notwithstanding the foregoing, the Selling Parties and the Purchaser may deliver reports and notices under Section 5.1 via email provided that the parties shall have agreed in writing upon mutually acceptable procedures for such delivery.

Section 9.4 Successors and Assigns. The provisions of this Royalty Purchase and Sale Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. The Seller shall not be entitled to assign (whether by contract, operation of law, merger, consolidation, reorganization, sale of all or substantially all of such Person's assets or all of such Person's assets related to any DM Portfolio Product or otherwise) any of its obligations and rights under this Royalty Purchase and Sale Agreement without the prior written consent of the Purchaser. Either Depomed or the Purchaser may assign (whether by contract, operation of law, merger, consolidation, reorganization, sale of all or substantially all of such Person's assets or all of such Person's assets related to any DM Portfolio Product or otherwise) any of its obligations and rights hereunder, in whole or in part, without restriction and without the consent of the other party; provided that (a) in the case of Depomed, it must assign all (and not part) of its rights and obligations hereunder and all of its equity interests in the Seller as part of the same transaction or series of transactions, any assignee must expressly assume in writing the obligations of Depomed hereunder and such assignment may not result in an Adverse Change, and (b) in the case of the Purchaser, the assignee (other than in the case of an assignment solely in the nature of a security interest) shall expressly assume the obligations of the Purchaser hereunder. The assigning party shall give notice of any such assignment to the other parties pursuant to Section 9.3 hereof promptly after the occurrence thereof.

Section 9.5 Nature of Relationship. The relationship between the Selling Parties, on the one hand, and the Purchaser, on the other, is solely that of seller and purchaser, and neither the Selling Parties, on the one hand, nor the Purchaser, on the other, has any fiduciary or other special relationship with the other party hereto or any of its Affiliates. Nothing contained herein or in any other Transaction Document shall be deemed to constitute the Selling Parties and the Purchaser as a partnership, an association, a joint venture or any other kind of entity or legal form.

Section 9.6 Entire Agreement. This Royalty Purchase and Sale Agreement together with the Exhibits hereto (which are incorporated herein by reference), the other Transaction Documents, and that certain Mutual Nondisclosure Agreement, as amended, dated as of February 28, 2012 by and among the Purchaser and Depomed, constitute the entire agreement between the parties hereto with respect to the subject matter hereof and supersede all prior agreements, understandings and negotiations, both written and oral, between the parties hereto with respect to the subject matter of this Royalty Purchase and Sale Agreement. No representation, inducement, promise, understanding, condition or warranty not set forth herein (or in the Exhibits hereto or the other Transaction Documents) has been made or relied upon by either party hereto. Neither this Royalty Purchase and Sale Agreement nor any provision hereof is intended to confer upon any Person other than the parties hereto and the other Persons referenced in Article VII any rights or remedies hereunder.

Section 9.7 Governing Law.

(a) THIS ROYALTY PURCHASE AND SALE AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL SUBSTANTIVE LAWS OF THE STATE OF NEW YORK WITHOUT REFERENCE TO THE RULES THEREOF RELATING TO CONFLICTS OF LAW OTHER THAN SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

(b) Each of the parties hereto hereby irrevocably and unconditionally submits, for itself and its property, to the non-exclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Royalty Purchase and Sale Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State court or, to the extent permitted by Applicable Law, in such federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Applicable Law.

(c) Each of the parties hereto hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Royalty Purchase and Sale Agreement in any court referred to in Section 9.7(b). Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by Applicable Law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each of the parties hereto irrevocably consents to service of process in the manner provided for notices in Section 9.3. Nothing in this Royalty Purchase and Sale Agreement will affect the right of any party hereto to serve process in any other manner permitted by Applicable Law. Each of the parties hereto waives personal service of any

summons, complaint or other process, which may be made by any other means permitted by New York law.

Section 9.8 Waiver of Jury Trial.

EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS ROYALTY PURCHASE AND SALE AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE OTHER PARTY HERETO HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE OTHER PARTY HERETO WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTY HERETO HAVE BEEN INDUCED TO ENTER INTO THIS ROYALTY PURCHASE AND SALE AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.8.

Section 9.9 Severability. If one or more provisions of this Royalty Purchase and Sale Agreement are held to be invalid, illegal or unenforceable by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision of this Royalty Purchase and Sale Agreement, which shall remain in full force and effect, and the parties hereto shall replace such invalid, illegal or unenforceable provision with a new provision permitted by Applicable Law and having an economic effect as close as possible to the invalid, illegal or unenforceable provision. Any provision of this Royalty Purchase and Sale Agreement held invalid, illegal or unenforceable only in part or degree by a court of competent jurisdiction shall remain in full force and effect to the extent not held invalid, illegal or unenforceable.

Section 9.10 Counterparts. This Royalty Purchase and Sale Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Royalty Purchase and Sale Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other party hereto. Any counterpart may be executed by facsimile or other electronic transmission, and such facsimile or other electronic transmission shall be deemed an original.

Section 9.11 Amendments; No Waivers. Neither this Royalty Purchase and Sale Agreement nor any term or provision hereof may be amended, supplemented, restated, waived, changed or modified except with the written consent of the parties hereto. No failure or delay by any party hereto in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. No notice to or demand on any party hereto in any case shall entitle it to any notice or demand in similar or other circumstances. No waiver or approval hereunder shall, except as may otherwise be stated in such waiver or approval, be applicable to subsequent transactions. No waiver or approval hereunder shall require any similar or dissimilar waiver or approval thereafter to be granted hereunder.

Section 9.12 Cumulative Remedies. The remedies herein provided are cumulative and not exclusive of any remedies provided by Applicable Law.

Section 9.13 Table of Contents and Headings. The Table of Contents and headings of the Articles and Sections of this Royalty Purchase and Sale Agreement have been inserted for convenience of reference only, are not to be considered a part hereof and shall in no way modify or restrict any of the terms or provisions hereof.

Section 9.14 No Presumption Against Drafting Party. Each of the parties hereto acknowledges that each party to this Royalty Purchase and Sale Agreement has been represented by counsel in connection with this Royalty Purchase and Sale Agreement and the transactions contemplated by this Royalty Purchase and Sale Agreement. Accordingly, any rule of law or any legal decision that would require interpretation of any claimed ambiguities in this Royalty Purchase and Sale Agreement against the drafting party has no application and is expressly waived.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Royalty Purchase and Sale Agreement as of the day and year first written above.

DEPOMED, INC.

/s/ James A. Schoeneck
Name: James A. Schoeneck
Title: President and Chief Executive Officer

DEPO DR SUB, LLC
By: Depomed, Inc.
Its: Managing Member

/s/ James A. Schoeneck
Name: James A. Schoeneck
Title: President and Chief Executive Officer

PDL BIOPHARMA, INC.

/s/ John P. McLaughlin
Name: John P. McLaughlin
Title: President and Chief Executive Officer

Exhibit 12.1

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

	For the Years Ended December 31,					
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Earnings:						
Income before income taxes	$ 243,334	$ 280,285	$ 150,370	$ 307,428	$ 327,133	$ 401,876
Add: fixed charges	14,285	19,430	43,578	36,153	29,097	24,931
Earnings	$ 257,619	$ 299,715	$ 193,948	$ 343,581	$ 356,230	$ 426,807
Fixed Charges:						
Interest expense[1]	$ 14,219	$ 19,357	$ 43,529	$ 36,102	$ 29,036	$ 24,871
Estimated interest portion of rent expense[2]	66	73	49	51	61	60
Fixed charges	$ 14,285	19,430	$ 43,578	$ 36,153	$ 29,097	$ 24,931
Ratio of earnings to fixed charges	18.03	15.43	4.45	9.50	12.24	17.12

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

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

NAME OF SUBSIDIARY OR ORGANIZATION	STATE OF INCORPORATION OR FORMATION
QHP Royalty Sub LLC	Delaware
BTI Acquisition I Corp.	Delaware
BioTransplant Incorporated	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 no. 333-36708) of PDL BioPharma, Inc.,

(2) Registration Statement (Form S-3 No. 333-122760) of PDL BioPharma, Inc.,

(3) Registration Statement (Form S-3 No. 333-123958) of PDL BioPharma, Inc.,

(4) Registration Statement (Form S-3 No. 333-128644) of PDL BioPharma, Inc.,

(5) Registration Statement (Form S-3ASR No. 333-174052) of PDL BioPharma, Inc.,

(6) Registration Statement (Form S-8 No. 333-87957) pertaining to the 1999 Stock Option Plan and 1999 Nonstatutory Stock Option Plan of PDL BioPharma, Inc.,

(7) Registration Statement (Form S-8 No. 333-68314) pertaining to the 1999 Stock Option Plan and 1999 Nonstatutory Stock Option Plan of PDL BioPharma, Inc.,

(8) Registration Statement (Form S-8 No. 333-104170) pertaining to the 1999 Nonstatutory Stock Option Plan of PDL BioPharma, Inc.,

(9) Registration Statement (Form S-8 No. 333-125906) pertaining to the 2005 Equity Incentive Plan of PDL BioPharma, Inc., and

(10) Registration Statement (Form S-8 No. 333-145262) pertaining to the 2005 Equity Incentive Plan.

of our reports dated March 3, 2014, with respect to the consolidated financial statements of PDL BioPharma, Inc., and the effectiveness of internal control over financial reporting of PDL BioPharma, Inc., included in this Annual Report (Form 10-K for the year ended December 31, 2013.

/s/ Ernst & Young LLP

Redwood City, California
March 3, 2014

Exhibit 31.1

CERTIFICATIONS

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

(1) I have reviewed this annual report on Form 10-K 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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: March 3, 2014

/s/ JOHN P. MCLAUGHLIN

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

Exhibit 31.2

CERTIFICATIONS

I, Peter S. Garcia, Vice President and Chief Financial Officer of PDL BioPharma, Inc., certify that:

(1) I have reviewed this annual report on Form 10-K 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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: March 3, 2014

/s/ PETER S. GARCIA

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

Exhibit 32.1

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. Section 1350), John P. McLaughlin, Chief Executive Officer of PDL BioPharma, Inc. (the "Company"), and Peter S. Garcia, Vice President and Chief Financial Officer of the Company, each hereby certifies that, to the best of their knowledge:

(1) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, and

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

Dated: March 3, 2014

By:

/s/ JOHN P. MCLAUGHLIN

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

By:

/s/ PETER S. GARCIA

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

(1)This certification accompanies the Annual Report on Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of PDL BioPharma, Inc. under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing. A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to PDL BioPharma, Inc. and will be retained by PDL BioPharma, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.