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

# FORM 10-Q

**(Mark One)**

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended March 31, 2020**

**OR**

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For transition period from to**

**Commission File Number: 000-19756**

# PDL BIOPHARMA, INC.

**(Exact name of registrant as specified in its charter)**

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

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

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

**Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:**

| Title of each class | Trading symbol | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.01 per share | PDLI | The Nasdaq Stock Market LLC |

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

If an emerging growth company, indicated by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ☐

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

As of April 30, 2020, there were 116,546,762 shares of the registrant's Common Stock outstanding.

**PDL BIOPHARMA, INC.**
**2020 Form 10-Q**
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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Revenues** | | |
| Product revenue, net | $ 5,985 | $ 6,726 |
| Royalties from Queen et al. patents | — | 3 |
| License and other | 10 | (33) |
| Total revenues | 5,995 | 6,696 |
| **Operating expenses** | | |
| Cost of product revenue (excluding intangible asset amortization) | 2,860 | 3,800 |
| Amortization of intangible assets | 302 | 318 |
| Severance and retention | 18,734 | — |
| General and administrative | 12,869 | 8,313 |
| Sales and marketing | 1,250 | 1,574 |
| Research and development | 1,856 | 910 |
| Total operating expenses | 37,871 | 14,915 |
| **Operating loss from continuing operations** | (31,876) | (8,219) |
| **Non-operating expense, net** | | |
| Interest and other income, net | 513 | 1,874 |
| Interest expense | (474) | (2,955) |
| Equity affiliate - change in fair value | (13,797) | — |
| Loss on extinguishment of convertible notes | (606) | — |
| Total non-operating expense, net | (14,364) | (1,081) |
| Loss from continuing operations before income taxes | (46,240) | (9,300) |
| Income tax benefit from continuing operations | (14,473) | (848) |
| Net loss from continuing operations | (31,767) | (8,452) |
| Income from discontinued operations before income taxes (including loss on classification as held for sale of $12,761 for the three months ended March 31, 2020) | 75 | 18,689 |
| Income tax expense of discontinued operations | 319 | 3,620 |
| (Loss) income from discontinued operations | (244) | 15,069 |
| **Net (loss) income** | (32,011) | 6,617 |
| Less: Net loss attributable to noncontrolling interests | (288) | (63) |
| **Net (loss) income attributable to PDL's shareholders** | $ (31,723) | $ 6,680 |
| | | |
| **Net (loss) income per share - basic** | | |
| Net (loss) income from continuing operations | $ (0.26) | $ (0.07) |
| Net (loss) income from discontinued operations | $ 0.00 | $ 0.12 |
| Net (loss) income attributable to PDL's shareholders | $ (0.26) | $ 0.05 |
| **Net (loss) income per share - diluted** | | |
| Net (loss) income from continuing operations | $ (0.26) | $ (0.07) |
| Net (loss) income from discontinued operations | $ 0.00 | $ 0.12 |
| Net (loss) income attributable to PDL's shareholders | $ (0.26) | $ 0.05 |
| **Weighted-average shares outstanding** | | |
| Basic | 122,896 | 128,799 |
| Diluted | 122,896 | 128,799 |

See accompanying notes.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Net (loss) income** | $ (32,011) | $ 6,617 |
| | | |
| **Other comprehensive loss, net of tax** | | |
| Total other comprehensive loss, net of tax | — | — |
| **Comprehensive (loss) income** | (32,011) | 6,617 |
| Less: Comprehensive loss attributable to noncontrolling interests | (288) | (63) |
| **Comprehensive (loss) income attributable to PDL's shareholders** | $ (31,723) | $ 6,680 |

See accompanying notes.

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

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| | (unaudited) | (Note 1) |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 125,512 | $ 168,982 |
| Accounts receivable, net | 7,865 | 6,559 |
| Notes receivable | 52,577 | 52,583 |
| Inventory | 10,542 | 8,061 |
| Assets held for sale (Note 2) | 332,748 | 70,366 |
| Prepaid and other current assets | 22,012 | 7,344 |
| Total current assets | 551,256 | 313,895 |
| Property and equipment, net | 3,264 | 2,560 |
| Investment in equity affiliate | 70,933 | 82,267 |
| Notes receivable, long-term | 722 | 827 |
| Intangible assets, net | 12,884 | 13,186 |
| Long-term assets held for sale (Note 2) | — | 281,087 |
| Other assets | 20,744 | 23,384 |
| **Total assets** | $ 659,803 | $ 717,206 |
| | | |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 5,229 | $ 2,675 |
| Accrued liabilities | 11,959 | 11,923 |
| Liabilities held for sale (Note 2) | 24,554 | 31,095 |
| Total current liabilities | 41,742 | 45,693 |
| Convertible notes payable | 13,302 | 27,250 |
| Liabilities held for sale, long-term (Note 2) | — | 120 |
| Other long-term liabilities | 51,644 | 50,865 |
| Total liabilities | 106,688 | 123,928 |
| | | |
| Commitments and contingencies (Note 13) | | |
| | | |
| Stockholders' equity: | | |
| Preferred stock, par value $0.01 per share, 10,000 shares authorized; no shares issued and outstanding | — | — |
| Common stock, par value $0.01 per share, 350,000 shares authorized; 120,519 and 124,303 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively | 1,205 | 1,243 |
| Additional paid-in capital | (66,867) | (78,875) |
| Treasury stock, at cost; 769 and zero shares held at March 31, 2020 and December 31, 2019, respectively | (2,244) | — |
| Retained earnings | 621,131 | 670,832 |
| Total PDL stockholders' equity | 553,225 | 593,200 |
| Noncontrolling interests | (110) | 78 |
| Total stockholders' equity | 553,115 | 593,278 |
| **Total liabilities and stockholders' equity** | $ 659,803 | $ 717,206 |

See accompanying notes.

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

| | PDL Stockholders' Equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | | Treasury Stock | Additional Paid-In Capital | Retained Earnings | Non-controlling Interest | Total Stockholders' Equity |
| | Shares | Amount | | | | | |
| **Balance at December 31, 2019** | 124,302,616 | $ 1,243 | $ — | $ (78,875) | $ 670,832 | $ 78 | $ 593,278 |
| Issuance of common stock, net of forfeitures | 1,781,197 | 18 | — | (18) | — | — | — |
| Stock-based compensation expense | — | — | — | 14,453 | — | — | 14,453 |
| Repurchase and retirement of common stock | (5,564,841) | (56) | (2,244) | — | (17,978) | — | (20,278) |
| Transfer of subsidiary shares to non-controlling interest | — | — | — | 683 | — | 100 | 783 |
| Extinguishment of convertible notes | — | — | — | (3,911) | — | — | (3,911) |
| Capped call transactions | — | — | — | 801 | — | — | 801 |
| Comprehensive loss: | | | | | | | |
| Net loss | — | — | — | — | (31,723) | (288) | (32,011) |
| Total comprehensive loss | — | — | — | — | — | — | (32,011) |
| **Balance at March 31, 2020** | 120,518,972 | $ 1,205 | $ (2,244) | $ (66,867) | $ 621,131 | $ (110) | $ 553,115 |

| | PDL Stockholders' Equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | Common Stock | | Treasury Stock | Additional Paid-In Capital | Retained Earnings | Non-controlling Interest | Total Stockholders' Equity |
| | Shares | Amount | | | | | |
| **Balance at December 31, 2018** | 136,512,522 | $ 1,365 | $ (2,103) | $ (98,030) | $ 828,547 | $ — | $ 729,779 |
| Issuance of common stock, net of forfeitures | 764,785 | 8 | — | (8) | — | — | — |
| Stock-based compensation expense | — | — | — | 1,169 | — | — | 1,169 |
| Repurchase and retirement of common stock | (13,460,164) | (135) | 613 | — | (44,831) | — | (44,353) |
| Transfer of subsidiary shares to non-controlling interest | — | — | — | — | — | 572 | 572 |
| Comprehensive income: | | | | | | | |
| Net income | — | — | — | — | 6,680 | (63) | 6,617 |
| Total comprehensive income | — | — | — | — | — | — | 6,617 |
| **Balance at March 31, 2019** | 123,817,143 | $ 1,238 | $ (1,490) | $ (96,869) | $ 790,396 | $ 509 | $ 693,784 |

See accompanying notes.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Cash flows from operating activities** | | |
| Net (loss) income | $ (32,011) | $ 6,617 |
| Less: (Loss) income from discontinued operations | (244) | 15,069 |
| Net loss from continuing operations | (31,767) | (8,452) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Amortization of convertible notes conversion option and debt issuance costs | 280 | 1,923 |
| Accreted interest on convertible note principal | 33 | — |
| Amortization of intangible assets | 302 | 318 |
| Amortization of right-of-use assets | 185 | 153 |
| Change in fair value of equity affiliate | 11,334 | — |
| Change in fair value of derivative assets | 2,453 | 33 |
| Loss on extinguishment of convertible notes | 606 | — |
| Other amortization and depreciation | 509 | 827 |
| Loss on disposal of property and equipment | 300 | — |
| Provision for bad debts | 50 | — |
| Stock-based compensation expense | 17,769 | 1,115 |
| Deferred income taxes | (129) | (602) |
| Changes in assets and liabilities: | | |
| Accounts receivable | (1,245) | 1,472 |
| Prepaid and other current assets | (14,666) | 1,048 |
| Inventory | (3,900) | (788) |
| Other assets | — | 173 |
| Accounts payable | 2,554 | (65) |
| Accrued liabilities | (238) | 570 |
| Other long-term liabilities | 316 | (28) |
| Net cash used in operating activities - continuing operations | (15,254) | (2,303) |
| Net cash (used in) provided by operating activities - discontinued operations | (3,765) | 6,818 |
| **Cash flows from investing activities** | | |
| Purchase of property and equipment | (93) | (42) |
| Net cash used in investing activities - continuing operations | (93) | (42) |
| Net cash provided by investing activities - discontinued operations | 13,569 | 12,620 |
| **Cash flows from financing activities** | | |
| Repurchase of convertible notes | (18,845) | — |
| Net receipts for capped call transactions | 801 | — |
| Payment of contingent consideration | — | (1,071) |
| Repurchase of Company common stock | (19,226) | (44,288) |
| Net settlement of stock-based compensation awards | (3,462) | — |
| Net cash used in financing activities - continuing operations | (40,732) | (45,359) |
| Net cash used in financing activities - discontinued operations | (359) | — |
| Net decrease in cash and cash equivalents | (46,634) | (28,266) |
| Cash and cash equivalents at beginning of the period | 193,451 | 394,590 |
| Cash and cash equivalents at end of the period | 146,817 | 366,324 |
| Less: Cash and cash equivalents of discontinued operations | 21,305 | 24,469 |
| Cash and cash equivalents of continuing operations at end of period | $ 125,512 | $ 341,855 |
| | | |
| **Supplemental cash flow information** | | |
| Cash (refunded) paid for income taxes | $ (26) | $ (2,773) |
| Cash paid for interest | $ 95 | $ — |

See accompanying notes.

## 1. Summary of Significant Accounting Policies

### Basis of Presentation

Throughout its history, the mission of PDL BioPharma, Inc. and its subsidiaries (collectively, the "Company" or "PDL") has been to improve the lives of patients by aiding in the successful development of innovative therapeutics and healthcare technologies. PDL was founded in 1986 as Protein Design Labs, Inc. when it pioneered the humanization of monoclonal antibodies, enabling the discovery of a new generation of targeted treatments that have had a profound impact on patients living with different cancers as well as a variety of other debilitating diseases. In 2006, the Company changed its name to PDL BioPharma, Inc.

Historically, the Company generated a substantial portion of its revenues through license agreements related to patents covering the humanization of antibodies, which it refers to as the Queen et al. patents. In 2012, the Company began providing alternative sources of capital through royalty monetizations and debt facilities, and, in 2016, the Company began acquiring commercial-stage products and launching specialized companies dedicated to the commercialization of these products. In 2019, and as a further evolution of the Company's strategy, it began to enter into strategic transactions involving innovative late clinical-stage or early commercial-stage therapeutics. Consistent with this strategy, on April 10, 2019, the Company entered into a securities purchase agreement with Evofem Biosciences, Inc. ("Evofem"), pursuant to which it invested $60.0 million in a private placement of securities structured in two tranches. To date, the Company has consummated eighteen transactions, ten of which are active and outstanding.

In December 2019, the Company announced that it had completed a strategic review process and decided to halt the execution of its growth strategy, cease additional strategic investments and pursue a formal process to unlock value by monetizing its assets and returning net proceeds to stockholders (the "monetization strategy"). Pursuant to the Company's monetization strategy, the Company does not expect to enter into any additional strategic transactions or investments. The Company further announced in December 2019 that it would explore a variety of potential transactions in connection with the monetization strategy, including a sale of the Company, divestiture of the Company's assets or businesses, a spin-off transaction, a merger or a combination thereof.

During the first quarter of 2020, the Board of Directors (the "Board") of the Company approved a plan of complete liquidation (the "Plan of Liquidation") and passed a resolution to seek stockholder approval at its next Annual Meeting of Stockholders to dissolve the Company under Delaware state law in the event the Board concludes that the whole Company sale process is unlikely to maximize the value that can be returned to the stockholders. The Company has not set a definitive timeline to file for dissolution and intends to pursue its monetization strategy in a disciplined and cost-effective manner seeking to maximize returns to stockholders. Subsequently, the Company began a comprehensive program to market and sell its investments. As of March 31, 2020, the Pharmaceutical segment and the royalty right assets within the Income Generating Assets segment met the criteria to be classified as held for sale. Those investments are reported as discontinued operations on the Condensed Consolidated Statements of Operations and as Assets and Liabilities held for sale on the Condensed Consolidated Balance Sheets. While the Company cannot provide a definitive timeline for the liquidation process, it has been targeting the end of 2020 for completing the monetization of its key assets. However, the Company recognizes that the duration and extent of the public health issues related to the COVID-19 pandemic make it possible, and perhaps probable, that the timing may be delayed.

The accompanying unaudited Condensed Consolidated Financial Statements of PDL have been prepared in accordance with Generally Accepted Accounting Principles (United States) ("GAAP") for interim financial information. The financial statements include all adjustments (consisting only of normal recurring adjustments), that management of the Company believes are necessary for a fair statement of the periods presented. These interim financial results are not necessarily indicative of results expected for the full fiscal year.

The accompanying unaudited Condensed Consolidated Financial Statements and related financial information should be read in conjunction with the Company's audited Consolidated Financial Statements and the related notes thereto for the fiscal year ended December 31, 2019, included in its Annual Report on Form 10-K, filed with the Securities and Exchange Commission ("SEC") on March 11, 2020. The Condensed Consolidated Balance Sheet at December 31, 2019, included herein, has been derived from the audited Consolidated Financial Statements at that date, as adjusted to conform with the financial statement presentation as of and for the three months ended March 31. 2020 as discussed in Note 2, *Discontinued Operations Classified as Assets Held for Sale*, but does not include all disclosures required by GAAP.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Condensed Consolidated Financial Statements and accompanying Notes to the Condensed Consolidated Financial Statements. The accounting estimates that require management's most significant, difficult and subjective judgments include the valuation of royalty rights - at fair value, assets and liabilities held for sale, product revenue recognition and allowances for customer rebates, the valuation of notes receivable and inventory, the assessment of recoverability of intangible assets and their estimated useful lives, the valuation and recognition of stock-based compensation, the recognition and measurement of current and deferred income tax assets and liabilities, and the valuation of warrants to acquire shares of common stock. Furthermore, the impact on accounting estimates and judgments on the Company's financial condition and results of operations due to COVID-19 has introduced additional uncertainties. Actual results could differ from those estimates.

The Condensed Consolidated Financial Statements included herein include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

Based on the composition of its existing investment portfolio, the Company structured its operations in four segments designated as Medical Devices, Strategic Positions, Pharmaceutical and Income Generating Assets. During the second quarter of 2019, and in connection with the investment in Evofem, the Company added a new segment designated as Strategic Positions. This had no impact on its prior segment reporting structure.

- The Company's Medical Devices segment consists of revenue derived from the LENSAR® Laser System sales made by the Company's subsidiary, LENSAR, Inc. ("LENSAR"), which may include equipment, Patient Interface Devices ("PIDs" or "consumables"), procedure licenses, training, installation, warranty and maintenance agreements.
- The Company's Strategic Positions segment consists of an investment in Evofem. The Company's investment includes shares of common stock and warrants to purchase additional shares of common stock. Evofem is a publicly-traded clinical-stage biopharmaceutical company committed to developing and commercializing innovative products to address unmet needs in women's sexual and reproductive health. Evofem is leveraging its proprietary Multipurpose Vaginal pH Regulator (MVP-R™) platform to develop Phexxi™ (L-lactic acid, citric acid and potassium bitartrate) for hormone-free birth control.
- The Company's Pharmaceutical segment consists of revenue derived from branded prescription medicine products sold under the name Tekturna® and Tekturna HCT® in the United States and Rasilez® and Rasilez HCT® in the rest of the world and an authorized generic form of Tekturna sold in the United States (collectively, the "Noden Products"). The branded prescription Noden Products were acquired from Novartis Pharma AG ("Novartis") in July 2016 (the "Noden Transaction") by the Company's wholly-owned subsidiary, Noden Pharma DAC ("Noden DAC"). The Company, through its wholly-owned subsidiary, Noden Pharma USA Inc. ("Noden USA") launched its authorized generic form of Tekturna in the United States in March 2019.
- The Company's Income Generating Assets segment consists of revenue derived from (i) royalty rights, (ii) notes and other long-term receivables, (iii) equity investments and (iv) royalties from issued patents in the United States and elsewhere covering the humanization of antibodies ("Queen et al. patents").

**Significant Accounting Policies**

*Assets Held for Sale*

Assets and liabilities are classified as held for sale when all of the following criteria for a plan of sale have been met: (1) management, having the authority to approve the action, commits to a plan to sell the assets; (2) the assets are available for immediate sale, in their present condition, subject only to terms that are usual and customary for sales of such assets; (3) an active program to locate a buyer and other actions required to complete the plan to sell the assets have been initiated; (4) the sale of the assets is probable and is expected to be completed within one year; (5) the assets are being actively marketed for a price that is reasonable in relation to their current fair value; and (6) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or the plan will be withdrawn. When all of these criteria have been met, the assets and liabilities are classified as held for sale in the balance sheet. Assets classified as held for sale are reported at

the lower of their carrying value or fair value less costs to sell. Depreciation and amortization of assets ceases upon designation as held for sale. The assets and liabilities held for sale are recorded on the Company's Condensed Consolidated Balance Sheets as Assets held for sale and Liabilities held for sale, respectively.

*Discontinued Operations*

Discontinued operations comprise those activities that were disposed of during the period or which were classified as held for sale at the end of the period, represent a separate major line of business or geographical area that can be clearly distinguished for operational and financial reporting purposes and represents a strategic shift that has or will have a major effect on the Company's operations and financial results. The profits and losses are presented on the Condensed Consolidated Statements of Operations as discontinued operations. See Note 2, *Discontinued Operations Classified as Assets Held for Sale*, for additional information.

*Severance and retention*

After the Company announced its monetization strategy, it recognized that its ability to execute on its plan and optimize returns to its shareholders depended to a large extent on its ability to retain the necessary expertise to effectively transact with respect to its assets. On December 21, 2019, the Compensation Committee of the Board adopted a Wind Down Retention Plan in which the Company's executive officers and other employees who are participants in the Company's Severance Plan are eligible to participate. Under the Wind Down Retention Plan, participants are eligible to earn a retention benefit in consideration for their continued employment with the Company. The Wind Down Retention benefits are equivalent to previously disclosed compensation payments contemplated in connection with a change in control under the Company's existing Severance Plan. Under the Wind Down Retention Plan, payment of the retention benefit to any participant will occur upon termination of the participant's employment with the Company either by the Company without cause or by the participant for good reason. The retention benefit, if paid, would be in lieu of (and not in addition to) any other severance compensation that could become payable to the participant under the Company's Severance Plan. In connection with the adoption of the Wind Down Retention Plan, a severance liability is being recorded over the remaining service period for the participating employees. As of March 31, 2020, the Company has recorded a severance liability of $3.0 million. Expenses associated with severance payments and accruals are reflected in Severance and retention on the Company's Condensed Consolidated Statement of Operations.

The Wind Down Retention Plan also provides that, consistent with the existing terms of our Amended and Restated 2005 Equity Incentive Plan (the "Equity Plan"), the vesting of all outstanding equity awards held by participants as of the date the Wind Down Retention Plan was adopted will be accelerated upon the earlier of: (i) a termination of the participant's employment with the Company either by the Company without cause or by the participant for good reason or (ii) the consummation of a change in control (as defined in the Equity Plan) of the Company. In addition, the post-termination exercise period for all outstanding stock options will be extended until their expiration date. In the first quarter of 2020, in connection with the Board adopting the Plan of Liquidation all of the stock options and restricted stock granted to our employees and executive officers accelerated and vested under the change in control definition in the Equity Plan, other than certain outstanding awards under the 2016/20 Long-Term Incentive Plan. The expense associated with the accelerated vesting, totaling $15.7 million is reported as Severance and retention on the Company's Condensed Consolidated Statement of Operations.

For a discussion of other accounting policies, refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019. Summarized below are the accounting pronouncements and policies adopted subsequent to December 31, 2019 in addition to those described above.

**Adopted Accounting Pronouncements**

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The new guidance amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in more timely recognition of losses. The Company adopted ASU No. 2016-13 on January 1, 2020 using a modified retrospective approach. The adoption of this standard did not have a material impact on the Company's consolidated financial statements. As a consequence of adopting ASU 2016-13, the Company's accounts receivable accounting policy has been updated, as follows:

*Accounts and Notes Receivable*

The Company makes estimates of the collectability of accounts receivable. In doing so, the Company analyzes historical bad debt trends, customer credit worthiness, current economic trends and changes in customer payment patterns when evaluating the adequacy of the allowance for credit losses. Amounts are charged off against the allowance for credit losses when the Company determines that recovery is unlikely and the Company ceases collection efforts.The Company applies the practical expedient for its collateral-dependent notes receivable. Estimated credit losses are based on the fair value of the collateral (less costs to sell, as applicable).

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement*. The new guidance modifies disclosure requirements related to fair value measurement. The Company adopted ASU No. 2018-13 on January 1, 2020. The adoption did not have an effect on the Consolidated Financial Statements on the adoption date and no adjustment to prior year Consolidated Financial Statements was required.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software*. The new guidance reduces complexity for the accounting for costs of implementing a cloud computing service arrangement and aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The Company adopted ASU No. 2018-15 on January 1, 2020 using the prospective transition option. The adoption did not have an effect on the Consolidated Financial Statements on the adoption date and no adjustment to prior year Consolidated Financial Statements was required.

**Recently Issued Accounting Pronouncements**

In December 2019, the FASB issued ASU 2019-12, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. For public companies, the amendments in ASU No. 2019-12 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this guidance on its Consolidated Financial Statements.

**2. Discontinued Operations Classified as Assets Held for Sale**

In March 2020, the Company announced its Plan of Liquidation and passed a resolution to seek stockholder approval at its next Annual Meeting of Stockholders to dissolve the Company under Delaware state law in the event that the Board concludes that a whole Company sale is unlikely to maximize the value that can be returned to the stockholders. The Company has not set a definitive timeline for the liquidation and intends to pursue the liquidation strategy in a disciplined and cost-effective manner seeking to maximize the value that can be returned to stockholders. As a result of these actions and subsequent efforts to monetize the Company’s key assets, as well as the sale of these key assets representing a strategic shift in the operations of the Company, the assets held for sale and discontinued operations criteria were met for specific assets or components of the Company during the three months ended March 31, 2020. During the period in which a component meets the assets held for sale and discontinued operations criteria, an entity must present the assets and liabilities of the discontinued operation separately in the asset and liability sections of the balance sheet for the current and comparative reporting periods. The prior period balance sheet is reclassified for the held for sale items. For statements of operations, the current and prior periods report the results of operations of the components in discontinued operations.

The Company determined the royalty right assets and Noden met the assets held for sale and discontinued operations criteria as of March 31, 2020. The royalty right assets are a component of the Income Generating Assets segment and Noden represents the Pharmaceutical segment.

Components of amounts reflected in (Loss) income from discontinued operations are as follows (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Revenues** | | |
| Product revenue, net | $ 15,031 | $ 19,961 |
| Royalty rights - change in fair value | 9,394 | 12,257 |
| Total revenues | 24,425 | 32,218 |
| **Operating expenses** | | |
| Cost of product revenue (excluding intangible asset amortization) | 8,781 | 9,010 |
| Amortization of intangible assets | 389 | 1,253 |
| General and administrative | 2,302 | 2,151 |
| Sales and marketing | 117 | 1,156 |
| Research and development | — | (41) |
| Total operating expenses | 11,589 | 13,529 |
| **Operating income from discontinued operations** | 12,836 | 18,689 |
| **Non-operating expense, net** | | |
| Loss on classification as held for sale | (12,761) | — |
| Total non-operating expense, net | (12,761) | — |
| Income from discontinued operations before income taxes | 75 | 18,689 |
| Income tax expense from discontinued operations | 319 | 3,620 |
| **(Loss) income from discontinued operations** | $ (244) | $ 15,069 |

The carrying amounts of the major classes of assets reported as “Assets held for sale” consist of the following:

| *(in thousands)* | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Cash and cash equivalents | $ 21,305 | $ 24,469 |
| Accounts receivable, net | 8,559 | 6,993 |
| Inventory | 30,083 | 31,712 |
| Prepaid and other current assets | 8,859 | 7,192 |
| Property and equipment, net | 2,908 | 2,960 |
| Royalty rights - at fair value | 262,021 | 266,196 |
| Intangible assets, net | 9,723 | 10,112 |
| Other assets | 1,773 | 1,819 |
| Less: Estimated remaining cost to sell and fair value adjustment | (12,483) | — |
| Total assets held for sale [1] | $ 332,748 | $ 351,453 |

[1] The assets of the disposal groups classified as held for sale are classified as current on the March 31, 2020 Balance Sheet because it is probable that the sales will occur and the proceeds will be collected within one year.

The carrying amounts of the major classes of liabilities reported as "Liabilities held for sale" consist of the following:

| *(in thousands)* | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Accounts payable | $ 7,432 | $ 14,695 |
| Accrued liabilities | 17,122 | 16,400 |
| Other long-term liabilities | — | 120 |
| Total liabilities held for sale [1] | $ 24,554 | $ 31,215 |

[1] The liabilities of the disposal groups classified as held for sale are classified as current on the March 31, 2020 Balance Sheet because it is probable that the sales will occur and the proceeds will be collected within one year.

**3. Investment in Evofem Biosciences, Inc.**

On April 10, 2019, the Company entered into a securities purchase agreement with Evofem and two other purchasers, pursuant to which the Company purchased $60.0 million of Evofem securities in a private placement. The transaction was structured in two tranches.

The first tranche closed on April 11, 2019, pursuant to which the Company invested $30.0 million to purchase 6,666,667 shares of Evofem common stock at $4.50 per share and was also issued warrants to purchase up to 1,666,667 shares of Evofem common stock. The warrants are exercisable beginning six months after the issuance date for a period of seven years from the issuance date at an exercise price of $6.38 per share.

The second tranche closed on June 10, 2019, pursuant to which the Company invested an additional $30.0 million to purchase 6,666,667 additional shares of Evofem common stock at $4.50 per share and was also issued warrants to purchase up to an additional 1,666,667 shares of Evofem common stock with the same terms as the warrants issued in the first tranche. Following the closing of the second tranche, the Company has a right to appoint one member to Evofem's board of directors and has a limited right to have one board observer participate in Evofem board meetings, which the Company pursued. In December 2019, the Company's representatives resigned from these positions. Since that time, the Company has elected not to reappoint a director or board observer to the Evofem board of directors but retains the right to do so.

The Company has registration rights on customary terms for all Evofem shares issued under the securities purchase agreement, including the shares underlying the warrants.

As of March 31, 2020, the Company owned approximately 27% of Evofem's common stock. The Company's investment in Evofem qualifies for equity method accounting given its percentage ownership in Evofem and the ability to exercise significant influence. The Company elected the fair value method to account for its investment in Evofem as it believes it better reflects economic reality, the financial reporting of the investment and the current value of the asset. Changes in fair value of the Evofem equity investment are presented in Non-operating income (expense), net on the Consolidated Statement of Operations.
Because the mark to market valuation occurs at the end of each quarterly reporting period, changes in fair value will vary based upon the volatility of the stock price. The Evofem equity investment is presented on the Consolidated Balance Sheets as an Investment in equity affiliate and reflects the fair value of the equity investment at the end of the reporting period.

For the three months ended March 31, 2020, the Company had an unrealized loss of $13.8 million, of which $11.3 million was related to Evofem common stock and $2.5 million was related to Evofem warrants.

The latest Evofem financial statements can be found on their corporate website at www.evofem.com or filed with the SEC at www.sec.gov.

See Note 21, *Subsequent Events*, for additional information about the Company's investment in Evofem and related update to the Plan of Liquidation.

**4. Cash and Cash Equivalents**

As of March 31, 2020 and December 31, 2019, the Company had invested its excess cash balances primarily in cash and money market funds. The fair values of cash equivalents approximate their carrying values due to the short-term nature of such financial instruments.

The following table summarizes the Company's cash and cash equivalents by significant investment category reported as cash and cash equivalents as of March 31, 2020 and December 31, 2019:

| *(in thousands)* | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Cash [1] | $ 43,704 | $ 37,718 |
| Money market funds | 81,808 | 131,264 |
| Total | $ 125,512 | $ 168,982 |

[1] The amounts above exclude $21.3 million and $24.5 million of cash at Noden classified as held for sale as of March 31, 2020 and December 31, 2019, respectively. See Note 2, *Discontinued Operations Classified as Assets Held for Sale*, for additional information.

**5. Inventories**

Inventories consisted of the following:

| *(in thousands)* | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Raw materials | $ 4,204 | $ 3,739 |
| Work in process | 1,894 | 1,170 |
| Finished goods | 4,444 | 3,152 |
| Total inventory [1] | $ 10,542 | $ 8,061 |

[1] The amounts above exclude $30.1 million and $31.7 million of inventory at Noden classified as held for sale as of March 31, 2020 and December 31, 2019, respectively. See Note 2, *Discontinued Operations Classified as Assets Held for Sale*, for additional information.

**6. Fair Value Measurements**

The fair value of the Company's financial instruments are estimates of the amounts that would be received if the Company were to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. 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 observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

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

*Assets/Liabilities Measured and Recorded at Fair Value on a Recurring Basis*

The following table presents the fair value of the Company's financial instruments measured at fair value on a recurring basis by level within the valuation hierarchy:

| | March 31, 2020 | | | | December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| *(in thousands)* | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Financial assets: | | | | | | | | |
| Money market funds | $ 81,808 | $ — | $ — | $ 81,808 | $ 131,264 | $ — | $ — | $ 131,264 |
| Corporate securities[1] | 70,933 | — | — | 70,933 | 82,267 | — | — | 82,267 |
| Warrants[2] | — | 11,698 | — | 11,698 | — | 14,152 | — | 14,152 |
| Royalty rights - at fair value | — | — | 262,021 | 262,021 | — | — | 266,196 | 266,196 |
| Total | $ 152,741 | $ 11,698 | $ 262,021 | $ 426,460 | $ 213,531 | $ 14,152 | $ 266,196 | $ 493,879 |

[1] Corporate securities are classified as "Investment in equity affiliate" on the Condensed Consolidated Balance Sheets.

[2] Warrants are included in "Other assets" on the Condensed Consolidated Balance Sheets.

There have been no transfers between levels during the periods presented in the table above. The Company recognizes transfers between levels on the date of the event or change in circumstances that caused the transfer.

***Money Market Funds*** - The fair values of cash equivalents approximate their carrying values due to the short-term nature of such financial instruments.

***Corporate Securities*** - Corporate securities consists of common stock shares of Evofem, a clinical-stage biopharmaceutical company listed on Nasdaq (EVFM). For additional information on the Evofem investment, see Note 3, *Investment in Evofem Biosciences, Inc.*

***Warrants*** - Warrants consist of rights to purchase shares of common stock in Evofem and CareView Communications, Inc. ("CareView"), see Note 3, *Investment in Evofem Biosciences, Inc.* and Note 7, *Notes and Other Long-Term Receivables.* The fair value of the warrants is estimated using recently quoted market prices of the underlying equity security and the Black-Scholes option pricing model.

***Royalty Rights - At Fair Value***

*Assertio (Depomed) Royalty Agreement*

On October 18, 2013, the Company entered into the Royalty Purchase and Sale Agreement (the "Assertio Royalty Agreement") with Assertio Therapeutics, Inc. (formerly known as Depomed, Inc.), and Depo DR Sub, LLC (together, "Assertio"), whereby the Company acquired the rights to receive royalties and milestones payable on sales of five Type 2 diabetes products licensed by Assertio in exchange for a $240.5 million cash payment. Total consideration was $241.3 million, which was comprised of the $240.5 million cash payment to Assertio and $0.8 million in transaction costs.

The rights acquired include Assertio's royalty and milestone payments accruing from and after October 1, 2013: (a) from Santarus, Inc., which was subsequently acquired by Salix Pharmaceuticals, Inc., which itself was acquired by Valeant Pharmaceuticals International, Inc. ("Valeant"), which, in July 2018, changed its name to Bausch Health Companies Inc. ("Bausch Health") with respect to sales of Glumetza (metformin HCL extended-release tablets) in the United States; (b) from Merck & Co., Inc. with respect to sales of Janumet® XR (sitagliptin and metformin HCL extended-release tablets); (c) from Janssen Pharmaceutica N.V. with respect to potential future development milestones and sales of its approved fixed-dose combination of Invokana® (canagliflozin, a sodium glucose cotransporter 2 (SGLT2) inhibitor) and extended-release metformin tablets, marketed as Invokamet XR®; (d) from Boehringer Ingelheim and Eli Lilly ("Lilly") and Company with respect to potential future development milestones and sales of the investigational fixed-dose combinations of drugs and extended-release metformin subject to Assertio's license agreement with Boehringer Ingelheim, including its approved products, Jentadueto XR®

and Synjardy XR®; and (e) from Bausch Health for sales of extended-release metformin tablets in Korea and Canada, respectively.

In February 2013, a generic equivalent to Glumetza was approved by the U.S. Food and Drug Administration ("FDA") and in August 2016, two additional generic equivalents to Glumetza were approved by the FDA. In February 2016, Lupin Pharmaceuticals, Inc., in August 2017, Teva Pharmaceutical Industries Ltd., and in July 2018, Sun Pharmaceutical, Inc. ("Sun") each launched a generic equivalent approved product. In May 2017, the Company received notification that a subsidiary of Valeant had launched an authorized generic equivalent product in February 2017, and the Company received royalties on such authorized generic equivalent product under the same terms as the branded Glumetza product, retroactive to February 2017. The Company continues to monitor whether the generic competition further affects sales of Glumetza and thus royalties on such sales paid to the Company, and the impact of the launched authorized generic equivalent. Due to the uncertainty around Bausch Health's marketing and pricing strategy, as well as Sun's recently launched generic product and limited historical demand data after generic market entrance, the Company may need to further evaluate future cash flows in the event of more rapid reduction or increase in market share of Glumetza and its authorized generic equivalent product and/or a further erosion in net pricing.

The Company determined that its royalty purchase interest in Depo DR Sub, LLC represented a variable interest in a variable interest entity. However, the Company did not have the power to direct the activities of Depo DR Sub, LLC that most significantly impact Depo DR Sub, LLC's economic performance and was not the primary beneficiary of Depo DR Sub, LLC; therefore, Depo DR Sub, LLC was not subject to consolidation by the Company.

On August 2, 2018, PDL Investment Holding, LLC ("PDLIH"), a wholly-owned subsidiary of the Company and assignee from the Company under the Assertio Royalty Agreement, entered into an amendment to the Assertio Royalty Agreement with Assertio. Pursuant to the amendment, PDLIH purchased all of Assertio's remaining interests in royalty and milestone payments payable on sales of Type 2 diabetes products licensed by Assertio for $20.0 million. Prior to the amendment, the Assertio Royalty Agreement provided that the Company would have received all royalty and milestone payments due under license agreements between Assertio and its licensees until the Company received payments equal to two times the cash payment it made to Assertio, or approximately $481.0 million, after which all net payments received by Assertio would have been shared equally between the Company and Assertio. Following the amendment, the Assertio Royalty Agreement provides that the Company will receive all royalty and milestone payments due under the license agreements between Assertio and its licensees. After the amendment, the Company elected to continue to follow the fair value option and carry the financial asset at fair value.

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

As of December 31, 2018, in conjunction with the amendment described above, the Company was provided the power to direct the activities of Depo DR Sub, LLC and is the primary beneficiary of Depo DR Sub, LLC; therefore, Depo DR Sub, LLC is subject to consolidation by the Company. As of March 31, 2020, Depo DR Sub, LLC did not have any assets or liabilities of value for consolidation with the Company.

The financial asset acquired represents a single unit of accounting. This financial asset is classified as a Level 3 asset within the fair value hierarchy, as the Company's valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future commercialization for products not yet approved by regulatory agencies outside of the United States. The estimated fair value of the financial asset acquired was determined by using a discounted cash flow analysis related to the expected future cash flows to be generated by each licensed product. The discounted cash flows are based upon expected royalties from sales of licensed products over approximately a nine-year period. The estimated fair value of the asset is subject to variation should those cash flows vary significantly from the Company's estimates. The Company periodically assesses the expected future cash flows and to the extent such payments are greater or less than its initial estimates, or the timing of such payments is materially different than the original estimates, the Company will adjust the estimated fair value of the asset. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase or decrease by $5.4 million, respectively. Significant judgment is required in selecting appropriate discount rates. The discount rates utilized range from 10% to 24%. Should these discount rates increase or decrease by 2.5%, the fair value of the asset could decrease by $17.1 million or increase by $20.0 million, respectively.

As of March 31, 2020, the Company's discounted cash flow analysis reflects its expectations as to the amount and timing of future cash flows up to the valuation date for the above described royalty streams.

As of March 31, 2020, the fair value of the asset acquired as reported in "Assets held for sale" on the Company's Condensed Consolidated Balance Sheet was $210.8 million and the maximum loss exposure was $210.8 million, which reflects an estimated cost to sell of $4.7 million.

*Viscogliosi Brothers Royalty Agreement*

On June 26, 2014, the Company entered into a Royalty Purchase and Sale Agreement (the "VB Royalty Agreement") with Viscogliosi Brothers, LLC ("VB"), whereby VB conveyed to the Company the right to receive royalties payable on sales of a spinal implant that has received pre-market approval from the FDA held by VB and commercialized by Paradigm Spine, LLC ("Paradigm Spine"), in exchange for a $15.5 million cash payment, less fees. Paradigm Spine was acquired in March 2019 by RTI Surgical Holdings, Inc.

The royalty rights acquired include royalties accruing from and after April 1, 2014. Under the terms of the VB Royalty Agreement, the Company receives all royalty payments due to VB pursuant to certain technology transfer agreements between VB and Paradigm Spine until the Company has received payments equal to 2.3 times the cash payment made to VB, after which all rights to receive royalties will be returned to VB. VB's ability to repurchase the royalty right for a specified amount expired on June 26, 2018.

The estimated fair value of the royalty rights at March 31, 2020, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as the Company's valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over approximately a ten-year period. The estimated fair value of the asset is subject to variation should those cash flows vary significantly from the Company's estimates. The Company periodically assesses the expected future cash flows and to the extent such payments are greater or less than its initial estimates, or the timing of such payments is materially different than the original estimates, the Company will adjust the estimated fair value of the asset. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase or decrease by $0.3 million, respectively. Significant judgment is required in selecting the appropriate discount rate. The discount rate utilized was 15.0%. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $1.3 million or increase by $1.5 million, respectively.

As of March 31, 2020, the Company's discounted cash flow analysis reflects its expectations as to the amount and timing of future cash flows up to the valuation date.

As of March 31, 2020, the fair value of the asset acquired as reported in "Assets held for sale" on the Company's Condensed Consolidated Balance Sheet was $13.5 million and the maximum loss exposure was $13.5 million, which reflects an estimated cost to sell of $0.3 million.

*University of Michigan Royalty Agreement*

On November 6, 2014, the Company acquired a portion of all royalty payments of the Regents of the University of Michigan's ("U-M") worldwide royalty interest in Cerdelga® (eliglustat) for $65.6 million pursuant to the Royalty Purchase and Sale Agreement with U-M (the "U-M Royalty Agreement"). Under the terms of the U-M Royalty Agreement, the Company receives 75% of all royalty payments due under the U-M license agreement with Genzyme Corporation, a Sanofi company ("Genzyme") until expiration of the licensed patents, excluding any patent term extension. Cerdelga, an oral therapy for adult patients with Gaucher disease type 1, was developed by Genzyme. Cerdelga was approved in the United States in August 2014, in the European Union ("EU") in January 2015, and in Japan in March 2015. In addition, marketing applications for Cerdelga are under review by other regulatory authorities. While marketing applications have been approved in the United States, the EU and Japan, national pricing and reimbursement decisions are delayed in some countries.

The estimated fair value of the royalty right at March 31, 2020 was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as the Company's valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The

discounted cash flow was based upon expected royalties from sales of licensed product over approximately a two-year period. The estimated fair value of the asset is subject to variation should those cash flows vary significantly from the Company's estimates. An evaluation of those estimates, discount rate utilized and general market conditions affecting fair market value is performed in each reporting period. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase or decrease by $0.5 million, respectively. Significant judgment is required in selecting the appropriate discount rate. The discount rate utilized was approximately 12.8%. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease or increase by $0.5 million, respectively. As of March 31, 2020, the Company's discounted cash flow analysis reflects its expectations as to the amount and timing of future cash flows.

As of March 31, 2020, the fair value of the asset acquired as reported in "Assets held for sale" on the Company's Condensed Consolidated Balance Sheet was $18.6 million and the maximum loss exposure was $18.6 million, which reflects an estimated cost to sell of $0.4 million.

*AcelRx Royalty Agreement*

On September 18, 2015, the Company entered into a royalty interest assignment agreement (the "AcelRx Royalty Agreement") with ARPI LLC, a wholly-owned subsidiary of AcelRx Pharmaceuticals, Inc. ("AcelRx"), whereby the Company acquired the rights to receive a portion of the royalties and certain milestone payments on sales of Zalviso® (sufentanil sublingual tablet system) in the EU, Switzerland and Australia by AcelRx's commercial partner, Grünenthal, in exchange for a $65.0 million cash payment. Under the terms of the AcelRx Royalty Agreement, the Company receives 75% of all royalty payments and 80% of the first four commercial milestone payments due under AcelRx's license agreement with Grünenthal until the earlier to occur of (i) receipt by the Company of payments equal to three times the cash payments made to AcelRx and (ii) the expiration of the licensed patents. Zalviso received marketing approval by the European Commission in September 2015. Grünenthal launched Zalviso in the second quarter of 2016 and the Company started to receive royalties in the third quarter of 2016.

As of March 31, 2020, and December 31, 2019, the Company determined that its royalty rights under the AcelRx Royalty Agreement represented a variable interest in a variable interest entity. However, the Company does not have the power to direct the activities of ARPI LLC that most significantly impact ARPI LLC's economic performance and is not the primary beneficiary of ARPI LLC; therefore, ARPI LLC is not subject to consolidation by the Company.

The estimated fair value of the royalty right at March 31, 2020 was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as the Company's valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over approximately a thirteen-year period. The estimated fair value of the asset is subject to variation should those cash flows vary significantly from the Company's estimates. An evaluation of those estimates, discount rate utilized and general market conditions affecting fair market valuation is performed for each reporting period. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase or decrease by $0.3 million, respectively. Significant judgment is required in selecting the appropriate discount rate. The discount rate utilized was approximately 13.4%. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $1.2 million or increase by $1.4 million, respectively. As of March 31, 2020, the Company's discounted cash flow analysis reflects its expectations as to the amount and timing of future cash flows up to the valuation date.

As of March 31, 2020, the fair value of the asset acquired as reported in "Assets held for sale" on the Company's Condensed Consolidated Balance Sheet was $12.9 million and the maximum loss exposure was $12.9 million, which reflects an estimated cost to sell of $0.3 million.

*Kybella Royalty Agreement*

On July 8, 2016, the Company entered into a royalty purchase and sales agreement with an individual, whereby the Company acquired that individual's rights to receive certain royalties on sales of KYBELLA® by Allergan plc in exchange for a $9.5 million cash payment and up to $1.0 million in future milestone payments based upon product sales targets. The Company started to receive royalty payments during the third quarter of 2016.

The estimated fair value of the royalty right at March 31, 2020, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as the Company's valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of a licensed product over approximately a six-year period. The estimated fair value of the asset is subject to variation should those cash flows vary significantly from the Company's estimates. An evaluation of those estimates, discount rate utilized and general market conditions affecting fair market value is performed in each reporting period. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase or decrease by less than $0.1 million, respectively. Significant judgment is required in selecting the appropriate discount rate. The discount rate utilized was approximately 14.4%. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease or increase by less than $0.1 million, respectively.

As of March 31, 2020, the Company's discounted cash flow analysis reflects its expectations as to the amount and timing of future cash flows up to the valuation date.

As of March 31, 2020, the fair value of the asset acquired as reported in "Assets held for sale" on the Company's Condensed Consolidated Balance Sheet was $0.5 million and the maximum loss exposure was $0.5 million, which reflects an estimated cost to sell of less than $0.1 million.

The following tables summarize the changes in Level 3 Royalty Right Assets and the gains and losses included in earnings for the three months ended March 31, 2020:

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3) - Royalty Right Assets**

| *(in thousands)* | | **Royalty Rights - At Fair Value** |
|---|---|---|
| Fair value as of December 31, 2019 | | $ 266,196 |
| Total net change in fair value for the period | | |
| Change in fair value of royalty rights - at fair value | 9,394 | |
| Proceeds from royalty rights | (13,569) | |
| Total net change in fair value for the period | | (4,175) |
| Fair value as of March 31, 2020 | | $ 262,021 |

The table above does not include the aggregate remaining estimated cost to sell the royalty right assets of $5.8 million.

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3) - Royalty Right Assets**

| *(in thousands)* | **Fair Value as of December 31, 2019** | **Royalty Rights - Change in Fair Value** | **Fair Value as of March 31, 2020 [1]** |
|---|---|---|---|
| Assertio | $ 218,672 | $ (3,161) | $ 215,511 |
| VB | 13,590 | 206 | 13,796 |
| U-M | 20,398 | (1,391) | 19,007 |
| AcelRx | 12,952 | 200 | 13,152 |
| KYBELLA | 584 | (29) | 555 |
| | $ 266,196 | $ (4,175) | $ 262,021 |

[1] Excludes the aggregate remaining estimated costs to sell of $5.8 million.

*Assets/Liabilities Measured and Recorded at Fair Value on a Nonrecurring Basis*

The Company remeasures the fair value of certain assets and liabilities upon the occurrence of certain events. Such assets consist of long-lived assets, including property and equipment and intangible assets and the shares of Alphaeon Class A common stock, received in connection with the loans made to LENSAR by the Company prior to its acquisition of LENSAR. The Company's carrying value of the 1.7 million shares of Alphaeon common stock as of both March 31, 2020 and December 31, 2019 is $6.6 million based on an estimated per share value of $3.84, which was established by a valuation performed when the shares were acquired. The value of the Company's investment in Alphaeon is not readily determinable as Alphaeon's shares are not publicly traded. The Company evaluates the fair value of this investment by performing a qualitative assessment each reporting period. If the results of this qualitative assessment indicate that the fair value is less than the carrying value, the investment is written down to its fair value. There have been no such write downs since the Company acquired these shares. This investment is included in Other long-term assets. For additional information on the Alphaeon investment, see Note 6, *Notes and Other Long-Term Receivables*.

During the quarter ended March 31, 2020 it was determined that Noden met the criteria as an asset held for sale, see Note 2, *Discontinued Operations Classified as Assets Held for Sale*. Assets classified as held for sale are reported at the lower of carrying value or fair value less costs to sale. As a result of our analysis of the fair value of Noden we recorded a loss on classification as held for sale of $6.7 million of which $1.8 million relates to the estimated costs to sell Noden and $4.9 million relates to the difference in carrying value versus fair value. The fair value calculation was made using a discounted cash flow model, utilizing a discount rate of approximately 19%, and included level 3 inputs.

*Assets/Liabilities Not Subject to Fair Value Recognition*

The Company has two notes receivable assets with an aggregate carrying value of $52.1 million as of March 31, 2020 and December 31, 2019. The estimated fair value of these notes receivable of $57.3 million exceeded the carrying value as of December 31, 2019 and was substantially equivalent to the carrying values as of March 31, 2020. The notes receivable are classified as Level 3 in the fair value hierarchy. The Company determined its notes receivable assets are Level 3 assets as the Company's valuations utilized significant unobservable inputs, including estimates of future revenues, discount rates, expectations about settlement, terminal values, required yield and the value of underlying collateral. The Company engages third-party valuation experts when deemed necessary to assist in evaluating its investments and the related inputs needed to estimate the fair value of certain investments.

As of March 31, 2020 and December 31, 2019, the estimated fair value of the CareView note receivable was determined using a liquidation analysis. A liquidation analysis considers the asset side of the balance sheet and adjusts the value in accordance with the relative risk associated with the asset and the probable liquidation value. The asset recovery rates varied by asset. As of March 31, 2020 and December 31, 2019, the estimated fair value of the Wellstat Diagnostics and Hyperion Catalysis International, Inc. ("Hyperion") notes receivable were determined by using an asset approach and discounted cash flow model related to the underlying collateral and adjusted to consider estimated costs to sell the assets.

The CareView note receivable is secured by substantially all assets of, and equity interests in CareView. The Wellstat Diagnostics note receivable is secured by substantially all assets of Wellstat Diagnostics and is supported by a guaranty from the Wellstat Diagnostics Guarantors (as defined in Note 7, *Notes and Other Long-Term Receivables*).

On March 31, 2020, the carrying value of one of the Company's notes receivable assets differed from its estimated fair value. This is the result of inputs used in estimating the fair value of the collateral, including appraisals, projected cash flows of collateral assets and discount rates used when performing a discounted cash flow analysis.

The Company's liabilities not subject to fair value recognition consist of its 2021 and 2024 convertible notes. The fair values of the Company's convertible senior notes were determined using quoted market pricing and are classified as Level 2 in the fair value hierarchy. The aggregate carrying value of the convertible notes was $13.3 million and $27.3 million as of March 31, 2020 and December 31, 2019, respectively. The aggregate fair values of the convertible notes was $15.9 million and $33.9 million as of March 31, 2020 and December 31, 2019, respectively.

The following table represents significant unobservable inputs used in determining the estimated fair value of the Wellstat Diagnostics note receivable investment:

| Asset | Valuation Technique | Unobservable Input | March 31, 2020 | December 31, 2019 |
|---|---|---|---|---|
| **Wellstat Diagnostics** | | | | |
| *Wellstat Guarantors intellectual property* | *Income Approach* | | | |
| | | Discount rate | 12% | 12% |
| | | Undiscounted royalty amount | $21 million | $21 million |
| *Settlement Amount* | *Income Approach* | | | |
| | | Discount rate | 15% | 15% |
| | | Undiscounted settlement amount | $25 million | $28 million |
| *Real Estate Property* | *Market Approach* | | | |
| | | Annual appreciation rate | —% | —% |
| | | Estimated realtor fee | 6% | 6% |
| | | Undiscounted market value | $16 million | $16 million |

**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 and Related Litigation*

On November 2, 2012, the Company and Wellstat Diagnostics entered into a $40.0 million credit agreement pursuant to which the Company was to accrue quarterly interest payments at the rate of 5% per annum (payable in cash or in kind). In addition, the Company was to 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. A portion of the proceeds of the $40.0 million credit agreement were used to repay certain notes receivable which Wellstat Diagnostics entered into in March 2012.

In January 2013, the Company was informed that, as of December 31, 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. The Company 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, the Company exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to the Company and applied the funds to amounts due under the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby the Company agreed to refrain from exercising additional remedies for 120 days. 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 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 herein, the material terms of the amended and restated credit agreement are substantially the same as those of the original credit agreement, including quarterly interest payments at the rate of 5% per annum (payable in cash or in kind). In addition, the Company was to continue to receive quarterly royalty payments based on a low double-digit royalty rate of Wellstat Diagnostics' net revenues. However, pursuant to the amended and restated credit agreement: (i) the principal amount was reset to approximately $44.1 million, which was comprised of approximately $33.7 million original loan principal and interest, $1.3 million term loan principal and interest and $9.1 million forbearance principal and interest; (ii) the specified internal rates of return increased; (iii) the default interest rate was increased; (iv) Wellstat Diagnostics' obligation to provide certain financial information increased in frequency to monthly; (v) internal financial controls were strengthened by requiring Wellstat Diagnostics to maintain an independent, third-party financial professional with control over fund disbursements; (vi) the Company waived the existing events of default; and (vii) the owners and affiliates of Wellstat

Diagnostics were required to contribute additional capital to Wellstat Diagnostics upon the sale of an affiliate entity. The amended and restated credit agreement had an ultimate maturity date of December 31, 2021 (but has subsequently been accelerated as described below).

In June 2014, the Company received information from Wellstat Diagnostics showing that it was generally unable to pay its debts as they became due, constituting an event of default under the amended and restated credit agreement.

On August 5, 2014, the Company delivered a notice of default to Wellstat Diagnostics, which accelerated all obligations under the amended and restated credit agreement and demanded immediate payment in full in an amount equal to approximately $53.9 million, (which amount, in accordance with the terms of the amended and restated credit agreement, included an amount that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company), plus accruing fees, costs and interest, and demanded that Wellstat Diagnostics protect and preserve all collateral securing its obligations.

On August 7, 2014, the Company delivered a notice to each of the guarantors of Wellstat Diagnostics' obligations to the Company (collectively, the "Wellstat Diagnostics Guarantors") under the credit agreement, which included a demand that the guarantors remit payment to the Company in the amount of the outstanding obligations. The guarantors include certain affiliates and related companies of Wellstat Diagnostics, including Wellstat Therapeutics and Wellstat Diagnostics' stockholders.

On September 24, 2014, the Company filed an ex-parte petition for appointment of receiver with the Circuit Court of Montgomery County, Maryland, which was granted on the same day. Wellstat Diagnostics remained in operation during the period of the receivership with incremental additional funding from the Company. On May 24, 2017, Wellstat Diagnostics transferred substantially all of its assets to the Company pursuant to a credit bid. The credit bid reduced the outstanding balance of the loan by an immaterial amount.

On September 4, 2015, the Company filed in the Supreme Court of New York a motion for summary judgment in lieu of complaint which requested that the court enter judgment against certain of the Wellstat Diagnostics Guarantors for the total amount due on the Wellstat Diagnostics debt, plus all costs and expenses including lawyers' fees incurred by the Company in enforcement of the related guarantees. On September 23, 2015, the Company filed in the same court an ex parte application for a temporary restraining order and order of attachment of the Wellstat Diagnostics Guarantor defendants' assets. Although the court denied the Company's request for a temporary restraining order at a hearing on September 24, 2015, it ordered that assets of the Wellstat Diagnostics Guarantor defendants should be held in *status quo ante* and only used in the normal course of business.

On July 29, 2016, the Supreme Court of New York granted the Company's motion for summary judgment and held that the Wellstat Diagnostics Guarantor defendants are liable for all "Obligations" owed by Wellstat Diagnostics to the Company. After appeal by the Wellstat Diagnostics Guarantor defendants on February 14, 2017, the Appellate Division of the Supreme Court of New York reversed on procedural grounds a portion of the Memorandum of Decision granting the Company summary judgment in lieu of complaint, but affirmed the portion of the Memorandum of Decision denying the Wellstat Diagnostics Guarantor defendants' motion for summary judgment in which they sought a determination that the guarantees had been released. As a result, the litigation has been remanded to the Supreme Court of New York to proceed on the Company's claims as a plenary action. On June 21, 2017, the Supreme Court of New York ordered the Company to file a Complaint, which was filed by the Company on July 20, 2017. The Wellstat Diagnostics Guarantors filed their answer on August 9, 2017, including counterclaims against the Company alleging breach of contract, breach of fiduciary duty, and tortious interference with prospective economic advantage.

On October 14, 2016, the Company sent a notice of default and reference to foreclosure proceedings to certain of the Wellstat Diagnostics Guarantors which are not defendants in the New York action, but which are owners of real estate assets over which a deed of trust in favor of the Company securing the guarantee of the loan to Wellstat Diagnostics had been executed. On March 2, 2017, the Company sent a second notice to foreclose on the real estate assets, and noticed the sale for March 29, 2017. The sale was taken off the calendar by the trustee under the deed of trust and has not been re-scheduled yet. On March 6, 2017, the Company sent a letter to the Wellstat Diagnostics Guarantors seeking information in preparation for a UCC Article 9 sale of some or all of the intellectual property-related collateral of the Wellstat Diagnostics Guarantors. The Wellstat Diagnostics Guarantors did not respond to the Company's letter, but on March 17, 2017, filed an order to show cause with the Supreme Court of New York to enjoin the Company's sale of the real estate or enforcing its security interests in the Wellstat Diagnostics Guarantors' intellectual property during the pendency of any action involving the guarantees at issue. On February 6, 2018, the

Supreme Court of New York issued an order from the bench which enjoins the Wellstat Diagnostics Guarantors from selling, encumbering, removing, transferring or altering the collateral pending the outcome of the proceedings before it. The Supreme Court of New York also issued an order precluding the Company from foreclosing on certain of the Wellstat Diagnostics Guarantors' collateral pending the outcome of the proceedings before it. In September of 2018, discovery in the New York action was completed. Summary judgment motions were filed by Wellstat Diagnostics and the Company in 2018 and a hearing was held on May 22, 2019. On September 11, 2019, the Supreme Court of New York granted the Company's summary judgment motion, the court holding that the guarantees executed by the Wellstat Diagnostics Guarantors are valid and enforceable, and that the Wellstat Diagnostics Guarantors are liable for the amount owed under the loan agreement. The court ordered a damages inquest before a special referee to calculate the amount owed under the loan agreement between Wellstat Diagnostics and the Company. On September 12, 2019, the Wellstat Diagnostics Guarantors filed a notice of appeal in relation to the court's decision. On September 17, 2019, the Wellstat Diagnostics Guarantors requested a stay of the enforcement of the New York Supreme Court's decision pending their appeal of the decision, which was denied on November 21, 2019. A damages hearing was scheduled to begin before a judicial hearing officer on December 17, 2019. At the request of the judicial hearing officer, the parties agreed to mediate their dispute prior to the commencement of the damages hearing. As a result, no decision has been made by the hearing officer with respect to the amount of damages owed to the Company.

In an unrelated litigation, Wellstat Therapeutics filed a lawsuit against BTG International, Inc. for breach of contract (the "BTG Litigation"). In September 2017, the Delaware Chancery Court found in favor of Wellstat Therapeutics and awarded a judgment of $55.8 million in damages, plus interest. In October 2017, the Company filed a motion with the Supreme Court of New York requesting a pre-judgement attachment of the award. In June 2018, the Delaware Supreme Court largely affirmed the September 2017 decision of the Delaware Chancery Court, including the $55.8 million awarded in judgment. In August of 2018, in a letter to the Company's counsel, Wellstat Diagnostics Guarantors' counsel confirmed that the Wellstat Diagnostics Guarantors are preserving the BTG Litigation judgment award proceeds consistent with the New York Court's prior directions.

On October 22, 2015, certain of the Wellstat Diagnostics Guarantors filed a separate complaint against the Company in the Supreme Court of New York seeking a declaratory judgment that certain contractual arrangements entered into between the parties subsequent to Wellstat Diagnostics' default, and which relate to a split of proceeds in the event that the Wellstat Diagnostics Guarantors voluntarily monetize any assets that are the Company's collateral, is of no force or effect. This case has been joined for all purposes, including discovery and trial, and consolidated with the pending case filed by the Company. The Wellstat Diagnostic Guarantors filed a summary judgment motion with regard to this case, which was also heard by the court at the hearing on May 22, 2019. The court, in its September 11, 2019 decision, denied in its entirety the Wellstat Diagnostics Guarantors' motion for summary judgment.

Effective April 1, 2014, and as a result of the event of default, the Company determined the loan to be impaired and it ceased to accrue interest revenue. At that time and as of March 31, 2020, it has been determined that an allowance on the carrying value of the note was not necessary, as the Company believes the value of the collateral securing Wellstat Diagnostics' obligations is in-line with the carrying value of the asset and is sufficient to enable the Company to recover the current carrying value of $50.2 million. The Company continues to closely monitor the timing and expected recovery of amounts due, including litigation and other matters related to Wellstat Diagnostics Guarantors' assets. There can be no assurance that an allowance on the carrying value of the notes receivable investment will not be necessary in a future period depending on future developments.

*Hyperion Agreement*

On January 27, 2012, the Company and Hyperion (which is also a Wellstat Diagnostics Guarantor) entered into an agreement whereby Hyperion sold to the Company the royalty streams accruing from January 1, 2012 through December 31, 2013 due from Showa Denko K.K. ("SDK") related to a certain patent license agreement between Hyperion and SDK dated December 31, 2008. In exchange for the lump sum payment to Hyperion of $2.3 million, in addition to any royalties from SDK, the Company was to receive two equal payments of $1.2 million on March 5, 2013 and March 5, 2014. The first payment of $1.2 million was paid on March 5, 2013, but the second payment that was due on March 5, 2014 has not been made by Hyperion. Effective as of such date and as a result of the event of default, the Company ceased to accrue interest revenue. As of March 31, 2020, the estimated fair value of the collateral was determined to be in excess of the carrying value. There can be no assurance of realizing value from such collateral in the event of the Company's foreclosure on the collateral.

*CareView Credit Agreement*

On June 26, 2015, the Company entered into a credit agreement with CareView, under which the Company made available to CareView up to $40.0 million in loans comprised of two tranches of $20.0 million each, subject to CareView's attainment of specified milestones relating to the placement of CareView Systems. On October 7, 2015, the Company and CareView entered into an amendment of the credit agreement to modify certain definitions related to the first and second tranche milestones and the Company funded the first tranche of $20.0 million, net of fees, based on CareView's attainment of the first milestone, as amended. The second $20.0 million tranche was not funded due to CareView's failure to achieve the related funding milestones and there is no additional funding obligation due from the Company. Outstanding borrowings under the credit agreement bear interest at the rate of 13.5% per annum and are payable quarterly in arrears.

As part of the original credit agreement, the Company received a warrant to purchase approximately 4.4 million shares of common stock of CareView at an exercise price of $0.45 per share. The Company has accounted for the warrant as a derivative asset with an offsetting credit as debt discount. At each reporting period the warrant is marked to market for changes in fair value.

In connection with the October 2015 amendment of the credit agreement, the Company and CareView also agreed to amend the warrant to purchase common stock agreement by reducing the warrant's exercise price from $0.45 to $0.40 per share.

In February 2018, the Company entered into a modification agreement with CareView (the "February 2018 Modification Agreement") whereby the Company agreed, effective December 28, 2017, to modify the credit agreement before remedies could otherwise have become available to the Company under the credit agreement in relation to certain obligations of CareView that would potentially not be met, including the requirement to make principal payments. Under the February 2018 Modification Agreement, the Company agreed that (i) a lower liquidity covenant would be applicable and (ii) principal repayment would be delayed until December 31, 2018. In exchange for agreeing to these modifications, among other things, the exercise price of the Company's warrants to purchase 4.4 million shares of common stock of CareView was repriced from $0.40 to $0.03 per share and, subject to the occurrence of certain events, CareView agreed to grant the Company additional equity interests. As a result of the February 2018 Modification Agreement, the Company determined the loan to be impaired and it ceased to accrue interest revenue effective October 1, 2017.

In September 2018, the Company entered into an amendment to the February 2018 Modification Agreement with CareView whereby the Company agreed, effective as of September 28, 2018, that a lower liquidity covenant would be applicable. In December 2018, the Company further modified the loan by agreeing that (i) a lower liquidity covenant would be applicable, (ii) the first principal payment would be deferred until January 31, 2019, and (iii) the scheduled interest payment due December 31, 2018 would be deferred until January 31, 2019. In December 2018, and in consideration of the further modification to the credit agreement, the Company completed an impairment analysis and determined that the note was impaired and recorded an impairment loss of $8.2 million. For additional information see Note 6, *Fair Value Measurements*. As of March 31, 2019, the principal repayment and interest payments were deferred until April 30, 2019. The principal repayment and interest payment were subsequently deferred until May 15, 2019 under additional amendments. In May 2019, and in consideration of additional capital raised by CareView, the Company further modified the loan by agreeing that (i) the first principal and interest payments would be deferred until September 30, 2019 and (ii) the remaining liquidity covenant would be removed. In September 2019, the Company further modified the loan by agreeing that the first principal and interest payments would be deferred, and (iii) the interest rate would be increased to 15.5%. Pursuant to further amendments to the February 2018 Modification Agreement in September 2019, December 2019 and January 2020, the Company agreed to defer principal and interest payments until April 30, 2020.

In December 2019, and in consideration of the further modification to the credit agreement and February 2018 Modification Agreement, the Company updated its impairment analysis and determined that an additional impairment was necessary and recorded an impairment loss of $10.8 million. At March 31, 2020, the Company estimated the fair value of the warrant to be less than $0.1 million.

In April 2020 the Company agreed to a further amendment of the February 2018 Modification Agreement that deferred principal repayment and interest payments until September 30, 2020, which was conditioned upon CareView raising additional financing from third parties.

**8. Leases**

*Lessor arrangements*

The Company has operating and sales-type leases for medical device equipment generated from its medical devices segment. The Company's leases have remaining lease terms of less than one year to five years, some of which include options to extend the leases on a month-to-month basis if the customer does not notify the Company of the intention to return the equipment at the end of the lease term. The Company typically does not offer options to terminate the leases before the end of the lease term.

The components of lease income are as follows:

| | | Three Months Ended March 31, | |
|---|---|---|---|
| *(in thousands)* | **Classification** | **2020** | **2019** |
| Sales-type lease selling price | Product revenue, net | $ — | $ — |
| Cost of underlying asset | | — | — |
| Operating profit | | $ — | $ — |
| Interest income on the lease receivable | Interest and other income, net | $ 14 | $ 12 |
| Initial direct costs incurred | Operating expense | $ — | $ — |
| Operating lease Income | Product revenue, net | $ 1,087 | $ 1,237 |

**9. Intangible Assets**

***LENSAR***

In April 2019, LENSAR acquired certain intellectual property from a third-party for $2.0 million in cash and obligations to pay a $0.3 million milestone payment and royalties upon the completion of certain events.

In September 2019, LENSAR exclusively licensed certain intellectual property from a third-party for $3.5 million in cash for use in research and development activities. The amount was immediately expensed to Research and development expense.

The components of intangible assets as of March 31, 2020 and December 31, 2019 were as follows:

| | March 31, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | **Gross Carrying Amount** | **Accumulated Amortization** | **Net Carrying Amount** | **Gross Carrying Amount** | **Accumulated Amortization** | **Net Carrying Amount** |
| Finite-lived intangible assets: | | | | | | |
| Acquired products rights[1] | $ — | $ — | $ — | $ — | $ — | $ — |
| Customer relationships[1] [2] [3] | 4,045 | (966) | 3,079 | 4,045 | (884) | 3,161 |
| Acquired technology[2] [4] | 11,500 | (1,933) | 9,567 | 11,500 | (1,741) | 9,759 |
| Acquired trademarks[2] | 570 | (332) | 238 | 570 | (304) | 266 |
| | $ 16,115 | $ (3,231) | $ 12,884 | $ 16,115 | $ (2,929) | $ 13,186 |

[1] The Company acquired certain intangible assets as part of the Noden transaction. Those intangible assets are excluded from the table above and included in "Assets held for sale." See Note 2, *Discontinued Operations Classified as Assets Held for Sale*, for additional information.

(2) The Company acquired certain intangible assets as part of its acquisition of LENSAR in May 2017. They are being amortized on a straight-line basis over a weighted-average period of 15 years. The intangible assets for customer relationships are being amortized using a double-declining method of amortization as such method better represents the economic benefits to be obtained.

(3) LENSAR acquired certain intangible assets for customer relationships from PES, which are being amortized using a double-declining method over a period of 20 years.

(4) LENSAR acquired certain intangible assets from a third-party, which are being amortized on a straight-line basis over a period of 15 years.

For the three months ended March 31, 2020 and 2019, amortization expense was $0.3 million and $0.3 million, respectively.

Based on the intangible assets recorded at March 31, 2020, and assuming no subsequent additions to or impairment of the underlying assets, the remaining amortization expense is expected to be as follows (in thousands):

| Fiscal Year | Amount |
|---|---|
| 2020 (Remaining nine months) | $ 895 |
| 2021 | 1,165 |
| 2022 | 1,061 |
| 2023 | 997 |
| 2024 | 974 |
| Thereafter | 7,792 |
| Total remaining amortization expense | $ 12,884 |

**10. Accrued Liabilities**

Accrued liabilities consist of the following:

| *(in thousands)* | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Compensation | $ 5,704 | $ 6,823 |
| Deferred revenue | 933 | 959 |
| Interest | 136 | 70 |
| Legal | 929 | 921 |
| Accrued rebates, chargebacks and other revenue reserves | 4 | 5 |
| Other | 4,253 | 3,145 |
| Total (1) | $ 11,959 | $ 11,923 |

(1) The amounts above exclude $17.1 million and $16.4 million of accrued liabilities at Noden classified as held for sale as of March 31, 2020 and December 31, 2019, respectively. See Note 2, *Discontinued Operations Classified as Assets Held for Sale*, for additional information.

As previously discussed, during the first quarter of 2020 the Board approved the Plan of Liquidation. In addition, the Company has entered into severance agreements with its employees under the Wind Down Retention Plan. The total amount of severance expected to be incurred during 2020 will be $13.0 million, of which $3.0 million was expensed in the three months ended March 31, 2020. The severance amount paid in the three months ended March 31, 2020 was $0.6 million. All severance costs are included in the Income Generating Assets segment, as all corporate personnel salary and benefit costs are allocated to this segment.

**11. Convertible Senior Notes**

| Description | Maturity Date | Principal Balance Outstanding March 31, 2020 | Carrying Value March 31, 2020 | Carrying Value December 31, 2019 |
|---|---|---|---|---|
| *(in thousands)* | | | | |
| Convertible Senior Notes | | | | |
| December 2021 Notes | December 1, 2021 | $ 13,805 | $ 12,402 | $ 16,950 |
| December 2024 Notes | December 1, 2024 | 1,000 | 900 | 10,300 |
| Total | | $ 14,805 | $ 13,302 | $ 27,250 |

***December 2021 Notes***

On November 22, 2016, the Company issued $150.0 million in aggregate principal amount, at par, of 2.75% Convertible Senior Notes due December 1, 2021 (the "December 2021 Notes") in an underwritten public offering, for net proceeds of $145.7 million. The December 2021 Notes are due December 1, 2021, and the Company pays interest at 2.75% on the December 2021 Notes semiannually in arrears on June 1 and December 1 of each year, beginning June 1, 2017.

In September 2019, the Company entered into privately negotiated exchange agreements with certain holders of approximately $86.1 million aggregate principal amount of outstanding December 2021 Notes. The Company exchanged $86.1 million aggregate principal of December 2021 Notes for an identical principal amount of 2.75% Convertible Senior Notes due December 1, 2024 (the "December 2024 Notes"), plus a cash payment of $70.00 for each $1,000 principal amount tendered ("September Exchange Transaction"). See "December 2024 Notes" below. The terms of the remaining December 2021 Notes remained unchanged. The September Exchange Transaction qualified as a debt extinguishment and the Company recognized a loss on exchange of the convertible notes of $3.9 million in the third quarter of 2019.

Upon the occurrence of a fundamental change, as defined in the indenture entered into in connection with the December 2021 Notes (the "December 2021 Notes Indenture"), holders have the option to require the Company to repurchase their December 2021 Notes at a purchase price equal to 100% of the principal, plus accrued interest.

The December 2021 Notes are convertible under any of the following circumstances at any time prior to the close of business on the business day immediately preceding June 1, 2021 (or at any time beginning on June 1, 2021 until the close of business on the second scheduled trading day immediately preceding the stated maturity):

- During any fiscal quarter (and only during such fiscal quarter) commencing after the fiscal quarter ended June 30, 2017, if the last reported sale price of Company common stock for at least 20 trading days (whether or not consecutive), in the period of 30 consecutive trading days, ending on, and including, the last trading day of the immediately preceding fiscal quarter, exceeds 130% of the conversion price for the notes on each applicable trading day;
- During the five business-day period immediately after any five consecutive trading-day period, which the Company refers 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 Company common stock and the conversion rate for the notes for each such trading day; or
- Upon the occurrence of specified corporate events as described in the December 2021 Notes Indenture.

The initial conversion rate for the December 2021 Notes is 262.2951 shares of the Company's common stock per $1,000 principal amount of December 2021 Notes, which is equivalent to an initial conversion price of approximately $3.81 per share of common stock, subject to adjustments upon the occurrence of certain specified events as set forth in the December 2021 Notes Indenture.

In accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, the Company was 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, the Company separated the principal balance of the December 2021 Notes between the fair value of the debt component with the remainder of the consideration being allocated to the equity component. Using an assumed borrowing rate of 9.5%, which represented the estimated market interest rate for a similar nonconvertible instrument available to the Company on the date of issuance, the Company recorded a debt discount of $4.3 million, allocated $23.8 million to Additional paid-in capital for the conversion feature and allocated $12.8 million to deferred tax liability. The debt discount, including the conversion feature and issuance costs allocated to debt, which remained after amortization and the effect of the September Exchange Transaction, is being amortized to interest expense over the term of the December 2021 Notes and increases interest expense during the term of the December 2021 Notes from the 2.75% cash coupon interest rate to an effective interest rate of 9.7%. As of March 31, 2020, the remaining discount amortization period is 1.7 years.

On December 17, 2019, the Company repurchased $44.8 million in aggregate principal amount of its December 2021 Notes for $39.9 million in cash and 3.5 million shares of its common stock in privately negotiated transactions (the “December Exchange Transaction”). It was determined that the repurchase of the principal amount should be accounted for as a partial extinguishment of the December 2021 Notes. As a result, a loss on extinguishment of $2.5 million was recorded at closing of the transaction.

During the three months ended March 31, 2020, the Company repurchased $5.4 million in aggregate principal amount of its December 2021 notes for $6.0 million in cash. It was determined that the repurchase of the principal amount should be accounted for as a partial extinguishment of the December 2021 Notes. As a result, a loss on extinguishment of $0.1 million was recorded at closing of the transaction.

The carrying value and unamortized discount of the December 2021 Notes were as follows:

| ***(in thousands)*** | **March 31, 2020** | **December 31, 2019** |
|---|---|---|
| Principal amount of the December 2021 Notes | $ 13,805 | $ 19,170 |
| Unamortized discount of liability component | (1,403) | (2,220) |
| Net carrying value of the December 2021 Notes | $ 12,402 | $ 16,950 |

Interest expense for the December 2021 Notes included in the Company’s Condensed Consolidated Statements of Operations was as follows:

| | **Three Months Ended March 31,** | |
|---|---|---|
| ***(in thousands)*** | **2020** | **2019** |
| Contractual coupon interest | $ 123 | $ 1,031 |
| Amortization of debt issuance costs | 2 | 20 |
| Amortization of debt discount | 17 | 138 |
| Amortization of conversion feature | 234 | 1,766 |
| Total | $ 376 | $ 2,955 |

As of March 31, 2020, the December 2021 Notes are not convertible.

*Capped Call Transaction*

In connection with the offering of the December 2021 Notes, the Company entered into a privately-negotiated capped call transaction with an affiliate of the underwriter of such issuance. The aggregate cost of the capped call transaction was $14.4 million. The capped call transaction is generally expected to reduce the potential dilution upon conversion of the December 2021 Notes and/or partially offset any cash payments the Company is required to make in excess of the principal amount of converted December 2021 Notes in the event that the market price per share of the Company’s common stock, as measured under the terms of the capped call transaction, is greater than the strike price of the capped call transaction. This initially corresponds to the approximate $3.81 per share conversion price of the December 2021 Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the December 2021 Notes. The cap price of

the capped call transaction was initially $4.88 per share and is subject to certain adjustments under the terms of the capped call transaction. The Company will not be required to make any cash payments to the option counterparty upon the exercise of the options that are a part of the capped call transaction, but the Company will be entitled to receive from it an aggregate amount of cash and/or number of shares of the Company's common stock, based on the settlement method election chosen for the related convertible senior notes, with a value equal to the amount by which the market price per share of the Company's common stock, as measured under the terms of the capped call transaction, is greater than the strike price of the capped call transaction during the relevant valuation period under the capped call transaction, with such number of shares of the Company's common stock and/or amount of cash subject to the cap price.

The Company evaluated the capped call transaction under authoritative accounting guidance and determined that it should be accounted for as separate transaction and classified as a net reduction to Additional paid-in capital within stockholders' equity with no recurring fair value measurement recorded.

In connection with the September 2019 Exchange Transaction, the Company unwound a portion of the capped call entered into when the December 2021 Notes were issued, as they were no longer scheduled to mature in 2021. In connection with the December Exchange Transaction, the Company unwound a corresponding portion of the capped call related to the notes and repurchased 1.6 million shares of its common stock from the counterparty. In connection with the repurchases of the December 2021 Notes in the three months ended March 31, 2020, the Company unwound a portion of the capped call entered into when the December 2021 Notes were issued, as they were not longer scheduled to mature in 2021.

***December 2024 Notes***

On September 17, 2019, in connection with the September Exchange Transaction, the Company exchanged $86.1 million aggregate principal of December 2021 Notes for an identical aggregate original principal amount of December 2024 Notes, plus a cash payment of $70.00 for each $1,000 principal amount exchanged, totaling approximately $6.0 million. The December 2024 Notes are due December 1, 2024, and the Company pays interest at 2.75% on the December 2024 Notes semiannually in arrears on June 1 and December 1 of each year, beginning December 1, 2019. The original principal of the December 2024 Notes will accrete at a rate of 2.375% per year ("Accretion Interest") commencing September 17, 2019 through the maturity of the December 2024 Notes. The accreted principal amount of the December 2024 Notes is payable in cash upon maturity and is included in Other long-term liabilities.

Upon the occurrence of a fundamental change, as defined in the indenture entered into in connection with the December 2024 Notes (the "December 2024 Notes Indenture"), holders have the option to require the Company to repurchase their December 2024 Notes at a purchase price equal to 100% of the accreted principal amount of such December 2024 Notes, plus accrued interest on the original principal amount thereon.

The December 2024 Notes are convertible under any of the following circumstances at any time prior to the close of business on the business day immediately preceding June 1, 2024 (or at any time beginning on June 1, 2024 until the close of business on the second scheduled trading day immediately preceding the stated maturity):

- During any fiscal quarter (and only during such fiscal quarter) commencing after the fiscal quarter ended December 31, 2019, if the last reported sale price of Company common stock for at least 20 trading days (whether or not consecutive), in the period of 30 consecutive trading days, ending on, and including, the last trading day of the immediately preceding fiscal quarter, exceeds 130% of the conversion price for the notes on each applicable trading day;
- During the five business-day period immediately after any five consecutive trading-day period, which the Company refers to as the measurement period, in which the trading price per $1,000 original 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 Company common stock and the conversion rate for the notes for each such trading day;
- Upon the occurrence of specified corporate events or upon a redemption of the notes, in each case as described in the December 2024 Notes Indenture; or
- On or after June 1, 2024, at the option of the holder prior to the second scheduled trading day preceding December 1, 2024.

In accordance with the terms of the December 2024 Notes Indenture, the Company has the right, but not the obligation, to redeem all or any portion of the December 2024 Notes that is equal to $1,000 original principal amount or an integral multiple

of $1,000 prior to their scheduled maturity on a redemption date beginning on or after December 1, 2021 and on or before the 60th scheduled trading day before December 1, 2024, for a cash purchase price equal to the redemption price, but only if the last reported sale price of Company common stock exceeds 128% of the conversion price for the December 2024 Notes on (i) each of at least 20 trading Days (whether or not consecutive) during the 30 consecutive trading days ending on, and including, the trading day immediately before the redemption notice date for such redemption; and (ii) the trading day immediately before such redemption notice date. The redemption price for the December 2024 Notes called for redemption is equal to the then accreted principal amount of such December 2024 Notes plus accrued but unpaid interest on the original principal amount thereon. The calling of any December 2024 Notes for redemption will constitute a make-whole fundamental change with respect to such notes, entitling the holders who convert such December 2024 Notes called for redemption prior to the applicable redemption date to receive an increase in the applicable conversion rate, as described in the December 2024 Notes Indenture.

The initial conversion rate for the December 2024 Notes is 262.2951 shares of the Company's common stock per $1,000 original principal amount of December 2024 Notes, which is equivalent to an initial conversion price of approximately $3.81 per share of common stock, subject to adjustments upon the occurrence of certain specified events as set forth in the December 2024 Notes Indenture.

In accordance with the accounting guidance for an extinguishment of convertible debt instruments with a cash conversion feature, the Company was required to allocate the fair value of the consideration transferred between the liability component and the equity component. To calculate the fair value of the debt immediately prior to derecognition, the carrying value was recalculated in a manner that reflected the estimated market interest rate for a similar nonconvertible instrument at the date of issuance. Using an assumed borrowing rate of 7.05% the Company calculated the fair value of the debt representing the amount allocated to the liability component of the December 2024 Notes with the remainder of the consideration allocated to the equity conversion feature, to reflect the reacquisition of the embedded conversion option. The conversion feature together with the fees allocated to the debt are accounted for as a debt discount. As a result of the September Exchange Transaction, the Company recorded a total debt discount of $9.4 million, which included the cash conversion feature of $8.1 million and the debt issuance fees of $1.3 million, charged $5.5 million to Additional paid-in capital ($13.5 million charge to Additional paid-in capital representing the reduction to the 2021 equity component, partially offset by the $8.1 million allocated to equity for the 2024 notes) and recorded $1.2 million to deferred tax liability. The net amount charged to Additional paid-in capital represents the difference between the consideration paid for the September Exchange Transaction and the fair value of the convertible debt prior to the extinguishment.

The Accretion Interest and debt discount, including the conversion feature and issuance costs allocated to debt, are being amortized to interest expense over the term of the December 2024 Notes which increases interest expense during the term of the December 2024 Notes from the 2.75% cash coupon interest rate to an effective interest rate of 7.5%. As of March 31, 2020, the remaining discount amortization period is 4.7 years.

On December 17, 2019, in connection with the December Exchange Transaction, the Company repurchased $74.6 million in aggregate principal amount of its December 2024 Notes for $58.0 million in cash and 9.9 million shares of its common stock in privately negotiated transactions, resulting in a loss on extinguishment of $2.1 million was recorded at closing of the transaction.

During the three months ended March 31, 2020 the Company repurchased $10.5 million in aggregate principal amount of its December 2024 notes for $12.9 million in cash, resulting in a loss on extinguishment of $0.5 million.

The carrying value, accretion and unamortized discount of the December 2024 Notes were as follows:

| *(in thousands)* | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Principal amount of the December 2024 Notes | $ 1,000 | $ 11,500 |
| Unamortized discount of liability component | (100) | (1,200) |
| Net carrying value of the December 2024 Notes | $ 900 | $ 10,300 |

Interest expense for the December 2024 Notes included in the Company's Condensed Consolidated Statements of Operations was as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| *(in thousands)* | **2020** | **2019** |
| Contractual coupon interest | $ 37 | $ — |
| Accretion Interest on outstanding principal | 33 | — |
| Amortization of debt issuance costs | 4 | — |
| Amortization of conversion feature | 23 | — |
| Total | $ 97 | $ — |

*Capped Call Transaction*

In connection with the issuance of the December 2024 Notes in the September Exchange Transaction, the Company entered into a privately-negotiated capped call transaction with an affiliate of the underwriter of such issuance. The aggregate cost of the capped call transaction was $4.5 million. The capped call transaction is generally expected to reduce the potential dilution upon conversion of the December 2024 Notes and/or partially offset any cash payments the Company is required to make in excess of the principal amount of converted December 2024 Notes in the event that the market price per share of the Company's common stock, as measured under the terms of the capped call transaction, is greater than the strike price of the capped call transaction. This initially corresponds to the approximate $3.81 per share conversion price of the December 2024 Notes and is subject to anti-dilution adjustments substantially similar to those applicable to the conversion rate of the December 2024 Notes. The cap price of the capped call transaction was initially $4.88 per share and is subject to certain adjustments under the terms of the capped call transaction. The Company will not be required to make any cash payments to the option counterparty upon the exercise of the options that are a part of the capped call transaction, but the Company will be entitled to receive from it an aggregate amount of cash and/or number of shares of the Company's common stock, based on the settlement method election chosen for the related convertible senior notes, with a value equal to the amount by which the market price per share of the Company's common stock, as measured under the terms of the capped call transaction, is greater than the strike price of the capped call transaction during the relevant valuation period under the capped call transaction, with such number of shares of the Company's common stock and/or amount of cash subject to the cap price.

The Company evaluated the capped call transaction under authoritative accounting guidance and determined that it should be accounted for as a separate transaction and classified as a net reduction to Additional paid-in capital within stockholders' equity with no recurring fair value measurement recorded. In connection with the December Exchange Transaction, the Company unwound a corresponding portion of the capped call related to the notes and repurchased 1.6 million shares of its common stock from the counterparty. In connection with the repurchases of the December 2024 Notes in the three months ended March 31, 2020, the Company unwound a portion of the capped call entered into when the December 2024 Notes were issued, as they were no longer scheduled to mature in 2024.

**12. Other Long-Term Liabilities**

Other long-term liabilities consist of the following:

| *(in thousands)* | **March 31, 2020** | **December 31, 2019** |
|---|---|---|
| Uncertain tax positions | $ 37,993 | $ 37,574 |
| Deferred tax liabilities | 2,100 | 1,571 |
| Accrued lease guarantee | 10,700 | 10,700 |
| Other | 851 | 1,020 |
| Total [1] | $ 51,644 | $ 50,865 |

(1) The amounts above exclude $0.1 million of Other long-term liabilities at Noden classified as held for sale as of December 31, 2019. See Note 2, *Discontinued Operations Classified as Assets Held for Sale*, for additional information.

**13. Commitments and Contingencies**

***Lease Guarantee***

In connection with the spin-off by the Company of Facet Biotech Corporation ("Facet"), the Company entered into amendments to the leases for the Company's 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 the Company for all matters related to the leases attributable to the period after the spin-off date. In April 2010, Abbott Laboratories acquired Facet and later renamed the entity AbbVie Biotherapeutics, Inc. ("AbbVie"). If AbbVie were to default under its lease obligations, the Company could be held liable by the landlord as a co-tenant and, thus, the Company has in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of March 31, 2020, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $19.7 million.

The Company prepared a discounted, probability weighted cash flow analysis to calculate the estimated fair value of the lease guarantee as of the spin-off. The Company was 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 the Company 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.

The Company has recorded a liability of $10.7 million on its Condensed Consolidated Balance Sheets as of March 31, 2020 and December 31, 2019, related to this guarantee. In future periods, the Company may adjust this liability for any changes in the ultimate outcome of this matter that are both probable and estimable.

***Purchase Obligations***

Noden DAC and Novartis entered into a supply agreement pursuant to which Novartis will manufacture and supply to Noden DAC a bulk tableted form of the Noden Products and active pharmaceutical ingredient ("API"). In May 2019, Noden DAC and Novartis entered into an amended supply agreement pursuant to which Novartis will supply to Noden DAC a bulk tableted form of the Noden Products through 2020 and API through June 2021. The supply agreement may be terminated by either party for material breach that remains uncured for a specified time period. Under the terms of the amended supply agreement, Noden DAC is committed to purchase certain quantities of bulk product and API that would amount to approximately $55.7 million through June 2021, of which $43.1 million is committed over the next twelve months, which are guaranteed by the Company. While the supply agreement provides that the parties will agree to reasonable accommodations with respect to changes in firm orders, the Company expects that Noden DAC will meet the requirements of the supply agreement, unless otherwise negotiated.

LENSAR entered into various supply agreements for the manufacture and supply of certain components. The supply agreements commit LENSAR to a minimum purchase obligation of approximately $8.0 million over the next twelve months, a portion of which is guaranteed by the Company. LENSAR expects to meet these requirements.

**14. Stockholders' Equity**

***Stock Repurchase Program***

On September 24, 2018, the Company announced that the Board authorized the repurchase of issued and outstanding shares of the Company's common stock having an aggregate value of up to $100.0 million pursuant to a share repurchase program. The repurchases under the share repurchase program were made from time to time in the open market or in privately negotiated transactions and were funded from the Company's working capital. All shares of common stock repurchased under this share repurchase program were retired and restored to authorized but unissued shares of common stock. The Company has repurchased 31.0 million shares of its common stock under the share repurchase program for an aggregate purchase price of

$100.0 million, or an average cost of $3.22 per share, including trading commissions. This program was completed in July 2019.

On December 9, 2019, the Company announced that the Board authorized the repurchase of issued and outstanding shares of the Company's common stock and convertible notes up to an aggregate value of $200 million. On December 16, 2019, the Company announced that the Board approved a $75 million increase to the aforementioned $200 million repurchase program to acquire outstanding PDL common stock and convertible notes. Repurchases under this repurchase program will be made from time to time in the open market or in privately negotiated transactions and funded from the Company's working capital. The amount and timing of such repurchases will depend upon the price and availability of shares or convertible notes, general market conditions and the availability of cash. Repurchases may also be made under a trading plan under Rule 10b5-1, which would permit shares or convertible notes to be repurchased when the Company might otherwise be precluded from doing so because of self-imposed trading blackout periods or other regulatory restrictions. All shares of common stock repurchased under the Company's new share repurchase program are expected to be retired and restored to authorized but unissued shares of common stock. All convertible notes repurchased under the program will be retired. During the year ended December 31, 2019, the Company repurchased $44.8 million in aggregate principal amount of 2021 Convertible Notes and $74.6 million in aggregate principal amount of 2024 Convertible Notes for consideration consisting of a cash payment of $97.9 million and the issuance of 13.4 million shares of the Company's common stock. During the three months ended March 31, 2020, the Company repurchased $5.4 million in aggregate principal amount of 2021 Convertible Notes and $10.5 million in aggregate principal amount of 2024 Convertible Notes for cash payments totaling $18.8 million. As of March 31, 2020 the Company has repurchased 6.3 million shares of its common stock under the share repurchase program for an aggregate purchase price of $20.3 million, or an average cost of $3.20 per share, including trading commissions. This repurchase program may be suspended or discontinued at any time without notice.

**15. Stock-Based Compensation**

The Company grants restricted stock awards and stock options pursuant to the stockholder approved Equity Plan. On February 7, 2020, the Board approved the Plan of Liquidation which accelerated the vesting of a significant portion of our outstanding equity awards pursuant to provisions in the Wind Down Retention Plan.

The following table summarizes the Company's stock option and restricted stock award activity during the three months ended March 31, 2020:

| | Stock Options | | Restricted Stock Awards | |
|---|---|---|---|---|
| ***(in thousands, except per share amounts)*** | **Number of Shares Outstanding** | **Weighted Average Exercise Price** | **Number of Shares Outstanding** | **Weighted Average Grant-date Fair Value Per Share** |
| Balance at December 31, 2019 | 12,613 | $ 3.13 | 1,013 | $ 3.53 |
| Granted | — | $ — | 2,870 | $ 3.08 |
| Exercised / vested | — | $ — | (2,695) | $ 3.12 |
| Forfeited / canceled | (63) | $ 3.00 | (1,089) | $ 3.39 |
| Balance at March 31, 2020 | 12,550 | $ 3.13 | 99 | $ 3.11 |

**16. Revenue from Contracts with Customers**

**Revenue**

*Nature of Goods and Services*

The following is a description of principal activities - separated by reportable segments - from which the Company generates its revenue. For more detailed information about reportable segments, see Note 17, *Segment Information*.

*Medical Devices*

The Medical Devices segment principally generates revenue from the sale and lease of the LENSAR® Laser System, which may include equipment, PIDs or consumables, procedure licenses, training, installation, warranty and maintenance agreements.

For bundled packages, the Company accounts for individual products and services separately if they are distinct - i.e. if a product or service is separately identifiable from other items in the bundled package and if the customer can benefit from it on its own or with other resources that are readily available to the customer. The LENSAR® Laser System, standard warranty training and installation services are one performance obligation. All other elements are separate performance obligations. PIDs, procedure licenses, warranty and maintenance services are also sold on a stand-alone basis.

As the Company both sells and leases the LENSAR® Laser System, the consideration (including any discounts) is first allocated between lease and non-lease components and then allocated between the separate products and services based on their stand-alone selling prices. The stand-alone selling prices for the PIDs and procedure licenses are determined based on the prices at which the Company separately sells the PIDs and procedure licenses. The LENSAR® Laser System and warranty stand-alone selling prices are determined using the expected cost plus a margin approach.

For LENSAR® Laser System sales, the Company recognizes Product revenue when a customer takes possession of the system. This usually occurs after the customer signs a contract, LENSAR installs the system, and LENSAR performs the requisite training for use of the system. For LENSAR® Laser System leases, the Company recognizes Product revenue in accordance with ASC Topic 842, *Leases*. For additional information regarding accounting for leases, see Note 8, *Leases*.

The LENSAR® Laser System requires both a consumable and a procedure license to perform each procedure. The Company recognizes Product revenue for PIDs when the customer takes possession of the PID. PIDs are sold by the case. The Company recognizes Product revenue for procedure licenses when a customer purchases a procedure license from the web portal. Typically, consideration for PIDs and procedure licenses is considered fixed consideration except for certain customer agreements that provide for tiered volume discount pricing which is considered variable consideration.

The Company offers an extended warranty that provides additional services beyond the standard warranty. The Company recognizes Product revenue from the sale of extended warranties over the warranty period. Customers have the option of renewing the warranty period, which is considered a new and separate contract.

*Pharmaceutical*

The Company’s Pharmaceutical segment consists of revenue derived from the Noden Products. Noden’s revenue is included in (Loss) income from discontinued operations.

The Pharmaceutical segment principally generates revenue from products sold to wholesalers and distributors. Customer orders are generally fulfilled within a few days of receipt resulting in minimal order backlog. Contractual performance obligations are usually limited to transfer of the product to the customer. The transfer occurs either upon shipment or upon receipt of the product in certain countries outside the United States after considering when the customer obtains control of the product. In addition, in some countries outside of the United States, the Company sells product on a consignment basis where control is not transferred until the customer resells the product to an end user. At these points, customers are able to direct the use of and obtain substantially all of the remaining benefits of the product.

Sales to customers are initially invoiced at contractual list prices. Payment terms are typically 30 to 90 days based on customary practice in each country. Revenue is reduced from the list price at the time of recognition for expected chargebacks, discounts, rebates, sales allowances and product returns, which are collectively referred to as gross-to-net adjustments. These reductions are attributed to various commercial agreements, managed healthcare organizations and government programs such as Medicare, Medicaid, and the 340B Drug Pricing Program containing various pricing implications such as mandatory discounts, pricing protection below wholesaler list price and other discounts when Medicare Part D beneficiaries are in the coverage gap. These various reductions in the transaction price have been estimated using either a most likely amount, in the case of prompt pay discounts, or expected value method for all other variable consideration and have been reflected as liabilities and are settled through cash payments, typically within time periods ranging from a few months to one year. Significant judgment is required in estimating gross-to-net adjustments considering legal interpretations of applicable laws and regulations, historical experience, payer channel mix, current contract prices under applicable programs, unbilled claims, processing time lags and inventory levels in the distribution channel.

For licenses that are bundled with other promises, the Company utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, up-front license fees. The Company evaluates the measure of progress each reporting period and, if necessary, adjust the measure of performance and related revenue recognition.

*Disaggregation of Revenue*

The Company disaggregates its revenue from contracts with customers by segment and geographic location as the Company believes it best depicts how the nature, amount, timing and uncertainty of its revenue and cash flows are affected by economic factors. In the following table, revenue is disaggregated by segment and primary geographical market for the three months ended March 31, 2020 and 2019:

| | Three Months Ended March 31, 2020 | | Three Months Ended March 31, 2019 | |
|---|---|---|---|---|
| ***(in thousands)*** | **Medical Devices** | **Pharmaceutical [1]** | **Medical Devices** | **Pharmaceutical [1]** |
| **Primary geographical markets:** | | | | |
| North America | $ 2,718 | $ 4,186 | $ 2,084 | $ 12,138 |
| Europe | 923 | 5,759 | 1,017 | 5,582 |
| Asia | 1,120 | 5,086 | 2,269 | 2,241 |
| Other | 136 | — | 119 | — |
| Total revenue from contracts with customers [2] | $ 4,897 | $ 15,031 | $ 5,489 | $ 19,961 |

[1] The revenue from the Company's Pharmaceutical segment for the three months ended March 31, 2020 and 2019 is included in (Loss) income from discontinued operations. For additional information, see Note 2, *Discontinued Operations Classified as Assets held for sale.*

[2] The table above does not include lease revenue from the Company's Medical Devices segment for the three months ended March 31, 2020 and 2019, of $1.1 million and $1.2 million, respectively. For additional information, see Note 8, *Leases.*

*Contract Balances*

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

| ***(in thousands)*** | **March 31, 2020** | **December 31, 2019** |
|---|---|---|
| Receivables, net | $ 7,865 | $ 10,377 |
| Contract assets | $ 4,830 | $ 3,512 |
| Contract liabilities | $ 5,680 | $ 4,024 |

**Receivables, Net**—Receivables, net, include amounts billed and due from customers. The amounts due are stated at their net estimated realizable value and are classified as current or noncurrent based on the timing of when the Company expects to receive payment. The Company maintains an allowance for credit losses to provide for the estimated amount of receivables that will not be collected. The allowance is based upon an assessment of customer creditworthiness, historical payment experience, the age of outstanding receivables, collateral to the extent applicable and reflects the possible impact of current conditions and reasonable forecasts not already reflected in historical loss information. Receivables, net for our Pharmaceutical segment are classified as a current asset and included in Assets held for sale. See Note 2, *Discontinued Operations Classified as Assets Held for Sale*, for additional information.

**Contract Assets**—The Company's contract assets represent revenue recognized for performance obligations completed before an unconditional right to payment exists, and therefore invoicing or associated reporting from the customer regarding the computation of the net product sales has not yet occurred. The Company's contract assets are only attributable to the

Pharmaceutical segment, and as such classifies contract assets in Assets held for sale in the Company's Condensed Consolidated Balance Sheets.

| *(in thousands)* | Medical Devices | Pharmaceutical | Total |
|---|---|---|---|
| Contract assets at December 31, 2019 | $ — | $ 3,512 | $ 3,512 |
| Contract assets recognized | — | (2,341) | (2,341) |
| Payments received | — | 3,659 | 3,659 |
| Contract assets at March 31, 2020 | $ — | $ 4,830 | $ 4,830 |

**Contract Liabilities**—The Company's contract liabilities consist of deferred revenue for products sold to customers for which the performance obligation has not been completed by the Company. The Company classifies Medical Devices deferred revenue as current or noncurrent based on the timing of when it expects to recognize revenue. The noncurrent portion of deferred revenue is included in Other long-term liabilities in the Company's Condensed Consolidated Balance Sheets. The Pharmaceutical deferred revenue is classified as a current liability and included in Liabilities held for sale.

| *(in thousands)* | Medical Devices | Pharmaceutical | Total |
|---|---|---|---|
| Contract liabilities at December 31, 2019 | $ 1,075 | $ 2,949 | $ 4,024 |
| Contract liabilities recognized | 320 | 2,432 | 2,752 |
| Amounts recognized into revenue | (377) | (719) | (1,096) |
| Contract liabilities at March 31, 2020 | $ 1,018 | $ 4,662 | $ 5,680 |

*Transaction Price Allocated to Future Performance Obligations*

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the end of the reporting period.

| *(in thousands)* | Nine Months Ended December 31, 2020 | Thereafter | Total |
|---|---|---|---|
| Medical device sales | $ 4,416 | $ 6,542 | $ 10,958 |
| Pharmaceutical product sales | $ 287 | $ 3,443 | $ 3,730 |

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with original expected lengths of one year or less or (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for the products delivered or services performed.

**17. Segment Information**

Information regarding the Company's segments for the three months ended March 31, 2020 and 2019 is as follows:

*Revenues by segment*

| ***(in thousands)*** | **Three Months Ended March 31, 2020** | **2019** |
|---|---|---|
| Medical Devices | $ 5,985 | $ 6,726 |
| Strategic Positions | — | — |
| Pharmaceutical | — | — |
| Income Generating Assets | 10 | (30) |
| Total revenues | $ 5,995 | $ 6,696 |

The table above excludes revenues related to discontinued operations. See Note 2, *Discontinued Operations Classified as Assets Held for Sale*, for additional information.

*(Loss) income by segment*

| ***(in thousands)*** | **Three Months Ended March 31, 2020** | **2019** |
|---|---|---|
| Medical Devices | $ (2,111) | $ (1,215) |
| Strategic Positions | (10,900) | — |
| Pharmaceutical [(1)] | (2,067) | 5,645 |
| Income Generating Assets [(1)] | (16,645) | 2,250 |
| Net (loss) income attributable to PDL's shareholders | $ (31,723) | $ 6,680 |

[(1)] The (Loss) income by segment presented above includes amounts related to both continuing and discontinued operations. See Note 2, *Discontinued Operations Classified as Assets Held for Sale*, for additional information.

Information regarding the Company's segments as of March 31, 2020 and December 31, 2019 is as follows:

*Long-lived assets by segment*

| ***(in thousands)*** | **March 31, 2020** | **December 31, 2019** |
|---|---|---|
| Medical Devices | $ 3,172 | $ 2,435 |
| Strategic Positions | — | — |
| Pharmaceutical [(1)] | 2,908 | 2,960 |
| Income Generating Assets | 92 | 125 |
| Total long-lived assets [(1)] | $ 6,172 | $ 5,520 |

[(1)] The amounts above include Property and Equipment in the Pharmaceutical segment classified as Assets held for sale. See Note 2, *Discontinued Operations Classified as Assets Held for Sale*, for additional information.

The operations for the Medical Devices segment are primarily located in the United States and the operations for the Pharmaceutical segment are primarily located in Italy, Ireland and the United States.

**18. Concentration of Credit Risk**

***Product Line Concentration***

The percentage of total revenue recognized, which individually accounted for 10% or more of the Company's total revenues in one or more of the periods presented below, was as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2020 [1]** | **2019 [1]** |
| LENSAR | 100% | 100% |

[1] The amounts above exclude product sales in our Pharmaceutical segment and royalty rights in the Income Generating Assets segment, each of which is included in the Statements of Operations as (Loss) income from discontinued operations. See Note 2, *Discontinued Operations Classified as Assets Held for Sale*, for additional information.

**19. Income Taxes**

Income tax benefit from continuing operations for the three months ended March 31, 2020 and 2019, was $14.5 million and $0.8 million, respectively, which in the current period resulted primarily from anticipated use of Net Operating Loss carrybacks as allowed by the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. The Company's effective tax rate for the current period differs from the U.S. federal statutory rate of 21% due primarily to the effect of state income taxes, non-deductible executive compensation and the tax provisions of the CARES Act.

The uncertain tax positions did not change during the three months ended March 31, 2020 and 2019.

The Company's income tax returns are subject to examination by U.S. federal, foreign, state and local tax authorities for tax years 2000 forward. The Company is currently under audit by the California Franchise Tax Board (the "CFTB") for the tax years 2009 through 2015 and the Internal Revenue Service (the "IRS") for the tax year 2016. The timing of the resolutions to these audits and the amount to be ultimately paid, if any, is uncertain. The outcome of these audits could result in the payment of tax amounts that differ from the amounts the Company has reserved for uncertain tax positions for the periods under audit resulting in incremental expense or a reversal of the Company's reserves in a future period. At this time, the Company does not anticipate a material change in the unrecognized tax benefits related to the CFTB or IRS audits that would affect the effective tax rate or deferred tax assets over the next 12 months.

**20. Net (Loss) Income per Share**

| Net (Loss) Income per Basic and Diluted Share | Three Months Ended March 31, 2020 | 2019 |
|---|---|---|
| *(in thousands, except per share amounts)* | | |
| **Numerator** | | |
| Net loss from continuing operations | $ (31,767) | $ (8,452) |
| (Loss) income from discontinued operations | $ (244) | $ 15,069 |
| Net (loss) income attributable to PDL's shareholders used to compute net (loss) income per basic and diluted share | $ (31,723) | $ 6,680 |
| | | |
| **Denominator** | | |
| Total weighted-average shares used to compute net (loss) income attributable to PDL's shareholders, per basic share | 122,896 | 128,799 |
| Shares used to compute net (loss) income attributable to PDL's shareholders, per diluted share | 122,896 | 128,799 |
| | | |
| Net loss from continuing operations | $ (0.26) | $ (0.07) |
| Net (loss) income from discontinued operations | $ 0.00 | $ 0.12 |
| **Net (loss) income attributable to PDL's shareholders per share - basic** | $ (0.26) | $ 0.05 |
| Net loss from continuing operations | $ (0.26) | $ (0.07) |
| Net (loss) income from discontinued operations | $ 0.00 | $ 0.12 |
| **Net (loss) income attributable to PDL's shareholders per share - diluted** | $ (0.26) | $ 0.05 |

The Company computes net (loss) 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 (loss) income per diluted share include shares that may be issued pursuant to outstanding stock options and restricted stock awards in each case, on a weighted-average basis for the period they were outstanding, including, if applicable, the underlying shares using the treasury stock method.

The December 2021 Notes and the December 2024 Notes allow for the settlement entirely or partially in cash, and are accounted for under the treasury stock method. Under the treasury stock method, the shares issuable upon conversion of the notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the notes exceeds their principal amount. The effect of which, for diluted earnings per share purposes, is that only the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are included in the computation.

*December 2021 Notes and December 2024 Notes Capped Call Potential Dilution*

In November 2016, the Company issued $150.0 million in aggregate principal of the December 2021 Notes. The Company entered into an Exchange Transaction in September 2019 through which it exchanged a portion of the December 2021 Notes for the December 2024 Notes with a later maturity of December 2024. Both the notes that mature in December 2021 and those that mature in December 2024 provide in certain situations for the conversion of the outstanding principal amount into shares of the Company's common stock at a predefined conversion rate. In conjunction with the issuance of the December 2021 Notes and the issuance of the December 2024 Notes pursuant to the Exchange Transaction, the Company entered into capped call transactions with a hedge counterparty. The capped call transactions are expected generally to reduce the potential dilution, and/or offset, to an extent, the cash payments the Company may choose to make in excess of the principal amount, upon conversion of the December 2021 Notes or the December 2024 Notes. The Company has excluded the capped call transaction from the net (loss) income per diluted share computation as such securities would have an anti-dilutive effect and those securities should be considered separately rather than in the aggregate in determining whether their effect on net (loss) income per diluted share would be dilutive or anti-dilutive. For additional information regarding the conversion rates and the capped call transaction related to the Company's December 2021 Notes and December 2024 Notes, see Note 11, *Convertible Senior Notes*.

*Anti-Dilutive Effect of Restricted Stock Awards and Stock Options*

For the three months ended March 31, 2020 and 2019, the Company excluded approximately 0.1 million and 0.4 million shares underlying restricted stock awards, respectively, calculated on a weighted-average basis, from its net (loss) income per diluted share calculations because their effect was anti-dilutive.

For the three months ended March 31, 2020 and 2019, the Company excluded approximately 12.6 million and 7.8 million shares underlying outstanding stock options, respectively, calculated on a weighted-average basis, from its net (loss) income per diluted share calculations because their effect was anti-dilutive.

**21. Subsequent Events**

*Share Repurchase*

Subsequent to March 31, 2020, the Company repurchased approximately 4.1 million shares of its common stock at a weighted-average price of $3.11 per share for a total of $12.8 million. The common stock repurchased by the Company under the $275.0 million share repurchase program authorized by the Company's board of directors total approximately 10.4 million shares of its common stock for an aggregate purchase price of $33.1 million, or an average cost of $3.16 per share, including trading commissions.

*Evofem Share Distribution*

On May 5, 2020, the Company announced that the Board had approved a distribution of all of the Company's 13,333,334 shares of common stock of Evofem via a special one-time dividend to PDL's stockholders. The distribution by PDL of the Evofem shares will be made on May 21, 2020 to all PDL stockholders of record as of the close of business on May 15, 2020, subject to certain conditions.

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

*This Quarterly Report on Form 10-Q 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. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. 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. The forward-looking statements in this quarterly report are only predictions. Although we believe that the expectations presented in the forward-looking statements contained herein are reasonable at the time they were made, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct. These forward-looking statements, including with regards to our future financial condition and results of operations, are subject to inherent risks and uncertainties, including but not limited to the risk factors set forth below or incorporated by reference herein, and for the reasons described elsewhere in this Quarterly Report on Form 10-Q. All forward-looking statements and reasons why results may differ included in this Quarterly Report on Form 10-Q are made as of the date hereof. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.*

**OVERVIEW**

Throughout our history, our mission has been to improve the lives of patients by aiding in the successful development of innovative therapeutics and healthcare technologies. PDL BioPharma was founded in 1986 as Protein Design Labs, Inc. when it pioneered the humanization of monoclonal antibodies, enabling the discovery of a new generation of targeted treatments that have had a profound impact on patients living with different cancers as well as a variety of other debilitating diseases. In 2006, we changed our name to PDL BioPharma, Inc.

In September 2019, we engaged financial and legal advisors and initiated a review of our strategy. This review was completed in December 2019. At such time, we disclosed that we planned to halt the execution of our growth strategy, cease making additional strategic transactions and investments and pursue a formal process to unlock the value of our portfolio by monetizing our assets and ultimately distributing net proceeds to stockholders (the "monetization strategy"). Pursuant to our monetization strategy, we do not expect to enter into any additional strategic transactions or investments. We further announced in December 2019 that we would explore a variety of potential transactions in connection with the monetization strategy, including a sale of the Company, divestiture of our assets or businesses, a spin-off transaction, a merger or a combination thereof.

Over the subsequent months, our board of directors (the "Board") and management analyzed, together with our outside financial and legal advisors, how to best capture value pursuant to our monetization strategy and best return the significant intrinsic value of the assets in our portfolio to the stockholders. In March 2020, we announced that the Board approved a plan of complete liquidation (the "Plan of Liquidation") of our assets and passed a resolution to seek stockholder approval to dissolve the Company under Delaware law at its next annual meeting of the stockholders in the event that the Board concludes that a whole Company sale is unlikely to maximize the value that can be returned to the stockholders from our monetization process. We would, if approved by the stockholders, file a Certificate of Dissolution in Delaware and proceed to wind-down and dissolve the Company in accordance with Delaware law.

Pursuant to its monetization strategy, we are exploring a variety of potential transactions, including a whole Company sale, divestiture of assets, spin-offs of operating entities, merger opportunities or a combination thereof. In addition, we have analyzed, and continue to analyze, the optimal mechanisms for returning value to stockholders in a tax-efficient manner, including via share repurchases, cash dividends and other distributions of assets. We have not set a definitive timeline and intend to pursue monetization in a disciplined and cost-effective manner to maximize returns to stockholders. We recognize, however, that accelerating the timeline, while continuing to optimize asset value, could increase returns to stockholders due to reduced general and administrative expenses as well as provide faster returns to stockholders. While, as noted herein, we are cognizant that an accelerated timeline may provide greater and faster returns to our stockholders, we also recognize that the duration and extent of the public health issues related to the COVID-19 pandemic make it possible, and perhaps probable, that the timing of the sale of all or substantially all of the Company's assets, including the key assets, and therefore the timing of the Dissolution, may require additional time to execute. We will continue to assess the market for our assets so as to determine the appropriate time to sell each of the assets of the Company.

Historically, we generated a substantial portion of our revenues through the license agreements related to patents covering the humanization of antibodies, which we refer to as the Queen et al. patents. In 2012, we began providing alternative sources of capital through royalty monetization and debt facilities, and, in 2016, we began acquiring commercial-stage products and launching specialized companies dedicated to the commercialization of these products. In 2019, we entered into a securities purchase agreement with Evofem, pursuant to which we invested $60.0 million in a private placement of securities. These investments provided funding for Evofem's pre-commercial activities for Phexxi™, its investigational, non-hormonal, on-demand prescription contraceptive gel for women. To date, we have consummated eighteen transactions, the following ten of which are active and outstanding:

| Investment | Investment Type | Segment | Deployed Capital [4] *(in millions)* | |
|---|---|---|---|---|
| LENSAR, Inc. (“LENSAR”) | Converted equity and loan | Medical Devices | $ | 47.0 |
| Evofem | Equity | Strategic Positions | $ | 60.0 |
| Noden [1] | Equity and loan | Pharmaceutical | $ | 191.2 |
| CareView communications, Inc. (“CareView”) | Debt | Income Generating Assets | $ | 20.0 |
| Wellstat Diagnostics, LLC (“Wellstat Diagnostics”) [2] | Royalty/debt hybrid | Income Generating Assets | $ | 44.0 |
| Assertio Therapeutics, Inc. (“Assertio”) [3] | Royalty | Income Generating Assets | $ | 260.5 |
| The Regents of the University of Michigan (“U-M”) | Royalty | Income Generating Assets | $ | 65.6 |
| AcelRx Pharmaceuticals, Inc. (“AcelRx”) | Royalty | Income Generating Assets | $ | 65.0 |
| Viscogliosi Brothers, LLC (“VB”) | Royalty | Income Generating Assets | $ | 15.5 |
| KYBELLA | Royalty | Income Generating Assets | $ | 9.5 |

1 Noden Pharma DAC and Noden Pharma USA, Inc. (together, and including their respective subsidiaries, “Noden”)

2 Also known as Defined Diagnostic, LLC. The Wellstat Diagnostics investment also includes our note receivable with Hyperion Catalysis International, Inc. (“Hyperion”).

3 Formerly Depomed, Inc.

4 Excludes transaction costs.

Our Medical Devices segment consists of revenue derived from the sale and lease of the LENSAR® Laser System, which may include equipment, Patient Interface Devices (“PIDs”), procedure licenses, training, installation, warranty and maintenance agreements. Our Strategic Positions segment consists of an investment in Evofem. Our Evofem investment includes shares of common stock and warrants to purchase additional shares of common stock. Evofem is a pre-commercial company and, as such, is not yet engaged in revenue-generating activities. Our Pharmaceutical segment consists of revenue derived from branded prescription medicine products sold under the name Tekturna® and Tekturna HCT® in the United States, and Rasilez® and Rasilez HCT® in the rest of the world and revenue generated from the sale of an authorized generic of Tekturna in the United States (collectively, the “Noden Products”). Our Income Generating Assets segment consists of revenue derived from (i) notes and other long-term receivables, (ii) royalty rights and hybrid notes/royalty receivables, (iii) equity investments and (iv) royalties from issued patents in the United States and elsewhere covering the humanization of antibodies, which we refer to as the Queen et al. patents. As of March 31, 2020, the Pharmaceutical segment and the royalty right assets within the Income Generating Assets segment met the criteria to be classified as held for sale. Those investments are reported on the Condensed Consolidated Statement of Operations as discontinued operations and on the Condensed Consolidated Balance Sheets as Assets and Liabilities held for sale.

**Medical Devices**

*LENSAR*

LENSAR is a medical device company focused on delivering next generation femtosecond cataract laser technology used in refractive cataract surgical procedures. LENSAR’s femtosecond laser uses advanced imaging and laser technology to customize planning and treatments, allowing faster visual recovery and improved outcomes, as compared to conventional cataract surgery, a more manual procedure combined with ultrasound, referred to as phacoemulsification. LENSAR has developed the LENSAR® Laser System, which is the only femtosecond cataract laser built specifically for refractive cataract surgery. LENSAR has over 85 granted patents in the United States and the rest of the world and over 60 pending patent applications in the United States and rest of the world.

Cataract surgery is the highest volume surgical procedure performed worldwide with 30 million surgeries projected in 2020, the majority of which use conventional phacoemulsification techniques. LENSAR is currently focusing its research and development efforts on an advanced integrated workstation combining an enhanced LENSAR® Laser System and a phacoemulsification device in a single, compact workstation, designed to fit directly in the surgical theater. LENSAR’s recent acquisitions of certain intellectual property uniquely position LENSAR to develop a system that can perform all cataract surgeries in a single platform.

The LENSAR® Laser System offers cataract surgeons automation and customization for their astigmatism treatment planning and other essential steps of the refractive cataract surgery procedure with the highest levels of precision, accuracy, and efficiency. These features assist surgeons in managing their astigmatism treatment plans for optimal overall visual outcomes.

The LENSAR® Laser System has been cleared by the Food and Drug Administration ("FDA") for anterior capsulotomy, lens fragmentation, corneal and arcuate incisions. The LENSAR Laser with Augmented Reality™ provides an accurate 3-D model of the relevant anatomical features of each patient's anterior segment, allowing precise laser delivery and enhanced surgical confidence in performing accurate corneal incisions, precise size, shape and location of free-floating capsulotomies, and efficient lens fragmentation for all grades of cataracts. The LENSAR® Laser System - fs 3D (LLS-fs 3D) with Streamline™ includes the integration with multiple pre-operative diagnostic devices, utilizing automated Iris Registration with automatic cyclorotation adjustment. IntelliAxis-C™ (corneal) and IntelliAxis-L™ (lens capsule) markers provide the surgeon tools for simple and precise alignment without errors associated with manually transposing the preoperative data, and marking the eye for incisions and implantation of Toric IOLs as well as treatment planning tools for precision guided laser treatments. The corneal incision-only mode, expanded remote diagnostics capabilities, additional pre-programmable preferences, thoughtful ergonomics, and up to 20 seconds faster laser treatment times with Streamline™ allow for seamless integration and maximum surgical efficiency with patient comfort.

**Strategic Positions**

*Evofem*

We invested $60.0 million in Evofem in the second quarter of 2019, representing approximately a 27% ownership interest in the company as of March 31, 2020. The transaction was structured in two tranches. The first tranche comprised $30.0 million, which was funded on April 11, 2019. We invested an additional $30.0 million in a second tranche on June 10, 2019, alongside two existing Evofem shareholders, who each invested an additional $10.0 million. These investments provided funding for Evofem's pre-commercial activities for Phexxi™, its investigational, non-hormonal, on-demand prescription contraceptive gel for women. We believe this investment provided us the ability to take a significant position in a promising company at a critical stage of development where we could provide meaningful contributions through our capital and expertise.

Evofem is a clinical-stage biopharmaceutical company committed to developing and commercializing innovative products to address unmet needs in women's sexual and reproductive health. Evofem is leveraging its proprietary Multipurpose Vaginal pH Regulator (MVP-R™) platform to develop Phexxi™ (L-lactic acid, citric acid and potassium bitartrate) for hormone-free birth control. In 2015, Evofem submitted a New Drug Application ("NDA") for prevention of pregnancy to the FDA. In April 2016, the FDA issued a Complete Response Letter with respect to the NDA, citing certain clinical deficiencies. In the fourth quarter of 2019, Evofem resubmitted the NDA, which included results from a subsequent Phase 3 trial. In December 2019, the FDA acknowledged receipt of the NDA and assigned a six-month review period and a Prescription Drug User Fee Act goal date of May 25, 2020.

The MVP-R is also being studied for the prevention of urogenital transmission of chlamydia and gonorrhea in women. In December 2019, Evofem announced positive top-line results from AMPREVENCE, a Phase 2b clinical trial evaluating the efficacy and safety of its investigational MVP-R candidate, EVO100, for the prevention of urogenital transmission of chlamydia and gonorrhea in women. Further analysis is ongoing and final results are subject to change based on a comprehensive review by the company and the FDA.

**Pharmaceutical**

*Noden*

On July 1, 2016, our subsidiary, Noden Pharma DAC, entered into an asset purchase agreement ("Noden Purchase Agreement") whereby it purchased from Novartis Pharma AG ("Novartis") the exclusive worldwide rights to manufacture, market, and sell the Noden Products and certain related assets and assumed certain related liabilities (the "Noden Transaction"). Noden Pharma DAC and Noden Pharma USA, Inc., together, and including their respective subsidiaries represent deployed capital of $191.2 million.

Tekturna (or Rasilez outside of the United States) contains aliskiren, a direct renin inhibitor, for the treatment of hypertension. While indicated as a first line treatment, it is more commonly used as a third line treatment in those patients who are intolerant

of angiotensin-receptor blockers (“ARBs”) or angiotensin converting enzyme inhibitors (“ACEIs”). Studies indicate that approximately 12% of hypertension patients are ARB/ACEI intolerant. Tekturna and Rasilez are not indicated for use with ARBs and ACEIs in patients with diabetes or renal impairment and are contraindicated for use by pregnant women. In March 2019, we launched an authorized generic (“AG”) form of Tekturna, aliskiren hemifumarate 150 mg and 300 mg tablets with the same drug formulation as Tekturna. The AG is distributed by Prasco, LLC d/b/a Prasco Laboratories.

Tekturna HCT is a combination of aliskiren and hydrochlorothiazide, a diuretic, for the treatment of hypertension in patients not adequately controlled by monotherapy and as an initial therapy in patients likely to need multiple drugs to achieve their blood pressure goals. It is not indicated for use with ACEIs and ARBs in patient with diabetes or renal impairment, or for use in patients with known anuria or hypersensitivity to sulfonamide derived drugs and is contraindicated for use by pregnant women.

The Noden Products are protected by multiple patents worldwide, which specifically cover the composition of matter, the pharmaceutical formulations and methods of production. In the United States, the FDA Orange Book for Tekturna lists U.S. Patent No. 8,617,595, which covers certain compositions comprising aliskiren, together with other formulation components, and will expire on February 19, 2026. The FDA Orange Book for Tekturna HCT lists U.S. patent Nos. 8,618,172, which expires on July 13, 2028 and 9,023,893, which expires March 3, 2022, which patents cover certain compositions comprising aliskiren and hydrochlorothiazide, together with other formulation components. In Europe, European patent No. 678 503B (the “’503B Patent”) expired in 2015. However, numerous Supplementary Protection Certificates (“SPCs”) have been granted which are based on the ‘503B Patent and which provide for extended protection. These SPCs generally expire in April of 2020. European Patent Publication Number 2 305 232, which covers certain pharmaceutical compositions comprising aliskiren and HCT, will expire in December 2021.

**Income Generating Assets**

We have pursued income generating assets when such assets can be acquired on terms that we believe allow us to increase return to our stockholders. The income generating assets typically consist of (i) notes and other long-term receivables, (ii) royalty rights and hybrid notes/royalty receivables, (iii) equity investments and (iv) royalties from the Queen et. al patents. While we currently maintain a portfolio of income generating assets, our intention is to no longer pursue these transactions while we focus on our monetization strategy.

| Investment | Investment Type | Deployed Capital [3] *(in millions)* | |
|---|---|---|---|
| Assertio [1] | Royalty | $ | 260.5 |
| U-M | Royalty | $ | 65.6 |
| AcelRx | Royalty | $ | 65.0 |
| VB | Royalty | $ | 15.5 |
| KYBELLA® | Royalty | $ | 9.5 |
| CareView | Debt | $ | 20.0 |
| Wellstat Diagnostics [2] | Royalty/debt hybrid | $ | 44.0 |

(1) Formerly Depomed, Inc.

(2) Also known as Defined Diagnostic, LLC. The Wellstat Diagnostics investment also includes our note receivable with Hyperion Catalysis International, Inc. (“Hyperion”).

(3) Excludes transaction costs.

*Royalty Rights - At Fair Value*

We have entered into various royalty purchase agreements with counterparties, whereby the counterparty conveys to us the right to receive royalties that are typically payable on sales revenue generated by the sale, distribution or other use of the counterparties’ products.

Our royalty rights are classified as held for sale. We record the royalty rights at fair value using discounted cash flows related to the expected future cash flows to be received less estimated selling costs. We use significant judgment in determining our valuation inputs, including estimates as to the probability and timing of future sales of the licensed product. A third-party expert is generally engaged to assist us with the development of our estimate of the expected future cash flows. The estimated fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. At each reporting period, an evaluation is performed to assess those estimates, discount rates utilized and general market conditions affecting fair market value.

At March 31, 2020, we had a total of five royalty rights transactions outstanding.

*Notes and Other Long-Term Receivables*

We have entered into credit agreements with borrowers across the healthcare industry, under which we made available cash loans to be used by the borrower. Obligations under these credit agreements are typically secured by a pledge of substantially all the assets of the borrower and any of its subsidiaries. At March 31, 2020, we had two note receivable transactions outstanding.

*Equity Investments*

In the past, we have received equity instruments, including shares of stock or warrants to acquire shares of stock, in connection with credit agreements we entered into with borrowers in the healthcare industry. Our investment objective with respect to these equity investments is to maximize our return through capital appreciation and, when appropriate, to capture the value through optimally timed exit strategies. At March 31, 2020, we had one equity investment outstanding.

*Royalties from Queen et al. patents and know-how*

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 was in December 2014, covered, among other things, humanized antibodies, methods for humanizing antibodies, polynucleotide encoding in humanized antibodies and methods of producing humanized antibodies.

We previously entered into licensing agreements under our Queen et al. patents with numerous entities that are independently developing or have developed humanized antibodies. Under our licensing agreements, we are entitled to receive a flat-rate royalty based upon our licensees' net sales of covered antibodies, although the royalties under these agreements have substantially ended.

Solanezumab is a Lilly-licensed humanized monoclonal antibody being tested in a study of older individuals who may be at risk of memory loss and cognitive decline due to Alzheimer's disease. Lilly has characterized the study as an assessment of whether an anti-amyloid investigational drug in older individuals who do not yet show symptoms of Alzheimer's disease cognitive impairment or dementia can slow memory loss and cognitive decline. The study will also test whether solanezumab treatment can delay the progression of Alzheimer's disease related brain injury on imaging and other biomarkers. If solanezumab is approved and commercialized pursuant to this clinical trial or another, we would be entitled to receive a royalty based on a "know-how" license for technology provided in the design of this antibody. The 2% royalty on net sales is payable for 12.5 years after the product's first commercial sale. The above described study is currently in Phase 3 testing with results expected in July of 2022.

**Economic and Industry-wide Factors**

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

On March 11, 2020, the World Health Organization declared a global pandemic, as the outbreak of a novel strain of coronavirus spread throughout the world. The outbreak of COVID-19 has disrupted our business operations and has adversely impacted LENSAR. Actions taken to mitigate coronavirus have had and are expected to continue to have an adverse impact on the geographical areas in which LENSAR operates. Cataract surgery is typically considered an elective surgery and as such the majority of LENSAR's customers are not utilizing the LENSAR Laser Systems as they normally would at this time. LENSAR has also experienced minor supply chain disruptions. It is unclear at this time how severely our LENSAR and our other businesses may be impacted in the future.

The Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law at the end of March 2020 and contains numerous forms of economic stimulus, including SBA guaranteed loans and certain income tax provisions. The tax provisions of the CARES Act, among other things, allows for a five year carryback of net operating losses for tax years 2018-2020.

See also the risk factors included herein in "Item 1A. Risk Factors" and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and in subsequent filings for additional factors that may impact our business and results of operations.

**Critical Accounting Policies and Use of Estimates**

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which we have prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and the disclosure of contingent assets and liabilities in our financial statements. The accounting estimates that require management's most significant, difficult and subjective judgments include the valuation of royalty rights - at fair value, assets and liabilities held for sale, product revenue recognition and allowance for customer rebates and allowances, the valuation of notes receivable and inventory, the assessment of recoverability of intangible assets and their estimated useful lives, the valuation and recognition of stock-based compensation, the recognition and measurement of current and deferred income tax assets and liabilities, and the valuation of warrants to acquire shares of common stock. Furthermore, the impact on accounting estimates and judgments on the Company's financial condition and results of operations due to COVID-19 has introduced additional uncertainties. We base our estimates, where possible, on our historical experience, known trends and events and various other factors that we believe are reasonable under the circumstances, which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

During the three months ended March 31, 2020, we reclassified our Pharmaceutical segment and the royalty right assets within the Income Generating Assets segment to assets held for sale. Assets and liabilities are classified as held for sale when all of the following criteria for a plan of sale have been met: (1) management, having the authority to approve the action, commits to a plan to sell the assets; (2) the assets are available for immediate sale, in their present condition, subject only to terms that are usual and customary for sales of such assets; (3) an active program to locate a buyer and other actions required to complete the plan to sell the assets have been initiated; (4) the sale of the assets is probable and is expected to be completed within one year; (5) the assets are being actively marketed for a price that is reasonable in relation to their current fair value; and (6) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or the plan will be withdrawn. When all of these criteria have been met, the assets (and liabilities) are classified as held for sale in the balance sheet for the current and comparative reporting periods. Assets classified as held for sale are reported at the lower of their carrying value or fair value less costs to sell. Depreciation and amortization of assets ceases upon designation as held for sale. The assets and liabilities held for sale are recorded on our Condensed Consolidated Balance Sheets as Assets held for sale and Liabilities held for sale, respectively. The profits and losses are presented on the Condensed Consolidated Statements of Operations as discontinued operations for the current and prior periods.

During the three months ended March 31, 2020, there have not been any other significant changes to our critical accounting policies and estimates from those presented in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, that are of significance, or potential significance, to us. Summarized below are the accounting pronouncements and policies adopted subsequent to December 31, 2019.

**Adopted Accounting Pronouncements**

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The new guidance amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in more timely recognition of losses. The Company adopted ASU No. 2016-13 on January 1, 2020 using a modified retrospective approach. The adoption of this standard did not have a material impact on the Company's consolidated financial statements. As a consequence of adopting ASU 2016-13, the Company's accounts receivable accounting policy has been updated, as follows:

*Accounts and Notes Receivable*

The Company makes estimates of the collectability of accounts receivable. In doing so, the Company analyzes historical bad debt trends, customer credit worthiness, current economic trends and changes in customer payment patterns when evaluating the adequacy of the allowance for credit losses. Amounts are charged off against the allowance for credit losses when the Company determines that recovery is unlikely and the Company ceases collection efforts. The Company applies the practical expedient for its collateral-dependent notes receivable. Estimated credit losses are based on the fair value of the collateral (less costs to sell, as applicable).

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement*. The new guidance modifies disclosure requirements related to fair value measurement. The Company adopted ASU No. 2018-13 on January 1, 2020. The adoption did not have an effect on the Consolidated Financial Statements on the adoption date and no adjustment to prior year Consolidated Financial Statements was required.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software*. The new guidance reduces complexity for the accounting for costs of implementing a cloud computing service arrangement and aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The Company adopted ASU No. 2018-15 on January 1, 2020 using the prospective transition option. The adoption did not have an effect on the Consolidated Financial Statements on the adoption date and no adjustment to prior year Consolidated Financial Statements was required.

**Recently Issued Accounting Pronouncements**

In December 2019, the FASB issued ASU 2019-12, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. For public companies, the amendments in ASU No. 2019-12 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of this guidance on its Consolidated Financial Statements.

**Operating Results**

As noted above, during the three months ended March 31, 2020, we reclassified our Pharmaceutical segment and the royalty right assets within the Income Generating Assets segment to assets held for sale. When the held for sale criteria have been met, depreciation and amortization of those assets is suspended and the profits and losses are presented on the Condensed Consolidated Statements of Operations as discontinued operations. The operating results presented below are segregated between continuing operations and discontinued operations. Results from the prior year comparative period are classified consistently with the current year presentation.

*Three months ended March 31, 2020, compared to three months ended March 31, 2019*

***Revenues***

| *(dollars in thousands)* | Three Months Ended March 31, 2020 | 2019 | Change from Prior Year % |
|---|---|---|---|
| Revenues | | | |
| Product revenue, net[1] | $ 5,985 | $ 6,726 | (11%) |
| Royalties from Queen et al. patents | — | 3 | *N/M* |
| License and other | 10 | (33) | (130%) |
| Total revenues | $ 5,995 | $ 6,696 | (10%) |

*N/M* Not meaningful

[1] Our Product revenue, net consists entirely of revenue from our Medical Devices segment. We record Product revenue from our Medical Devices segment from our LENSAR product sales which include LENSAR® Laser Systems, disposable consumables, procedures, training, installation, warranty and maintenance services.

Product sales for our Pharmaceutical segment are included in (Loss) income from discontinued operations and are net of estimated product returns, pricing discounts, including rebates offered pursuant to mandatory federal and state government programs, chargebacks, prompt pay discounts, distribution fees and co-pay assistance for product sales each period. See Note 2, *Discontinued Operations Classified as Assets Held for Sale*, for additional information on our Pharmaceutical product sales.

*Three Months Ended March 31, 2020*

Total revenues were $6.0 million for the three months ended March 31, 2020, compared with $6.7 million for the three months ended March 31, 2019. Our total revenues decreased by 10%, or $0.7 million, for the three months ended March 31, 2020, when compared to the same period of 2019. The decrease was driven by the estimated negative impact of the COVID-19 pandemic and the associated deferral of elective surgical procedures in both North America and the rest of the world.

***Operating Expenses***

| *(dollars in thousands)* | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 | Change from Prior Year % |
|---|---|---|---|
| Cost of product revenue, (excluding intangible amortization) | $ 2,860 | $ 3,800 | (25)% |
| Amortization of intangible assets | 302 | 318 | (5)% |
| General and administrative | 12,869 | 8,313 | 55% |
| Severance and retention | 18,734 | — | *N/M* |
| Sales and marketing | 1,250 | 1,574 | (21)% |
| Research and development | 1,856 | 910 | 104% |
| Total operating expenses | $ 37,871 | $ 14,915 | 154% |
| Percentage of total revenues | 632% | 223% | |

*N/M* Not meaningful

*Three Months Ended March 31, 2020*

Total operating expenses were $37.9 million for the three months ended March 31, 2020, compared with $14.9 million for the three months ended March 31, 2019. Our operating expenses increased 154%, or $23.0 million, for the three month period ended March 31, 2020, when compared to the three month period ended March 31, 2019. The increase was primarily a result of provisions under our Wind-Down Retention Plan.

After we announced our monetization strategy, we recognized that our ability to execute on our plan and optimize returns to its shareholders depended to a large extent on our ability to retain the necessary expertise to effectively transact with respect to our assets. On December 21, 2019, the Compensation Committee of the Board adopted the Wind Down Retention Plan in which our executive officers and other employees who are participants in our Severance Plan are eligible to participate. Under the Wind Down Retention Plan, participants are eligible to earn a retention benefit in consideration for their continued employment with the Company. The Wind Down Retention benefits are equivalent to previously disclosed compensation payments contemplated in connection with a change in control under our existing Severance Plan. Under the Wind Down Retention Plan, payment of the retention benefit to any participant will occur upon termination of the participant's employment with the Company either by the Company without cause or by the participant for good reason. The retention benefit, if paid, would be in lieu of (and not in addition to) any other severance compensation that could become payable to the participant under our Severance Plan. In connection with the adoption of the Wind Down Retention Plan, a severance liability is being recorded over the remaining service period for the participating employees. As of March 31, 2020, we recorded a severance liability of $3.0 million. Expenses associated with severance payments and accruals are reflected in Severance and retention.

The Wind Down Retention Plan also provides that, consistent with the existing terms of the our Amended and Restated 2005 Equity Incentive Plan (the "Equity Plan"), the vesting of all outstanding equity awards held by participants as of the date the Wind Down Retention Plan was adopted will be accelerated upon the earlier of: (i) a termination of the participant's employment with the Company either by the Company without cause or by the participant for good reason or (ii) the consummation of a change in control (as defined in the Equity Plan) of the Company. In addition, the post-termination exercise period for all outstanding stock options will be extended until their expiration date. In the first quarter of 2020, in connection with the Board adopting the Plan of Liquidation all of the stock options and restricted stock granted to our employees, executive officers and directors accelerated and vested under the change in control definition in the Equity Plan, other than certain outstanding awards under the 2016/20 Long-Term Incentive Plan. The expense associated with the accelerated vesting, totaled $15.7 million and is also reflected in Severance and retention.

General and administrative expenses for the three months ended March 31, 2020 and 2019 are summarized in the table below:

| | Three Months Ended March 31, 2020 | | | Three Months Ended March 31, 2019 | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | Medical Devices | Income Generating Assets | Total | Medical Devices | Income Generating Assets | Total |
| Compensation | $ 983 | $ 23,807 | $ 24,790 | $ 956 | $ 3,448 | $ 4,404 |
| *Salaries and Wages (including taxes)* | *615* | *2,219* | *2,834* | *519* | *1,647* | *2,166* |
| *Bonuses (including accruals)* | *284* | *840* | *1,124* | *323* | *705* | *1,028* |
| *Severance and retention* | *—* | *18,734* | *18,734* | *—* | *—* | *—* |
| *Equity* | *84* | *2,014* | *2,098* | *114* | *1,096* | *1,210* |
| Asset management | — | 1,978 | 1,978 | — | 450 | 450 |
| Business development | — | (62) | (62) | — | 129 | 129 |
| Accounting and tax services | 555 | 1,180 | 1,735 | 3 | 969 | 972 |
| Other professional services | 116 | 1,516 | 1,632 | 274 | 341 | 615 |
| Other | 516 | 1,014 | 1,530 | 583 | 1,160 | 1,743 |
| Total general and administrative[1] | $ 2,170 | $ 29,433 | $ 31,603 | $ 1,816 | $ 6,497 | $ 8,313 |

[1] No general and administrative operating expenses were attributable to the Pharmaceutical or Strategic Positions segments for the three months ended March 31, 2020 or 2019. See *Assets held for sale and discontinued Operations* below, for additional information on our Pharmaceutical segment.

***Non-operating Expense, Net***

| *(dollars in thousands)* | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 | Change from Prior Year % |
|---|---|---|---|
| Interest and other income, net | $ 513 | $ 1,874 | (73%) |
| Interest expense | (474) | (2,955) | (84%) |
| Equity affiliate - change in fair value | (13,797) | — | *N/M* |
| Loss on extinguishment of convertible notes | (606) | — | *N/M* |
| Total non-operating expense, net | $ (14,364) | $ (1,081) | 1,229% |

*N/M* Not meaningful

*Three Months Ended March 31, 2020*

Non-operating expense, net, increased for the three months ended March 31, 2020, as compared to the same period in 2019, primarily due to a decline in the fair value of our investment in Evofem. In addition, we recorded a Loss on the extinguishment of our convertible notes and a decrease in Interest and other income due to lower cash balances in the current period. These were partially offset by lower interest expense in conjunction with the extinguishment of a substantial portion of our convertible notes.

Evofem's stock price declined from December 31, 2019 to end the quarter at $5.32 per share as of March 31, 2020. We acquired our shares of common stock for $4.50 per share and were also issued warrants to purchase additional shares of Evofem.

***Income Taxes***

Income tax benefit from continuing operations for the three months ended March 31, 2020 and 2019, was $14.5 million and $0.8 million, respectively, which resulted primarily from anticipated use of Net Operating Loss carrybacks as allowed by the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. Our effective tax rate for the current period differs from the

U.S. federal statutory rate of 21% due primarily to the effect of state income taxes, non-deductible executive compensation and the foreign tax rate differential associated with our operations of Noden DAC in Ireland.

The uncertain tax positions did not change during the three months ended March 31, 2020 and 2019.

Our income tax returns are subject to examination by U.S. federal, foreign, state and local tax authorities for tax years 2000 forward. We are currently under audit by the California Franchise Tax Board (the "CFTB") for the tax years 2009 through 2015 and the Internal Revenue Service (the "IRS") for the tax year 2016. The timing of the audit resolution and the amount to be ultimately paid, if any, is uncertain. The outcome of these audits could result in the payment of tax amounts that differ from the amounts we have reserved for uncertain tax positions for the periods under audit resulting in incremental expense or a reversal of the reserves in a future period. At this time, we do not anticipate a material change in the unrecognized tax benefits related to the CFTB or IRS audits that would affect the effective tax rate or deferred tax assets over the next 12 months.

***Assets held for sale and discontinued operations***

The Pharmaceutical segment and the royalty right assets in the Income Generating Assets segment have been classified as held for sale and reported as discontinued operations. The operating results from discontinued operations are presented separately in the Company's Condensed Consolidated statements of Operations as discontinued operations. Components of amounts reflected in (Loss) income from discontinued operations are as follows (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Revenues** | | |
| Product revenue, net | $ 15,031 | $ 19,961 |
| Royalty rights - change in fair value | 9,394 | 12,257 |
| Total revenues | 24,425 | 32,218 |
| **Operating expenses** | | |
| Cost of product revenue (excluding intangible asset amortization) | 8,781 | 9,010 |
| Amortization of intangible assets | 389 | 1,253 |
| General and administrative | 2,302 | 2,151 |
| Sales and marketing | 117 | 1,156 |
| Research and development | — | (41) |
| Total operating expenses | 11,589 | 13,529 |
| **Operating income from discontinued operations** | 12,836 | 18,689 |
| **Non-operating (expense) income, net** | | |
| Loss on classification as held for sale | (12,761) | — |
| Total non-operating (expense) income, net | (12,761) | — |
| Income from discontinued operations before income taxes | 75 | 18,689 |
| Income tax expense from discontinued operations | 319 | 3,620 |
| **(Loss) income from discontinued operations** | $ (244) | $ 15,069 |

Revenue from our Pharmaceutical segment for the three months ended March 31, 2020 was $15.0 million, a decrease of 25%, compared to the same period in the prior year. The decrease in revenue from our Pharmaceutical segment is primarily due to lower net revenues in the United States partially offset by an increase the rest of the world. The decrease in revenue from our Pharmaceutical segment in the United States for the three months ended March 31, 2020 is due to the increased sales of our authorized generic and lower sales of our branded drug as compared to the first quarter of 2019. The increase in revenue for the rest of the world is due to higher sales volume of Rasilez in certain territories. This decrease in revenue was accompanied by a 3% decrease in cost of goods sold, compared to the prior year. This smaller decrease in cost of goods sold as compared to revenue is due to the higher percentage of authorized generic sales in the current period. Sales and marketing expenses have

decreased substantially while the portion of general and administrative expenses attributable to the Pharmaceutical segment were relatively unchanged. Amortization of intangible assets expense decreased after Noden's intangible assets were impaired at December 31, 2019, resulting in lower amortization.

The royalty right assets in our Income Generating Assets segment generated cash flows of $13.6 million and a net change in fair value of $9.4 million in the three months ended March 31, 2020 compared to cash flows of $12.6 million and a net change in fair value of $12.3 million in the three month period ended March 31, 2019.

During the three months ended March 31, 2020 we recorded a loss upon classification as held for sale of $12.8 million. Of this amount $7.9 million relates to the estimated costs to sell the royalty assets and Noden and $4.9 million represents the fair value adjustment to Noden upon classification as held for sale.

The following tables provides a summary of activity with respect to our royalty rights - change in fair value for the three months ended March 31, 2020 and 2019:

| | Three Months Ended March 31, 2020 | | |
|---|---|---|---|
| ***(in thousands)*** | **Cash Royalties** | **Change in Fair Value** | **Royalty Rights - Change in Fair Value** |
| Assertio | $ 11,177 | $ (3,161) | $ 8,016 |
| VB | 266 | 206 | 472 |
| U-M | 2,005 | (1,391) | 614 |
| AcelRx | 79 | 200 | 279 |
| KYBELLA | 42 | (29) | 13 |
| Total | $ 13,569 | $ (4,175) | $ 9,394 |

| | Three Months Ended March 31, 2019 | | |
|---|---|---|---|
| ***(in thousands)*** | **Cash Royalties** | **Change in Fair Value** | **Royalty Rights - Change in Fair Value** |
| Assertio | $ 10,968 | $ (552) | $ 10,416 |
| VB | 267 | 128 | 395 |
| U-M | 1,267 | (536) | 731 |
| AcelRx | 68 | 2,088 | 2,156 |
| KYBELLA | 50 | (1,491) | (1,441) |
| Total | $ 12,620 | $ (363) | $ 12,257 |

***Net (Loss) Income Per Share***

Net (loss) income per share for the three months ended March 31, 2020 and 2019, is presented below:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| Net (loss) income from continuing operations | $ (0.26) | $ (0.07) |
| Net (loss) income from discontinued operations | $ 0.00 | $ 0.12 |
| **Net (loss) income per share - basic** | $ (0.26) | $ 0.05 |
| Net (loss) income from continuing operations | $ (0.26) | $ (0.07) |
| Net (loss) income from discontinued operations | $ 0.00 | $ 0.12 |
| **Net (loss) income per share - diluted** | $ (0.26) | $ 0.05 |

Weighted-average basic and diluted shares used in the computation of Net (loss) income per share are as follows (in thousands):

| | Three Months Ended March 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Basic** | 122,896 | 128,799 |
| **Diluted** | 122,896 | 128,799 |

**Liquidity and Capital Resources**

We have previously financed our operations primarily through royalty and other license-related revenues, public and private placements of debt and equity securities, interest income on invested capital and cash generated from pharmaceutical and medical device product sales. We plan to continue to finance our operations in the near term primarily through royalty revenues and cash generated from product sales.

In September 2019, we engaged financial and legal advisors and initiated a review of our strategy. In December 2019, we disclosed that we planned to halt the execution of our growth strategy, cease making additional strategic transactions and investments and pursue a formal process to unlock the value of our portfolio by monetizing our assets and ultimately returning net proceeds to our stockholders. Over the subsequent months, our Board and management analyzed, together with its outside financial and legal advisors, how to best capture value pursuant to its monetization strategy and best return the significant intrinsic value of the assets in its portfolio to the stockholders. In March 2020, we announced our Board approved the Plan of Liquidation of our assets and passed a resolution to seek stockholder approval to dissolve the Company under Delaware law at its next annual meeting of the stockholders in the event that our Board concludes that a whole Company sale is unlikely to maximize the value that can be returned to the stockholders from our monetization process. We would, if approved by the stockholders, file a certificate of dissolution in Delaware and proceed to wind-down and dissolve the Company in accordance with Delaware law. Pursuant to its monetization strategy, we are exploring a variety of potential transactions, including a whole Company sale, divestiture of assets, spin-offs of operating entities, merger opportunities or a combination thereof. In addition, we have analyzed, and continue to analyze, the optimal mechanisms for returning value to stockholders in a tax-efficient manner, including via share repurchases, cash dividends and other distributions of assets. We have not set a definitive timeline and intend to pursue monetization in a disciplined and cost-effective manner to maximize returns to stockholders. We recognize, however, that accelerating the timeline, while continuing to optimize asset value, could increase returns to stockholders due to reduced general and administrative expenses as well as provide faster returns to stockholders. While we are cognizant that an accelerated timeline may provide greater and faster returns to our stockholders, we also recognize that the duration and extent of the public health issues related to the COVID-19 pandemic make it possible, and perhaps probable, that the timing of the sale of all or substantially all of the our assets, including the key assets, and therefore the timing of the Dissolution, may require additional time to execute .

As a result of this monetization strategy, we expect to generate additional cash from the sale of one or more of the assets in our portfolio with the intention of managing the successful wind down of our business and distributing the remaining net proceeds to our stockholders.

Our future capital requirements are difficult to forecast and will depend upon many factors, including the type of distributions we make, the amount of net cash proceeds we receive, after transaction costs, and the time it takes to monetize our assets. Our future capital requirements will also depend on the amount of common stock and convertible notes we repurchase under our repurchase program, both of which we expect to pursue as part of our monetization strategy.

The general cash needs of our Medical Devices, Strategic Positions, Pharmaceutical and Income Generating Assets segments can vary significantly.

- In our Medical Devices segment, the primary factor determining cash needs is the funding of operations, which we expect to continue to expand as the business grows, and enhancing our product offerings through the research and development of our next generation device which will integrate a femtosecond laser and a phacoemulsification system in a single, compact workstation.
- In our Pharmaceutical segment, cash needs tend to be driven primarily by material purchases.
- The cash needs of our Income Generating Assets segment tend to be driven by legal and professional service fees required for operating a publicly traded company, as well as the funding of potential repurchases of our common stock and convertible notes.
- The current cash needs for our Strategic Positions segment are insignificant.

On December 9, 2019, we announced that our Board authorized the repurchase of issued and outstanding shares of our common stock and convertible notes up to an aggregate value of $200.0 million pursuant to a share repurchase program. On December 16, 2019, we announced that our Board approved a $75.0 million increase to this repurchase program. Repurchases under the new repurchase program will be made from time to time in the open market or in privately negotiated transactions and funded from our working capital. The amount and timing of such repurchases will depend upon the price and availability of shares or convertible notes, general market conditions and the availability of cash. Common stock and convertible note repurchases may also be made under a trading plan under Rule 10b5-1, which would permit shares and convertible notes to be repurchased when we might otherwise be precluded from doing so because of self-imposed trading blackout periods or other regulatory restrictions. All shares of common stock repurchased under our repurchase program are expected to be retired and restored to authorized but unissued shares of common stock. All convertible notes repurchased under the program will be retired.

As of March 31, 2020, we had repurchased $50.2 million in aggregate principal amount of December 2021 Notes and $85.0 million in aggregate principal amount of December 2024 Notes under the Board authorized program. As of March 31, 2020 approximately $14.8 million in aggregate principal amount of the convertible notes remain outstanding. Pursuant to the convertible note repurchase transactions and the unwinding of a portion of the capped call transaction entered into for the notes, we also repurchased 3.2 million shares of our common stock under this program directly from our capped call counterparty. We repurchased 6.3 million shares of its common stock under this repurchase program during the three months ended March 31, 2020, for an aggregate purchase price of $20.3 million, or an average cost of $3.20 per share, including trading commissions. This repurchase program may be suspended at any time without notice.

Our debt service obligations consist of interest payments and repayment of the remaining amount of our December 2021 Notes and December 2024 Notes. We may continue our efforts to repurchase the remaining outstanding convertible notes, which could adversely affect the amount or timing of any distributions to our stockholders. We expect to finance such repurchases with cash on hand.

We had cash and cash equivalents in the aggregate of $125.5 million and $169.0 million as of March 31, 2020 and December 31, 2019, respectively, representing a decrease of $43.5 million. The decrease was primarily attributable to:

- the repurchase of common stock for $19.2 million,
- the net cash used for the repurchase of our convertible notes of $18.0 million, and
- cash used for operating activities of $15.3 million, partially offset by
- proceeds from royalty right payments of $13.6 million.

We believe that cash on hand and cash generated from future revenues and from asset sales, net of operating expenses, debt service and income taxes, will be sufficient to fund our operations until all net proceeds are distributed to our stockholders. Our continued success is dependent on our ability to execute on our planned strategy to monetize our assets, in order to return capital to our stockholders and service our remaining debt.

In addition, we have cash and cash equivalents at our Pharmaceutical segment of $21.3 million and $24.5 million as of March 31, 2020 and December 31, 2019, respectively, which we believe is sufficient to fund operations and meet our contractual inventory commitment for the foreseeable future.

***Off-Balance Sheet Arrangements***

As of March 31, 2020, we did not have any off-balance sheet arrangements, as defined under SEC Regulation S-K Item 303(a)(4)(ii).

**Contractual Obligations**

*Convertible Senior Notes*

As of March 31, 2020, our outstanding notes consisted of our December 2021 Notes and December 2024 Notes, which in the aggregate totaled $14.8 million in principal.

We expect that our debt service obligations over the next several years will consist of interest payments and the repurchase or repayment of our December 2021 Notes and December 2024 Notes. We have actively repurchased the convertible senior notes in privately negotiated transactions and in the open market using cash on hand.

**Guarantees**

*Redwood City Lease Guarantee*

In connection with the spin-off of Facet Biotech Corporation (“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. In April 2010, Abbott Laboratories acquired Facet and later renamed the entity AbbVie Biotherapeutics, Inc. (“AbbVie”). If AbbVie were to default under its lease obligations, we could be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of March 31, 2020, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $19.7 million. For additional information regarding our lease guarantee, see Note 13, *Commitments and Contingencies*.

**Purchase Obligation**

Noden DAC and Novartis entered into a supply agreement pursuant to which Novartis will manufacture and supply to Noden DAC a bulk tableted form of the Noden Products and the active pharmaceutical ingredient (“API”). In May 2019, Noden DAC and Novartis entered into an amended supply agreement pursuant to which Novartis will supply to Noden DAC a bulk tableted form of the Noden Products through 2020 and API through June 2021. The supply agreement may be terminated by either party for material breach that remains uncured for a specified time period. Under the terms of the amended supply agreement, Noden DAC is committed to purchase certain quantities of bulk product and API that would amount to approximately $55.7 million through June 2021, of which $43.1 million is committed over the next twelve months, which are guaranteed by the Company. While the supply agreement provides that the parties will agree to reasonable accommodations with respect to changes in firm orders, we expect that Noden DAC will meet the requirements of the supply agreement, unless otherwise negotiated.

LENSAR entered into various supply agreements for the manufacture and supply of certain components. The supply agreement commits LENSAR to a minimum purchase obligation of approximately $8.0 million over the next twelve months, a portion of which is guaranteed by the Company. We expect that LENSAR will meet this requirement.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As of March 31, 2020, there have been no material changes in our market risk from that described in “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

## ITEM 4. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

The Company's management has evaluated, with the participation of the chief executive officer and the chief financial officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on this evaluation, management concluded that the Company's disclosure controls and procedures were effective as of March 31, 2020.

### Changes in Internal Control over Financial Reporting

During the quarter ended March 31, 2020, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The information set forth in Note 13, *Commitments and Contingencies*, to our Notes to Condensed Consolidated Financial Statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q is incorporated by reference herein.

*Class Action Antitrust Lawsuit*

On September 18, 2019, the City of Providence filed a civil antitrust suit on behalf of a putative class of payors in the Northern District of California against Bausch Health Companies, Inc., Salix Pharmaceuticals, Inc., Santarus, Inc., Assertio Therapeutics, Inc., Lupin Pharmaceuticals, Inc. and the Company, inter alia, alleging that a patent settlement agreement between Assertio and Lupin unlawfully restrained competition in an alleged market for Glumetza and its AB-rated generic equivalents sold in the United States. The plaintiffs claim that the settlement agreement violated the federal Sherman Act and various state antitrust laws. The Company was a named defendant by certain End Payor Plaintiffs ("EPPs") due to its purchase from Assertio in 2013 of a royalty asset based on sales of Glumetza. On January 21, 2020, the EPPs voluntarily dismissed their claims against the Company, without prejudice. The Company has agreed to toll the running of statute of limitations for a limited period of time and to respond to certain discovery requests, subject to reasonable objections.

### ITEM 1A. RISK FACTORS

Except for the additional risk factor set forth below, there have been no material changes to the risk factors included in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

In December 2019, a novel strain of coronavirus, COVID-19, was identified in Wuhan, China. This virus continues to spread globally and has spread to nearly every country and region in the world, including those in which we and our subsidiaries operate. The outbreak and government measures taken in response have also had a significant impact, both direct and indirect, on businesses and commerce, as worker shortages have occurred; supply chains have been disrupted; facilities and production have been suspended; and demand for certain goods and services, such as medical services and supplies, has spiked, while demand for other goods and services, such as travel, has fallen. In response to the growing spread of COVID-19 globally, we have closed our executive offices with our employees continuing their work remotely. As the COVID-19 pandemic continues to spread around the globe, we may experience additional disruptions that could severely impact our business and the financial condition of our company and our subsidiaries.

Additionally, as part of our monetization strategy we are exploring and evaluating potential transactions, the success or timing of which may be impacted by the growing spread of COVID-19 globally. In order to successfully monetize our assets, we must identify and complete one or more transactions with third parties. The business and assets and the availability of potential buyers of our company or certain of our assets may be significantly impacted by public health issues or pandemics, including COVID-19. For example, the shutdown orders across the various jurisdictions in which we or our subsidiaries operate and other observed effects of COVID-19 has resulted in, and may continue to cause, decreased demand, and consequently decreased revenues, from the sales of our products and the performance of elective surgeries. For example, actions taken to mitigate COVID-19 have had and are expected to continue to have an adverse impact on the geographical areas in which LENSAR operates. Cataract surgery is typically considered an elective surgery and as such the majority of LENSAR's customers are not utilizing the LENSAR Laser Systems as they normally would at this time. Further, the uncertain severity and impact of COVID-19 could result in reduced demand for our assets by third parties or reduced values such parties may ascribe to our assets, as well as potentially affect our own ability to operate.

Even if we are able to identify potential transactions in furtherance of our monetization strategy, such buyers may be operationally constrained or unable to locate financing on attractive terms or at all, which risk may be heightened due to the uncertainty of COVID-19 and its impact. We are subject to increased risk that the growing spread of COVID-19 will affect the geographies, both in the near term and in the future, of any third parties we identify as possible counterparties to any monetization transaction. If financing is unavailable to potential buyers of our company or assets, or if potential buyers are unwilling to engage in various transactions due to the uncertainty in the market, our ability to complete such acquisition would be significantly impaired.

Any negative impact on such third parties due to any of the foregoing events could cause costly delays and have a material adverse effect on our ability to return value to our stockholders, including our ability to realize full value from a sale or other disposition of our assets as part of our monetization strategy. Any such negative impacts could also reduce the amount of cash or other property we are able to distribute to our shareholders. In addition, if members of our management team were to be affected by COVID-19, this could significantly delay or impair our ability to execute our monetization strategy. The COVID-19 pandemic continues to rapidly evolve. The extent to which the COVID-19 may impact our business and financial condition will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the ultimate geographic spread of the disease, the duration of the pandemic, travel restrictions and social distancing in the United States and other countries, business closures or business disruptions and the effectiveness of actions taken in the United States and other countries to contain and treat the disease.

To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

There were no unregistered sales of equity securities during the period covered by this report.

**Issuer Purchases of Equity Securities**

The following table contains information relating to the repurchases of our common stock made by us in the three months ended March 31, 2020 (in thousands, except per share amounts):

| Fiscal Period | Total Number of Shares Repurchased | Average Price Paid Per Share | Total Number of Shares Purchased As Part of a Publicly Announced Program | Approximate Dollar Amount of Shares That May Yet be Purchased Under the Program |
|---|---|---|---|---|
| January 1, 2020 to January 31, 2020 | 1,069 | $ 3.27 | 1,069 | $ 116,705 |
| February 1, 2020 to February 29, 2020 | 1,427 | $ 3.53 | 2,496 | 95,140 |
| March 1, 2020 to March 31, 2020 | 3,838 | $ 3.06 | 6,334 | 81,079 [(1)] |
| Total for the three months ended March 31, 2020 | 6,334 | $ 3.20 | 6,334 | $ 81,079 |

[(1)] The approximate dollar amount of shares that may yet be purchased under the share repurchase program was reduced by the cash and PDL common stock issued as consideration to repurchase the convertible notes in December 2019 and the cash used to repurchase the convertible notes in the first quarter of 2020.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

| Exhibit Number | Exhibit Title |
|---|---|
| 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 | Third Amended and Restated Bylaws effective December 4, 2014 (incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed December 9, 2014) |
| 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, dated September 17, 2019, between the Company, as Issuer and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed September 17, 2019) |
| 4.2 | Supplemental Indenture, dated September 17, 2019 by and between the Company, as Issuer and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K filed September 17, 2019) |
| 10.1 | Cooperation and Support Agreement, dated as of February 27, 2020, by and among PDL BioPharma, Inc., Engine Capital, L.P. and its affiliates (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed February 28, 2020) |
| 10.2#* | 2020 Annual Bonus Plan |
| 31.1# | Certification of Principal Executive Officer and Principal Financial 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#+ | Certification 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 |

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# Filed herewith.

* Management contract or compensatory plan or arrangement.

\+ This certification accompanies the Quarterly Report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Quarterly Report on Form 10-Q), irrespective of any general incorporation language contained in such filing.

**SIGNATURES**

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

Dated: May 8, 2020

PDL BIOPHARMA, INC. (REGISTRANT)

/s/ DOMINIQUE MONNET

**Dominique Monnet**

**President and Chief Executive Officer (Principal Executive Officer)**

/s/ EDWARD A. IMBROGNO

**Edward A. Imbrogno**

**Vice President, Chief Financial Officer and Chief Accounting Officer (Principal Financial Officer and Principal Accounting Officer)**

**Exhibit 10.2**

**PDL BIOPHARMA, INC.**

**2020 Annual Bonus Plan**

This 2020 Annual Bonus Plan (the "**Plan**") is intended to enhance stockholder value by promoting a connection between the performance of PDL BioPharma, Inc. (the "**Company**") and the compensation of personnel of the Company and to promote retention of high performing personnel.

1. All employees of the Company working 30 hours per week or more (each, a "**Participant**") are eligible to receive annual bonuses for 2020 according to this Plan. The Plan will be administered by the Compensation Committee of the Board of Directors of the Company (the "**Committee**"). The Committee shall have all powers and discretion necessary to administer the Plan, to determine awards and to control its operation and may delegate responsibilities to Company officers as it deems appropriate.

2. The determination of the amount of payments under the plan shall be based on the performance of the 2020 Corporate Goals as well as the other factors set forth in this Section 3. Company performance shall be determined by the Committee based on the Company's ability to accomplish corporate goals ("**2020 Corporate Goals**") as approved by the Committee and the Board of Directors and set forth in **Exhibit A(i)**. The Committee may adjust or modify the 2020 Corporate Goals to reflect changes in the Company's objectives.

The Committee shall have the sole discretion to increase, reduce or eliminate an award otherwise payable to any Participant based on such objective or subjective determinations as the Committee determines appropriate

3. To be eligible for a bonus, a Participant must be on payroll prior to October 1, 2020. A Participant hired after April 1, 2020, shall be eligible for a pro-rated bonus. If a Participant is terminated without Cause (as defined in the Company's severance plan) or leaves for Good Reason (as defined in the Company's severance plan), such Participant shall remain eligible to receive a portion of the bonus, pro-rated for the number of days in the year in which such Participant was employed by the Company.

4. A Participant who has taken an approved leave of absence pursuant to the Company's policies during 2020 shall receive a pro-rated bonus, at the Compensation Committee's discretion.

5. The amount of a Participant's bonus is based on a target percentage of such Participant's annual base salary effective for the 2020 calendar year. The target percentage for executives has been determined by the Committee and for employees has been determined by the manager at the beginning of the Plan Year. The target percentage shall then be adjusted based on the level of attainment of 2020 Corporate Goals over the course of the Plan Year to arrive at a final performance percentage. For each person, the target percentage is set forth as **Exhibit B.**

6. The Company performance percentage may exceed 100% in the event the Company exceeds specified Corporate Goals, provided that such percentage may not exceed 150%; provided, further, that, for the avoidance of doubt, the stretch goals set forth in **Exhibit A(ii)** shall be calculated exclusive of such percentage. All determinations and decisions made by the Committee shall be final, conclusive and binding on all persons and shall be given the maximum deference permitted by law.

7. This Plan is effective for the Company's 2020 calendar year beginning January 1, 2020, through December 31, 2020 (the "**Plan Year**"), and will expire automatically on December 31, 2020. Bonus payments will be made no later than February 15th, 2021.

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

9. Nothing in this Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment or service at any time, with or without cause. Nothing in these guidelines should be construed as an employment agreement or an entitlement to any Participant for any incentive payment hereunder.

10. This Plan and all awards shall be construed in accordance with and governed by the laws of the State of Nevada, without regard to its conflict of law provisions.

11. Payments under this Plan shall be unsecured, unfunded obligations of the Company. To the extent a Participant has any rights under this Plan, the Participant's rights shall be those of a general unsecured creditor of the Company.

**Exhibit 31.1**

**CERTIFICATIONS**

I, Dominique Monnet, President and Chief Executive Officer, of PDL BioPharma, Inc., certify that:

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

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

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

(4) I am 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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me 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 my 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 my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

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

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

Date: May 8, 2020

/s/ DOMINIQUE MONNET

**Dominique Monnet**

**President and Chief Executive Officer**

**(Principal Executive Officer)**

**Exhibit 31.2**

**CERTIFICATIONS**

I, Edward A. Imbrogno, Vice President, Chief Financial Officer and Chief Accounting Officer, of PDL BioPharma, Inc., certify that:

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

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

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

(4) I am 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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me 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 my 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 my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

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

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

Date: May 8, 2020

/s/ EDWARD A. IMBROGNO

**Edward A. Imbrogno**

**Vice President, Chief Financial Officer and Chief Accounting Officer**
**(Principal Financial Officer and Principal Accounting Officer)**

**Exhibit 32.1**

**CERTIFICATIONS**

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), Dominique Monnet, President and Chief Executive Officer of PDL BioPharma, Inc. (the "Company"), hereby certifies that, to the best of his knowledge:

(1) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, and

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

Dated: May 8, 2020

By:

/s/ DOMINIQUE MONNET

**Dominique Monnet**
**President and Chief Executive Officer**
**(Principal Executive Officer)**

/s/ EDWARD A. IMBROGNO

**Edward A. Imbrogno**
**Vice President, Chief Financial Officer and Chief Accounting Officer**
**(Principal Financial Officer and Principal Accounting Officer)**

(1)This certification accompanies the Quarterly Report on Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of PDL BioPharma, Inc. under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing. A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to PDL BioPharma, Inc. and will be retained by PDL BioPharma, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.