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 September 30, 2013

OR

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

Commission File Number: 000-19756

PDL BIOPHARMA, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-3023969**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

(Do not check if a smaller reporting company)

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

As of October 29, 2013, there were 140,048,451 shares of the Registrant's Common Stock outstanding.

PDL BIOPHARMA, INC.
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GLOSSARY OF TERMS AND ABBREVIATIONS

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

Spin-Off	The spin-off by PDL of Facet
U.S.-based Sales	Products sold in the United States or manufactured in the United States and used or sold anywhere in the world
VWAP	Volume weighted average share price
Wellstat Diagnostics	Wellstat Diagnostics, LLC

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Revenues				
Royalties	$ 96,314	$ 85,231	$ 331,778	$ 288,479
License and other	1,000	—	1,000	—
Total revenues	97,314	85,231	332,778	288,479
Operating expenses				
General and administrative	7,925	5,647	21,894	17,737
Operating income	89,389	79,584	310,884	270,742
Non-operating expense, net				
Interest and other income, net	2,917	1,867	11,718	2,385
Interest expense	(6,118)	(6,514)	(18,169)	(23,087)
Total non-operating expense, net	(3,201)	(4,647)	(6,451)	(20,702)
Income before income taxes	86,188	74,937	304,433	250,040
Income tax expense	29,963	26,362	100,995	87,779
Net income	$ 56,225	$ 48,575	$ 203,438	$ 162,261
Net income per share				
Basic	$ 0.40	$ 0.35	$ 1.45	$ 1.16
Diluted	$ 0.36	$ 0.32	$ 1.31	$ 1.08
Weighted average shares outstanding				
Basic	139,848	139,715	139,830	139,693
Diluted	154,593	149,626	155,366	150,678
Cash dividends declared per common share	$ —	$ —	$ 0.60	$ 0.60

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Net income	$ 56,225	$ 48,575	$ 203,438	$ 162,261
Other comprehensive income (loss), net of tax				
Unrealized gains (losses) on investments in available-for-sale securities[(a)]	1,091	(14)	1,085	(1)
Unrealized gains (losses) on cash flow hedges[(b)]	(3,327)	(3,126)	(46)	(853)
Total other comprehensive income (loss), net of tax	(2,236)	(3,140)	1,039	(854)
Comprehensive income	$ 53,989	$ 45,435	$ 204,477	$ 161,407

[(a)] Net of tax of $587 and ($8) for the three months ended September 30, 2013 and 2012, respectively, and $584 and ($1) for the nine months ended September 30, 2013 and 2012, respectively.
[(b)] Net of tax of ($1,791) and ($1,683) for the three months ended September 30, 2013 and 2012, respectively, and ($25) and ($459) for the nine months ended September 30, 2013 and 2012, respectively.

See accompanying notes.

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

	September 30, 2013	December 31, 2012
	(unaudited)	(Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 319,596	$ 131,212
Restricted investment	—	20,000
Short-term investments	6,862	17,477
Receivables from licensees	900	366
Deferred tax assets	2,416	1,613
Notes receivable	—	7,504
Prepaid and other current assets	3,180	4,813
Total current assets	332,954	182,985
Property and equipment, net	47	59
Notes and other receivables, long-term	90,815	85,704
Long-term deferred tax assets	3,835	4,552
Other assets	2,021	6,666
Total assets	$ 429,672	$ 279,966
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 1,469	$ 1,074
Accrued liabilities	33,524	9,400
Accrued income taxes	3,231	—
Convertible notes payable	171,066	—
Total current liabilities	209,290	10,474
Convertible notes payable	147,015	309,952
Other long-term liabilities	20,480	27,662
Total liabilities	376,785	348,088
Commitments and contingencies (Note 8)		
Stockholders' equity (deficit):		
Preferred stock, par value $0.01 per share, 10,000 shares authorized; no shares issued and outstanding	—	—
Common stock, par value $0.01 per share, 350,000 shares authorized; 139,848 and 139,816 shares issued and outstanding at September 30, 2013, and December 31, 2012, respectively	1,399	1,398
Additional paid-in capital	(233,523)	(234,066)
Accumulated other comprehensive loss	(4,049)	(5,088)
Retained earnings	289,060	169,634
Total stockholders' equity (deficit)	52,887	(68,122)
Total liabilities and stockholders' equity (deficit)	$ 429,672	$ 279,966

See accompanying notes.

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

	Nine Months Ended September 30,	
	2013	**2012**
Cash flows from operating activities		
Net income	$ 203,438	$ 162,261
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of convertible notes offering costs	9,921	10,507
Other amortization, depreciation and accretion of embedded derivative	(360)	804
Hedge ineffectiveness on foreign exchange contracts	(9)	(372)
Stock-based compensation expense	559	675
Tax expense from stock-based compensation arrangements	(15)	(42)
Deferred taxes	(663)	6,523
Changes in assets and liabilities:		
Receivables from licensees	(534)	600
Prepaid and other current assets	3,312	5,266
Accrued interest on notes receivable	(6,587)	—
Other assets	1,173	(1,163)
Accounts payable	395	285
Accrued legal settlement	—	(27,500)
Accrued liabilities	1,302	2,028
Accrued income taxes	3,231	—
Other long-term liabilities	(5,483)	(1,250)
Net cash provided by operating activities	209,680	158,622
Cash flows from investing activities		
Purchases of investments	(9,875)	(25,992)
Maturities of investments	42,098	36,799
Issuance of notes receivable	(48,708)	(48,264)
Repayment of notes receivable	58,134	—
Acquisition of property and equipment	(2)	(18)
Net cash provided by/(used in) investing activities	41,647	(37,475)
Cash flows from financing activities		
Repayment of non-recourse notes	—	(93,370)
Payment of debt issuance costs	—	(845)
Cash dividends paid	(62,943)	(62,886)
Net cash used in financing activities	(62,943)	(157,101)
Net increase/(decrease) in cash and cash equivalents	188,384	(35,954)
Cash and cash equivalents at beginning of the period	131,212	168,544
Cash and cash equivalents at end of period	$ 319,596	$ 132,590
Supplemental cash flow information		
Cash paid for income taxes	$ 101,000	$ 76,000
Cash paid for interest	$ 8,086	$ 12,843

See accompanying notes.

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. GAAP for interim financial information. The financial statements include all adjustments (consisting only of normal recurring adjustments) that management of PDL believes are necessary for a fair presentation of the periods presented. These interim financial results are not necessarily indicative of results expected for the full fiscal year or for any subsequent interim period.

The accompanying Condensed Consolidated Financial Statements and related financial information should be read in conjunction with the audited Consolidated Financial Statements and the related notes thereto for the year ended December 31, 2012, included in our Annual Report on Form 10-K filed with the SEC. The Condensed Consolidated Balance Sheet at December 31, 2012, has been derived from the audited Consolidated Financial Statements at that date.

Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of PDL and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. Our condensed consolidated financial statements are prepared in accordance with GAAP and the rules and regulations of the SEC.

Notes Receivable and Other Long-Term Receivables

We account for our notes receivable at amortized cost, net of unamortized origination fees, if any. Related fees and costs are recorded net of any amounts reimbursed. Interest is accreted or accrued to interest income using the interest method.

Customer Concentration

The percentage of total revenue earned from our licensees' net product sales, which individually accounted for ten percent or more of our total revenues, was as follows:

		Three Months Ended September 30,		Nine Months Ended September 30,	
Licensee	**Product Name**	**2013**	**2012**	**2013**	**2012**
Genentech	*Avastin*®	33%	30%	34%	31%
	Herceptin®	32%	36%	33%	35%
	Lucentis®	14%	15%	17%	18%
Biogen Idec[1]	*Tysabri*®	12%	14%	11%	12%

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

Foreign Currency Hedging

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

We hedge certain Euro-denominated currency exposures related to royalties associated with our licensees' product sales with Euro forward contracts. In general, these contracts are intended to offset the underlying Euro market risk in our royalty revenues. These contracts currently extend through the fourth quarter of 2014. We designate foreign currency exchange contracts used to hedge royalty revenues based on underlying Euro-denominated licensee product sales as cash flow hedges.

At the inception of each hedging relationship and on a quarterly basis, we assess hedge effectiveness. The fair value of the Euro contracts is estimated using pricing models with readily observable inputs from actively quoted markets and is disclosed on a gross basis. The aggregate unrealized gain or loss, net of tax, on the effective component of the hedge is recorded in stockholders' equity (deficit) as accumulated other comprehensive income (loss). Gains or losses on cash flow hedges are recognized as an adjustment to royalty revenue in the same period that the hedged transaction impacts earnings as royalty revenue. Any gain or loss on the ineffective portion of our hedge contracts is reported in interests and other income, net in the period the ineffectiveness occurs.

Comprehensive Income

In the first quarter of 2012, we adopted FASB ASU 2011-05, and have presented the components of other comprehensive income (loss) in the Condensed Consolidated Statements of Comprehensive Income. Also in accordance with this ASU, we have applied this guidance retrospectively to all periods presented. The adoption of the guidance was a change to the presentation of other comprehensive income (loss) and had no effect on our condensed consolidated financial statements. See Note 14 for our discussion of accumulated other comprehensive income (loss).

New Accounting Pronouncements

In January 2013, we adopted the provisions of ASU 2013-01, issued by the FASB, which requires new asset and liability offsetting disclosures for derivatives, repurchase agreements and security lending transactions to the extent that they are: (1) offset in the financial statements or (2) subject to an enforceable master netting arrangement or similar agreement. We do not have any repurchase agreements and do not participate in securities lending transactions. Our derivative instruments are not offset in the financial statements and are not subject to any right of offset provisions with our counterparties. Accordingly, this amendment did not have a material impact on our Condensed Consolidated Financial Statements. Additional information about derivative instruments can be found in Note 5.

In February 2013, FASB amended ASC 220, "Comprehensive Income." This amendment requires companies to report, in one place, information about reclassifications (by component) out of accumulated other comprehensive income (loss). In addition, this amendment requires companies to present the related line item effect of significant reclassifications on the statement where income is presented. We adopted the provisions of this amendment during the first quarter of 2013, which affects only the display of information and does not change existing recognition and measurement requirements in our Condensed Consolidated Financial Statements.

2. Net Income per Share

Net Income per Basic and Diluted Share:	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
(in thousands except per share amounts)				
Numerator				
Net income used to compute net income per basic share	$ 56,225	$ 48,575	$ 203,438	$ 162,261
Add back interest expense for convertible notes, net of estimated tax of approximately $7 and $4 for the three months ended September 30, 2013 and 2012, respectively, and $13 and $21 for the nine months ended September 30, 2013 and 2012, respectively (see Note 9)	12	6	25	40
Net income used to compute net income per diluted share	$ 56,237	$ 48,581	$ 203,463	$ 162,301
Denominator				
Total weighted-average shares used to compute net income per basic share	139,848	139,715	139,830	139,693
Restricted stock outstanding	80	110	76	93
Effect of dilutive stock options	20	18	19	16
Assumed conversion of Series 2012 Notes	9,674	7,008	10,141	7,427
Assumed conversion of May 2015 Notes	4,910	2,609	5,160	2,825
Assumed conversion of February 2015 Notes	61	166	140	624
Weighted-average shares used to compute net income per diluted share	154,593	149,626	155,366	150,678
Net income per basic share	$ 0.40	$ 0.35	$ 1.45	$ 1.16
Net income per diluted share	$ 0.36	$ 0.32	$ 1.31	$ 1.08

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

We compute net income per diluted share using the sum of the weighted-average number of common and common equivalent shares outstanding. Common equivalent shares used in the computation of net income per diluted share include shares that may be issued under our stock options and restricted stock awards, our February 2015 Notes, our Series 2012 Notes and our May 2015 Notes on a weighted average basis for the period that the notes were outstanding, including the effect of adding back interest expense and the underlying shares using the if-converted method. In the first quarter of 2012, $179.0 million aggregate principal of our February 2015 Notes was exchanged for our Series 2012 Notes, and in the third quarter of 2013, $1.0 million aggregate principal of our February 2015 Notes was exchanged for our Series 2012 Notes, and the February 2015 Notes were retired.

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

We excluded from our calculations of net income per diluted share 20.8 million and 19.2 million shares for our warrants for the three months ended September 30, 2013 and 2012, respectively, and 20.8 million and 19.2 million shares for the nine months ended September 30, 2013 and 2012, respectively, for warrants issued in 2011, because the exercise price of the warrants exceeded the VWAP of our common stock and thus, for the periods presented, no stock was issuable upon conversion. These securities could be dilutive in future periods. Our purchased call options, issued in 2011, will always be anti-dilutive and therefore 24.4 million and 22.6 million shares were excluded from our calculations of net income per diluted share for the three months ended September 30, 2013 and 2012, respectively, and 24.4 million and 22.6 million shares were excluded for the nine months ended September 30, 2013 and 2012, respectively, because they have no effect on diluted net income per share. For information related to the conversion rates on our convertible debt, see Note 9.

For the three months ended September 30, 2013, we excluded approximately 121,000 and 10,000 shares underlying outstanding stock options and restricted stock awards, respectively, and for the nine months ended September 30, 2013, we excluded approximately 133,000 and zero shares underlying outstanding stock options and restricted stock awards, respectively, calculated on a weighted average basis, from our net income per diluted share calculations because their effect was anti-dilutive.

For the three and nine months ended September 30, 2012, we excluded approximately 144,000 and 164,000 shares underlying outstanding stock options, calculated on a weighted average basis, from our net income per diluted share calculations because their effect was anti-dilutive.

3. Fair Value Measurements

The fair value of our financial instruments are estimates of the amounts that would be received if we were to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date or exit price. The assets and liabilities are categorized and disclosed in one of the following three categories:

Level 1 – based on quoted market prices in active markets for identical assets and liabilities;

Level 2 – based on quoted market prices for similar assets and liabilities, using observable market based inputs or unobservable market based inputs corroborated by market data; and

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

The following tables present the fair value of our financial instruments measured at fair value on a recurring basis by level within the valuation hierarchy.

	September 30, 2013			December 31, 2012		
	Level 1	Level 2	Total	Level 1	Level 2	Total
(In thousands)						
Financial assets:						
Money market funds	$ 269,806	$ —	$ 269,806	$ 121,095	$ —	$ 121,095
Certificates of deposit	—	1,682	1,682	—	26,128	26,128
Corporate securities	—	5,180	5,180	—	—	—
Corporate debt securities	—	—	—	—	13,572	13,572
Total	$ 269,806	$ 6,862	$ 276,668	$ 121,095	$ 39,700	$ 160,795
Financial liabilities:						
Foreign currency hedge contracts	$ —	$ 7,508	$ 7,508	$ —	$ 7,581	$ 7,581

The fair value of the certificates of deposit is determined using quoted market prices for similar instruments and non-binding market prices that are corroborated by observable market data. At December 31, 2012, the certificates of deposit included a $20.0 million certificate of deposit that was restricted as it was purchased to collateralize the line of credit for Merus Labs; see Note 6.

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

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

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

There have been no transfers between levels during the three and nine months ended September 30, 2013, and December 31, 2012. The Company recognizes transfers between levels on the date of the event or change in circumstances that caused the transfer.

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

	September 30, 2013			December 31, 2012		
	Carrying Value	Fair Value Level 2	Fair Value Level 3	Carrying Value	Fair Value Level 2	Fair Value Level 3
(In thousands)						
Assets:						
Wellstat Diagnostics note receivable	$ 45,269	$ —	$ 45,269	$ 41,098	$ —	$ 41,098
Merus Labs note receivable	—	—	—	30,000	30,000	—
AxoGen note receivable and embedded derivative	25,404	—	25,404	22,110	—	22,110
Avinger note receivable	20,142	—	20,142	—	—	—
Total	$ 90,815	$ —	$ 90,815	$ 93,208	$ 30,000	$ 63,208
Liabilities:						
Series 2012 Notes	$ 171,066	$ 258,984	$ —	$ 165,528	$ 227,187	$ —
May 2015 Notes	147,015	198,138	—	143,433	182,031	—
February 2015 Notes	—	—	—	991	1,269	—
Total	$ 318,081	$ 457,122	$ —	$ 309,952	$ 410,487	$ —

As of September 30, 2013, the estimated fair value of our Avinger note receivable, as of September 30, 2013 and December 31, 2012, the estimated fair values of our Wellstat Diagnostics note receivable and AxoGen note receivable and derivative, and as of December 31, 2012, the estimated fair value of our Merus Labs note receivable, were determined using one or more discounted cash flow models, incorporating expected principal payments and the interest rate extended for notes with fixed interest rates and incorporating expected payments for notes with a variable rate of return.

On September 30, 2013, and December 31, 2012, the carrying value of the AxoGen note and derivative approximated its estimated fair value. We determined this note to be a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates of AxoGen's future revenues, expectations about settlement and required yield. To provide support for the estimated fair value measurement, we considered forward looking performance related to AxoGen and current measures associated with high yield indices, and reviewed the terms and yields of notes placed by specialty finance and venture firms both across industries and in a similar sector. Additionally, we reviewed market yield indices for changes since the issuance of the note. We observed no material events with AxoGen or in the market in which it participates since the placement. The carrying value and estimated fair value of the AxoGen note include the value of a change of control embedded derivative valued at $1.0 million and $0.6 million at September 30, 2013, and December 31, 2012, respectively. We utilized discounted cash flows and probability analysis to determine the fair value of the embedded derivative.

On September 30, 2013, and December 31, 2012, the carrying value of the note receivable from Wellstat Diagnostics approximates its fair value. We determined this note to be a Level 3 asset, as our valuation utilized significant unobservable inputs. Due to the breach of the credit agreement as of December 31, 2012, as discussed in Note 6, we considered the fair value of the underlying collateral when estimating fair value of the note. The note is collateralized by all assets and equity interest in Wellstat Diagnostics. The fair value of the collateral was determined by using a discounted cash flow analysis related to the underlying technology included in the collateral. The discounted cash flow was based upon expected income from sales of planned products over a 15-year period. The terminal value was estimated using selected market multiples based on sales and EBITDA. Our valuation of the collateral utilized significant unobservable inputs including a discount rate of 35%, terminal value EBITDA multiple of 17.5, terminal value sales multiple of 3.0 and future revenue and expenses related to commercialization of the borrower's technology.

On September 30, 2013, the carrying value of the Avinger note approximates its fair value. We determined this note to be a Level 3 asset, as our valuation utilized significant unobservable inputs, including a discount rate of 18.5%, estimates of Avinger's future revenues, expectations about settlement and required yield. To provide support for the fair value measurement, we considered forward looking performance related to Avinger, current measures associated with high yield and Standard & Poor's Leveraged Commentary & Data indices, and reviewed the terms and yields of notes placed by specialty finance and venture firms both across industries and in a similar sector.

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

4. Cash Equivalents and Investments

As of September 30, 2013, and December 31, 2012, we had invested our excess cash balances primarily in money market funds, certificates of deposit, corporate securities and corporate debt securities. Our securities are classified as available-for-sale and are carried at estimated fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss) in stockholders' equity (deficit), net of estimated taxes. The cost of securities sold is based on the specific identification method. To date, we have not experienced credit losses on investments in these instruments and we do not require collateral for our investment activities.

Summary of Cash and Available-For-Sale Securities	Adjusted Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Cash and Cash Equivalents	Restricted Investment	Short-Term Marketable Securities
(In thousands)							
September 30, 2013							
Cash	$ 49,790	$ —	$ —	$ 49,790	$ 49,790	$ —	$ —
Money market funds	269,806	—	—	269,806	269,806	—	—
Certificates of deposit	1,682	—	—	1,682	—	—	1,682
Corporate securities	3,500	1,680	—	5,180	—	—	5,180
Total	$ 324,778	$ 1,680	$ —	$ 326,458	$ 319,596	$ —	$ 6,862
December 31, 2012							
Cash	$ 7,894	$ —	$ —	$ 7,894	$ 7,894	$ —	$ —
Money market funds	121,095	—	—	121,095	121,095	—	—
Certificates of deposit	26,128	—	—	26,128	2,223	20,000	3,905
Corporate debt securities	13,562	10	—	13,572	—	—	13,572
Total	$ 168,679	$ 10	$ —	$ 168,689	$ 131,212	$ 20,000	$ 17,477

No gains or losses on sales of available-for-sale securities were recognized for the three and nine months ended September 30, 2013 and 2012.

Cash and Available-For-Sale Securities by Contractual Maturity	September 30, 2013		December 31, 2012	
(In thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than one year	$ 324,778	$ 326,458	$ 168,679	$ 168,689
Greater than one year but less than five years	—	—	—	—
Total	$ 324,778	$ 326,458	$ 168,679	$ 168,689

No significant facts or circumstances have arisen to indicate that there has been any deterioration in the creditworthiness of the issuers of these securities. Based on our review of these securities, we believe that we had no other-than-temporary impairments on these securities as of September 30, 2013, and December 31, 2012.

5. Foreign Currency Hedging

We designate the foreign currency exchange contracts used to hedge our royalty revenues based on underlying Euro-denominated sales as cash flow hedges. Euro forward contracts are presented on a net basis on our Condensed Consolidated Balance Sheets as we have entered into a netting arrangement with the counterparty. As of September 30, 2013, and December 31, 2012, all outstanding Euro forward contracts and option contracts were classified as cash flow hedges.

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

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

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

Euro Forward Contracts			**September 30, 2013**		**December 31, 2012**	
			(In thousands)		***(In thousands)***	
Currency	**Settlement Price ($ per Euro)**	**Type**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Euro	1.230	Sell Euro	$ —	$ —	$ 27,553	$ (2,036)
Euro	1.240	Sell Euro	10,850	(982)	10,850	(726)
Euro	1.270	Sell Euro	44,450	(2,887)	44,450	(1,950)
Euro	1.281	Sell Euro	36,814	(2,076)	36,814	(1,331)
Euro	1.300	Sell Euro	39,000	(1,563)	91,000	(1,538)
Total			$ 131,114	$ (7,508)	$ 210,667	$ (7,581)

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

Cash Flow Hedge	**Location**	**September 30, 2013**	**December 31, 2012**
(In thousands)			
Euro contracts	Accrued liabilities	$ 5,199	$ 3,574
Euro contracts	Other long-term liabilities	$ 2,309	$ 4,007

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
(In thousands)				
Net gain (loss) recognized in OCI, net of tax [1]	$ (3,359)	$ (3,454)	$ (1,056)	$ (1,851)
Gain (loss) reclassified from accumulated OCI into royalty revenue, net of tax [2]	$ (32)	$ (328)	$ (1,011)	$ (998)
Net gain (loss) recognized in interest and other income, net -- cash flow hedges [3]	$ 4	$ (27)	$ 9	$ (54)
Net gain recognized in interest and other income, net -- non-designated contracts [4]	$ —	$ 391	$ —	$ 391
Amount excluded from effectiveness testing	$ —	$ —	$ —	$ —

(1) Net change in the fair value of the effective portion of cash flow hedges classified in OCI.

(2) Effective portion classified as royalty revenue.

(3) Ineffectiveness from excess hedge was approximately ($4) and $27 for the three months ended September 30, 2013 and 2012, respectively, and ($9) and $27 for the nine months ended September 30, 2013 and 2012, respectively. Net loss from restructuring hedges was zero for the three months ended September 30, 2013 and 2012, and zero and $27 for the nine months ended September 30, 2013 and 2012, respectively.

6. Notes Receivable and Other Long-term Receivables

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

Wellstat Diagnostics Note Receivable and Credit Agreement

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

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

In January 2013, the Company was informed that, as of November 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. PDL sent Wellstat Diagnostics a notice of default on January 22, 2013, and accelerated the amounts owed under the credit agreement. In connection with the notice of default, PDL exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to PDL and applied the funds to amounts due under the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby PDL agreed to refrain from exercising additional remedies for 120 days while Wellstat Diagnostics raised funds to capitalize the business and the parties attempted to negotiate a revised credit agreement. PDL agreed to provide up to $7.9 million to Wellstat Diagnostics to fund the business for the 120-day forbearance period under the terms of the forbearance agreement. Following the conclusion of the June 28 forbearance period, the Company agreed to forbear in its exercise of remedies for additional periods of time to allow the owners and affiliates of Wellstat Diagnostics to complete a pending financing transaction. During such forbearance period, the Company provided approximately $1.3 million to Wellstat Diagnostics to fund ongoing operations of the business. During the nine months ended September 30, 2013, approximately $8.7 million was advanced pursuant to the forbearance agreement.

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

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

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

Wellstat Diagnostics may prepay the amended credit agreement at a price that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company. In the event of a change of control, bankruptcy or certain other customary events of defaults, or Wellstat Diagnostics' failure to achieve a specified annual revenue threshold in 2017, Wellstat Diagnostics will be required to prepay the credit agreement at a price that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company. The amended credit agreement is secured by a pledge of all of the assets of Wellstat Diagnostics, a pledge of all of Wellstat Diagnostics' equity interests by the holders thereof, and a second lien on the assets of the affiliates of Wellstat Diagnostics. The Company believes the fair value of the collateral is not less than $76.6 million.

At September 30, 2013, and December 31, 2012, the carrying value of the note was included in non-current assets.

As of September 30, 2013, the Company determined that its interest in Wellstat Diagnostics represented a variable interest in a Variable Interest Entity since Wellstat Diagnostics' equity was not sufficient to finance its operations without amounts advanced to it under the Company's note and forbearance agreement. However, the Company does not have the power to unilaterally direct operational activities of Wellstat Diagnostics and is not the primary beneficiary of Wellstat Diagnostics; therefore, Wellstat Diagnostics is not subject to consolidation.

As of September 30, 2013, the carrying value of all amounts advanced to Wellstat Diagnostics was $45.3 million, which was recorded in notes receivable. As of September 30, 2013, the maximum loss exposure was $45.3 million.

Merus Labs Note Receivable and Credit Agreement

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

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

In September 2013, Merus Labs prepaid in full its obligations under the credit agreement , including accrued interest through the payment date and a prepayment fee of 1% of the aggregate principal amount outstanding at the time of repayment. There was no outstanding balance owed as of September 30, 2013.

AxoGen Note Receivable and Royalty Agreement

In October 2012, PDL entered into the Royalty Agreement with AxoGen pursuant to which the Company will receive specified royalties on AxoGen's net revenues (as defined in the Royalty Agreement) generated by the sale, distribution or other use of AxoGen's products. The Royalty Agreement has an eight years term and provides PDL with royalties of 9.95% based on AxoGen Net Revenues, subject to agreed-upon guaranteed quarterly minimum payments of approximately $1.3 to $2.3 million beginning in the fourth quarter of 2014, and the right to require AxoGen to repurchase the Royalty Agreement at the end of the fourth year. AxoGen has been granted certain rights to call the contract in years five through eight. The total consideration PDL paid to AxoGen for the royalty rights was $20.8 million, including the termination of an interim funding of $1.8 million in August 2012. AxoGen was required to use a portion of the proceeds from the Royalty Agreement to pay the outstanding balance under its existing credit facility. AxoGen plans to use the remainder of the proceeds to support the business plan for its products. The royalty rights are secured by the cash and accounts receivable of AxoGen.

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

In the event of a change of control, AxoGen must repurchase the assigned interests from the Company for a repurchase price equal to an amount that, together with payments already made by AxoGen, would generate a 32.5% internal rate of return to the Company. The Company has concluded that the change of control provision is an embedded derivative that should be bifurcated and separately recorded at its estimated fair value. The estimated fair value of the change of control provision was approximately $1.0 million and $0.6 million as of September 30, 2013, and December 31, 2012, respectively. The estimated fair value of this embedded derivative is included in the carrying value of the AxoGen Note Receivable. The Company recognized approximately $0.0 million and $0.4 million related to the change in the estimated fair value of embedded derivative during the three and nine month periods ended September 30, 2013, respectively.

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

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

On August 14, 2013, PDL purchased 1,166,666 shares of AXGN at $3.00 per share, totaling $3.5 million. The shares are classified as available for sale and recorded as short term investments on the balance sheet. As of September 30, 2013, the shares were valued at $5.2 million, which results in an unrealized gain of $1.7 million and is recorded in other comprehensive income.

Avinger Note Receivable and Royalty Agreement

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

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

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

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

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

7. Accrued Liabilities

	September 30, 2013	December 31, 2012
(In thousands)		
Compensation	$ 1,908	$ 594
Interest	3,087	2,925
Foreign currency hedge	5,199	3,574
Dividend payable	21,124	53
Legal	1,921	2,020
Other	285	234
Total	$ 33,524	$ 9,400

8. Commitments and Contingencies

Legal Proceedings

Genentech / Roche Matter

Communications with Genentech regarding European SPCs

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

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

If Genentech is successful in asserting this position, then under the terms of our license agreements with Genentech, it would not owe us royalties on sales of Avastin, Herceptin, Lucentis and Xolair that are both manufactured and sold outside of the United States. Royalties on sales of Avastin, Herceptin, Lucentis and Xolair that are ex-U.S.-based Manufacturing and Sales accounted for approximately 42% of our royalty revenues for the nine months ended September 30, 2013.

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

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

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

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

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

The parties have been engaged in discovery motion practice. On March 29, 2013, the court affirmed an order of the discovery commissioner requiring the production of certain documents in the possession of Roche and Genentech to PDL. Roche and Genentech have communicated to us that they have requested review of the court's order from the Nevada Supreme Court. The parties have agreed to a stay in the proceedings pending the decision of the Nevada Supreme Court regarding whether they will review the court's order. In the event that the Nevada Supreme Court agrees to consider Roche and Genentech's request and review the court's order, we expect a lengthy delay in the case schedule for a period that may extend for a number of months, and, while no trial date is currently scheduled with the District Court, the likelihood is that a trial date will be at some point between mid-2014 to mid-2015. The outcome of this litigation is uncertain and we may not be successful in our allegations.

On June 7, 2013, the Company filed a Notice of Arbitration against Genentech with the American Arbitration Association in Voorhees, New Jersey, alleging, *inter alia*, that Genentech underpaid royalties going back to at least 2007 and impeded PDL's attempts to have Genentech's books and records inspected to determine whether Genentech's past payments to PDL were accurately calculated.

In 2009, PDL retained KPMG to conduct an independent inspection and analysis of the books and records of Genentech and its sublicensees for the three year period covering January 1, 2007 to December 31, 2009, a right granted to PDL under PDL's Patent License Master Agreement and license agreements with Genentech. KPMG reported to PDL that, due to limitations on its inspection imposed by Genentech, it was unable to assess the completeness or accuracy of Genentech's reporting of royalties. KPMG concluded that, based on the limited information it was able to review, Genentech appears to have underpaid PDL in an amount that, if substantiated, PDL believes would be material. Genentech has informed PDL that it disagrees with KPMG's conclusions and that it believes that it has correctly calculated royalties due.

In the arbitration, PDL: (i) requests a declaration of the parties' rights and obligations with respect to reporting and payment of royalties under the license agreements; (ii) alleges that Genentech has breached the license agreements due to its obstruction of KPMG's inspection and underpayment of royalties; and (iii) alleges that Genentech breached the implied covenant of good faith and fair dealing by depriving PDL of the benefits of the license agreements through its obstruction of the inspection, which we further assert concealed the nature and extent of its underpayment.

On July 3, 2013, Genentech filed its Response and Counterclaim in which Genentech requests that the arbitrator (i) reject PDL's claims that Genentech breached the license agreements by underpaying royalties owed to PDL, obstructing KPMG's inspection, or violating the covenant of good faith and fair dealing; (ii) reject PDL's claim that Genentech owed any royalties to PDL on Herceptin, Avastin and Xolair manufactured and sold outside of the United States prior to December 27, 2009 on the ground that those products did not infringe the '216B patent prior to its expiration; (iii) offset any royalties underpaid during the audit period by the amount Genentech claims to have overpaid in royalties attributable to the sale of Herceptin, Avastin and Xolair manufactured and sold outside of the United States prior to December 27, 2009; and (iv) award damages to Genentech in the amount of $428,751, representing royalties Genentech overpaid during the audit period, as well as costs and reasonable attorney's fees. Genentech's counterclaim does not challenge whether Herceptin, Avastin and Xolair manufactured and sold outside of the United States after December 27, 2009, are Licensed Products (and subject to a royalty under PDL's SPCs issued to such products in Europe) as Genentech's ability to contest infringement of PDL's SPCs is the subject of pending litigation in Nevada.

The parties have mutually agreed to stay the arbitration proceedings and to extend the deadline for responses in the Nevada litigation to allow time for discussions to occur to determine if a settlement of certain issues is possible. The parties may not reach agreement regarding settlement terms and PDL expects that it will renew its litigation efforts if settlement is unsuccessful.

The outcome of this arbitration is uncertain, and PDL may not be successful in its allegations.

Other Legal Proceedings

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

Lease Guarantee

In connection with the Spin-Off, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. Should Facet default under its lease obligations, we could be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of September 30, 2013, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $92.7 million. If Facet were to default, we could also be responsible for lease related costs including utilities, property taxes and common area maintenance, which may be as much as the actual lease payments.

We have recorded a liability of $10.7 million on our Condensed Consolidated Balance Sheets as of September 30, 2013, and December 31, 2012, related to this guarantee. In future periods, we may adjust this liability for any changes in the ultimate outcome of this matter that are both probable and estimable.

9. Convertible Notes

		Principal Balance Outstanding	Carrying Value	
Description	**Maturity Date**	**September 30, 2013**	**September 30, 2013**	**December 31, 2012**
(In thousands)				
Convertible Notes				
Series 2012 Notes	February 15, 2015	$ 180,000	$ 171,066	$ 165,528
May 2015 Notes	May 1, 2015	$ 155,250	147,015	143,433
February 2015 Notes	February 15, 2015	$ —	—	991
Total			$ 318,081	$ 309,952

As of September 30, 2013, PDL was in compliance with all applicable debt covenants, and embedded features of all debt agreements were evaluated and did not need to be accounted for separately.

Series 2012 Notes

In January 2012, we exchanged $169.0 million aggregate principal of new Series 2012 Notes for an identical principal amount of our February 2015 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered, totaling approximately $845,000. The cash incentive payment was allocated to deferred issue costs of $765,000, additional paid-in capital of $52,000 and deferred tax assets of $28,000. The deferred issue costs will be recognized over the life of the Series 2012 Notes as interest expense. In February 2012, we entered into separate privately negotiated exchange agreements under which we exchanged an additional $10.0 million aggregate principal amount of the new Series 2012 Notes for an identical principal amount of our February 2015 Notes. In August 2013, the Company entered into a separate privately negotiated exchange agreement under which it retired the final $1.0 million aggregate principal amount of the Company's outstanding February 2015 Notes. Pursuant to the exchange agreement, the holder of the February 2015 Notes received $1.0 million aggregate principal amount of the

Company's Series 2012 Notes. Immediately following the exchange, no principal amount of the February 2015 Notes remained outstanding and $180.0 million principal amount of the Series 2012 Notes is outstanding.

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

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

- During any fiscal quarter commencing after the fiscal quarter ending December 31, 2011, if the closing price of the Company's common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price for the Series 2012 Notes on the last day of such preceding fiscal quarter;
- During the five business-day period immediately after any five consecutive trading-day period in which the trading price per $1,000 principal amount of the Series 2012 Notes for each trading day of that measurement period was less than 98% of the product of the closing price of the Company's common stock and the conversion rate for the Series 2012 Notes for that trading day;
- Upon the occurrence of certain corporate transactions as provided in the indenture; or
- Anytime, at the holder's option, beginning on August 15, 2014.

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

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

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

(In thousands)	**September 30, 2013**	**December 31, 2012**
Principal amount of the Series 2012 Notes	$ 180,000	$ 179,000
Unamortized discount of liability component	(8,934)	(13,472)
Total	$ 171,066	$ 165,528

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2013**	**2012**	**2013**	**2012**
Contractual coupon interest	$ 1,290	$ 1,287	$ 3,864	$ 3,836
Amortization of debt issuance costs	289	279	860	826
Amortization of debt discount	1,538	1,439	4,538	4,219
Total	$ 3,117	$ 3,005	$ 9,262	$ 8,881

As of September 30, 2013, our Series 2012 Notes are convertible into 179.777 shares of the Company's common stock per $1,000 of principal amount, or approximately $5.56 per common share, subject to further adjustment upon certain events including dividend payments. As of September 30, 2013, the remaining discount amortization period was 1.4 years.

Our common stock exceeded the conversion threshold price of $7.37 for at least 20 days during the 30 consecutive trading days ended June 30, 2013; accordingly, the Series 2012 Notes were convertible at the option of the holder during the quarter ended September 30, 2013. Our common stock price exceeded the conversion threshold price of $7.23 per common share for at least 20 days during the 30 consecutive trading days ended September 30, 2013; accordingly, the Series 2012 Notes are convertible at the option of the holder during the quarter ending December 31, 2013. The Series 2012 Notes have been classified as current as the notes will be due upon demand within one year of the quarter ended September 30, 2013. At September 30, 2013, the if-converted value of our Series 2012 Notes exceeded their principal amount by approximately $77.9 million.

May 2015 Notes

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

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

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

In accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion, we were required to separately account for the liability component of the instrument in a manner that reflects the market interest rate for a similar nonconvertible instrument at the date of issuance. As a result, we separated the principal balance of our May 2015 Notes between the fair value of the debt component and the fair value of the common stock conversion feature. Using an assumed borrowing rate of 7.5%, which represents the estimated market interest rate for a similar nonconvertible instrument available to us on the date of issuance, we recorded a total debt discount of $18.9 million, allocated $12.3 million to additional paid-in capital and allocated $6.6 million to deferred tax liability. The discount is being amortized to interest expense over the term of our May 2015 Notes and increases interest expense during the term of our May 2015 Notes from the 3.75% cash coupon interest rate to an effective interest rate of 7.5%. As of September 30, 2013, the remaining discount amortization period is 1.6 years.

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

(In thousands)	September 30, 2013	December 31, 2012
Principal amount of the May 2015 Notes	$ 155,250	$ 155,250
Unamortized discount of liability component	(8,235)	(11,817)
Total	$ 147,015	$ 143,433

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2013	2012	2013	2012
Contractual coupon interest	$ 1,456	$ 1,455	$ 4,366	$ 4,366
Amortization of debt issuance costs	309	299	920	891
Amortization of debt discount	1,215	1,130	3,582	3,330
Total	$ 2,980	$ 2,884	$ 8,868	$ 8,587

As of September 30, 2013, our May 2015 Notes are convertible into 157.37 shares of the Company's common stock per $1,000 of principal amount, or approximately $6.35 per common share, subject to further adjustment upon certain events including dividend payments.

Our common stock did not exceed the conversion threshold price of $8.42 for at least 20 days during the 30 consecutive trading days ended June 30, 2013; accordingly, the May 2015 Notes were not convertible at the option of the holder during the quarter ended September 30, 2013. Our common stock price did not exceed the conversion threshold price of $8.26 per common share for at least 20 days during the 30 consecutive trading days ended September 30, 2013; accordingly, the May 2015 Notes are not convertible at the option of the holder during the quarter ending December 31, 2013. At September 30, 2013, the if-converted value of our May 2015 exceeded their principal amount by approximately $39.5 million.

Purchased Call Options and Warrants

In connection with the issuance of our May 2015 Notes, we entered into purchased call option transactions with two hedge counterparties. We paid an aggregate amount of $20.8 million, plus legal fees, for the purchased call options with terms substantially similar to the embedded conversion options in our May 2015 Notes. The purchased call options cover, subject to anti-dilution and certain other customary adjustments substantially similar to those in our May 2015 Notes, approximately 24.0 million shares of our common stock. We may exercise the purchased call options upon conversion of our May 2015 Notes and require the hedge counterparty to deliver shares to the Company in an amount equal to the shares required to be delivered by the Company to the note holder for the excess conversion value. The purchased call options expire on May 1, 2015, or the last day any of our May 2015 Notes remain outstanding.

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

The purchased call option transactions and warrant sales effectively serve to reduce the potential dilution associated with conversion of our May 2015 Notes. The strike prices are approximately $6.35 and $7.48, subject to further adjustment upon certain events including dividend payments, for the purchased call options and warrants, respectively.

If the share price is above $6.35, but below $7.48, upon conversion of our May 2015 Notes, the purchased call options will offset the share dilution, because the Company will receive shares on exercise of the purchased call options equal to the shares

that the Company must deliver to the note holders. If the share price is above $7.48, upon exercise of the warrants, the Company will deliver shares to the counterparties in an amount equal to the excess of the share price over $7.48. For example, a 10% increase in the share price above $7.48 would result in the issuance of 1.9 million incremental shares upon exercise of the warrants. As our share price continues to increase, additional dilution would occur.

While the purchased call options are expected to reduce the potential equity dilution upon conversion of our May 2015 Notes, prior to conversion or exercise, our May 2015 Notes and the warrants could have a dilutive effect on the Company's earnings per share to the extent that the price of the Company's common stock during a given measurement period exceeds the respective exercise prices of those instruments. As of September 30, 2013, and December 31, 2012, the market price condition for convertibility of our May 2015 Notes was not met and there were no related purchased call options or warrants exercised.

The purchased call options and warrants are considered indexed to PDL stock, require net-share settlement, and met all criteria for equity classification at inception and at September 30, 2013, and December 31, 2012. The purchased call options cost, including legal fees, of $20.8 million, less deferred taxes of $7.2 million, and the $10.9 million received for the warrants, was recorded as adjustments to additional paid-in capital. Subsequent changes in fair value will not be recognized as long as the purchased call options and warrants continue to meet the criteria for equity classification.

February 2015 Notes

On November 1, 2010, we completed an exchange of $92.0 million in aggregate principal of our 2012 Notes in separate, privately negotiated transactions with the note holders. In the exchange transactions, the note holders received $92.0 million in aggregate principal of our February 2015 Notes, and we recorded a net gain of $1.1 million. As part of the transaction, we placed an additional $88.0 million in aggregate principal of our February 2015 Notes. In January 2012, we completed an exchange transaction where we exchanged and subsequently retired approximately $169.0 million aggregate principal amount of our February 2015 Notes for approximately $169.0 million aggregate principal amount of new Series 2012 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered for a total cash incentive payment of approximately $0.8 million. In February 2012, we entered into separate privately negotiated exchange agreements under which we retired an additional $10.0 million aggregate principal amount of our February 2015 Notes for $10.0 million aggregate principal amount of our Series 2012 Notes. In August 2013, the Company entered into a separate privately negotiated exchange agreement under which it retired the final $1.0 million aggregate principal amount of the Company's outstanding February 2015 Notes. Pursuant to the exchange agreement, the holder of the February 2015 Notes received $1.0 million aggregate principal amount of the Company's Series 2012 Notes. Immediately following the exchange, no principal amount of the February 2015 Notes remained outstanding. Our February 2015 Notes bore interest at 2.875% per annum.

10. Other Long-Term Liabilities

	September 30, 2013	December 31, 2012
(In thousands)		
Accrued lease liability	$ 10,700	$ 10,700
Long term incentive accrual	425	—
Uncertain tax positions	7,046	12,955
Foreign currency hedge	2,309	4,007
Total	$ 20,480	$ 27,662

11. Stock-Based Compensation

The Company grants stock options and restricted stock awards pursuant to a stockholder approved stock-based incentive plan. This incentive plan is described in further detail in Note 14, Stock-Based Compensation, of Notes to Consolidated Financial Statements in the 2012 Form 10-K.

The following table summarizes the Company's stock option and restricted stock award activity during the nine months ended September 30, 2013:

		Stock Options		Restricted Stock Awards	
(In thousands except per share amounts)	Shares Available for Grant	Number of Shares Outstanding	Weighted Average Exercise Price	Number of Shares Outstanding	Weighted Average Grant-date Fair Value Per Share
Balance December 31, 2012	4,589	196	$ 16.22	120	$ 6.51
Granted	(127)	—		127	$ 7.50
Shares released	—	—		(32)	$ 6.69
Forfeited or canceled	37	(22)	$ 14.23	(15)	$ 7.07
Plan shares expired	(22)	—		—	
Balance at September 30, 2013	4,477	174	$ 16.47	200	$ 7.12

12. Cash Dividends

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

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

Convertible Notes	Conversion Rate per $1,000 Principal Amount	Approximate Conversion Price Per Common Share	Effective Date
Series 2012 Notes	179.777	$ 5.56	September 3, 2013
May 2015 Notes	157.3700	$ 6.35	September 3, 2013

13. Income Taxes

For the three and nine months ended September 30, 2013 and 2012, income tax expense was primarily derived by applying the federal statutory rate of 35% to operating income before income taxes.

During the second and third quarters of 2013, the Company released tax liabilities for the federal tax credits taken on the 2009 income tax return, in the amount of $5.7 million and $0.4 million, respectively. This resulted in a reduction to income tax expense for the second and third quarters of 2013. We expect to release additional tax liabilities in the third quarter of 2014 of approximately $7.0 million.

In general, our income tax returns are subject to examination by tax authorities for tax years 1996 forward. The California Franchise Tax Board is currently examining the Company's 2008, 2009 and 2010 tax returns. Although the timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year, we do not anticipate any material change to the amount of our unrecognized tax benefits over the next 12 months, except as described above.

14. Accumulated Other Comprehensive Income (Loss)

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

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

	Unrealized gains (losses) on available-for-sale securities	Unrealized gains (losses) on cash flow hedges	Total Accumulated Other Comprehensive Income (Loss)
(In thousands)			
Beginning Balance at December 31, 2012	$ 7	$ (5,095)	$ (5,088)
Activity for the nine months ended September 30, 2013	1,085	(46)	1,039
Ending Balance at September 30, 2013	$ 1,092	$ (5,141)	$ (4,049)

15. Subsequent Events

LENSAR Credit Agreement

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

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

Depomed Royalty Purchase and Sales Agreement

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

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

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

Term Loan

On October 28, 2013, PDL entered into a credit agreement among the Company, the lenders party, and Royal Bank of Canada as administrative agent. The credit agreement consists of a term loan of $75.0 million, with a term of one year.

The interest rates per annum applicable to amounts outstanding under the term loan are, at the Company’s option, either (a) the base rate plus 1.00%, or (b) the Eurodollar rate plus 2.00% per annum. Interest and principal payments under the credit agreement are due on the interest payment dates of January 31, April 30, and July 31 of 2014, with the remaining outstanding balance due on October 28, 2014.

Any future material domestic subsidiaries of the Company are required to guarantee the obligations of the Company under the credit agreement, except as otherwise provided by the credit agreement. The Company’s obligations under the Credit Agreement are secured by a lien on a substantial portion of its assets.

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

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

Durata Credit Agreement

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

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

DirectFlow Credit Agreement

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

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

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

This Quarterly Report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts are "forward-looking statements" for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, including any statements concerning new licensing, any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as "may," "will," "intends," "plans," "believes," "anticipates," "expects," "estimates," "predicts," "potential," "continue" or "opportunity," or the negative thereof or other comparable terminology. Although we believe that the expectations presented in the forward-looking statements contained herein are reasonable at the time they were made, there can be no assurance that such expectations or any of the forward-looking statements will prove to be correct, and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including but not limited to the risk factors set forth below or incorporated by reference herein, and for the reasons described elsewhere in this Quarterly Report. All forward-looking statements and reasons why results may differ included in this Quarterly Report are made as of the date hereof, and we assume no obligation to update these forward-looking statements or reasons why actual results might differ.

OVERVIEW

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

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

In 2011, PDL initiated a strategy to bring in new income generating assets from the healthcare sector. To accomplish this goal, PDL seeks to provide non-dilutive growth capital and financing solutions to late stage public and private healthcare companies and offers immediate financial monetization of royalty streams to companies, academic institutions and inventors. PDL successfully executed on this strategy by deploying over $125 million in 2012 and continues to pursue this strategic initiative. PDL is focused on the quality of the income generating assets and potential returns on investment.

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

Recent Developments

Dividend Payment and Effect on Conversion Rates for the Convertible Notes

On January 23, 2013, our board of directors declared that the regular quarterly dividends to be paid to our stockholders in 2013 will be $0.15 per share of common stock, payable on March 12, June 12, September 12 and December 12 of 2013 to stockholders of record on March 5, June 5, September 5 and December 5 of 2013, the record dates for each of the dividend payments, respectively. On September 12, 2013, we paid the regular quarterly dividend to our stockholders totaling $21.0 million using earnings generated in the three months ended September 30, 2013.

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

Convertible Notes	Conversion Rate per $1,000 Principal Amount	Approximate Conversion Price Per Common Share	Effective Date
Series 2012 Notes	179.777	$ 5.56	September 3, 2013
May 2015 Notes	157.3700	$ 6.35	September 3, 2013

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

Wellstat Diagnostics Forbearance Agreement

In January 2013, the Company was informed that, as of November 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. PDL sent Wellstat Diagnostics a notice of default on January 22, 2013, and accelerated the amounts owed under the credit agreement. In connection with the notice of default, PDL exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to PDL and applied the funds to amounts due under the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby PDL agreed to refrain from exercising additional remedies for 120 days while Wellstat Diagnostics raised funds to capitalize the business and the parties attempted to negotiate a revised credit agreement. PDL agreed to provide up to $7.9 million to Wellstat Diagnostics to fund the business for the 120-day forbearance period under the terms of the forbearance agreement. Following the conclusion of the June 28 forbearance period, the Company agreed to forbear in its exercise of remedies for additional periods of time to allow the owners and affiliates of Wellstat Diagnostics to complete a pending financing transaction. During such forbearance period, the Company provided approximately $1.3 million to Wellstat Diagnostics to fund ongoing operations of the business. During the nine months ended September 30, 2013, approximately $8.7 million was advanced pursuant to the forbearance agreement.

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

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

Wellstat Diagnostics may prepay the amended credit agreement at a price that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company. In the event of a change of control, bankruptcy or certain other customary events of defaults, or Wellstat Diagnostics' failure to achieve a specified annual revenue threshold in 2017, Wellstat Diagnostics will be required to prepay the credit agreement at a price that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company. The amended credit agreement is secured by a pledge of all of the assets of Wellstat Diagnostics, a pledge of all of Wellstat Diagnostics' equity interests by the holders thereof, and a second lien on the assets of the affiliates of Wellstat Diagnostics. The Company believes the fair value of the collateral is not less than $76.6 million.

As of September 30, 2013, the Company determined that its interest in Wellstat Diagnostics represented a variable interest in a Variable Interest Entity since Wellstat Diagnostics' equity was not sufficient to finance its operations without amounts advanced

to it under the Company's note and forbearance agreement. However, the Company does not have the power to unilaterally direct operational activities of Wellstat Diagnostics and is not the primary beneficiary of Wellstat Diagnostics; therefore, Wellstat Diagnostics is not subject to consolidation.

As of September 30, 2013, the carrying value of all amounts advanced to Wellstat Diagnostics was $45.3 million, which was recorded in notes receivable.

Subsequent Events

LENSAR, Inc. Credit Agreement

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

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

Depomed, Inc. Royalty Purchase and Sales Agreement

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

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

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

Term Loan

On October 28, 2013, PDL entered into a credit agreement among the Company, the lenders party, and Royal Bank of Canada as administrative agent. The credit agreement consists of a term loan of $75.0 million, with a term of P1Y year.

The interest rates per annum applicable to amounts outstanding under the term loan are, at the Company’s option, either (a) the base rate plus 1.00%, or (b) the Eurodollar rate plus 2.00% per annum. Interest and principal payments under the credit agreement are due on the interest payment dates of January 31, April 30, and July 31 of 2014, with the remaining outstanding balance due on October 28, 2014.

Any future material domestic subsidiaries of the Company are required to guarantee the obligations of the Company under the credit agreement, except as otherwise provided by the credit agreement. The Company’s obligations under the Credit Agreement are secured by a lien on a substantial portion of its assets.

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

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

Durata Credit Agreement

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

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

DirectFlow Credit Agreement

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

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

Intellectual Property

Patents

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

Our U.S. Patent No. 5,693,761 (the '761 Patent), which expires on December 2, 2014, covers methods and materials used in the manufacture of humanized antibodies. In addition to covering methods and materials used in the manufacture of humanized antibodies, coverage under our ‘761 Patent will typically extend to the use or sale of compositions made with those methods and/or materials. Genentech has advised us that they believe Lucentis® is not covered by the claims of the '761 Patent. We have requested clarification from Genentech on the bases of their belief. However, Genentech may elect to stop royalty payments on Lucentis that is manufactured and sold in the United States after June 25, 2013. Genentech has not suggested that Lucentis that is manufactured in the United States prior to June 25, 2013 and sold after that date will not be subject to a royalty payment to us. In addition, our SPCs covering manufacture and/or sale of Lucentis in Europe do not expire until in December 2014.

Our European Patent No. 451 216B (the '216B Patent) expired in Europe in December 2009. We have been granted SPCs for the Avastin®, Herceptin®, Lucentis, Xolair® and Tysabri® products in many of the jurisdictions in the European Union in connection with the ‘216B Patent. The SPCs effectively extend our patent protection with respect to SPC Products generally until December 2014, except that the SPCs for Herceptin will generally expire in July 2014. Because SPCs are granted on a jurisdiction-by-jurisdiction basis, the duration of the extension varies slightly in certain jurisdictions. We may still be eligible

for royalties notwithstanding the unavailability of SPC protection if the relevant royalty-bearing humanized antibody product is also made, used, sold or offered for sale in or imported from a jurisdiction in which we have an unexpired Queen et al. patent such as the United States.

Licensing Agreements

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

Licensing Agreements for Marketed Products

In the nine months ended September 30, 2013, we received royalties on sales of the eight humanized antibody products listed below, all of which are currently approved for use by the FDA and other regulatory agencies outside the United States.

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

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

For the three months ended September 30, 2013 and 2012, we received royalty revenues under license agreements of $96.3 million and $85.2 million, respectively, and for the nine months ended September 30, 2013 and 2012, we received royalty revenues under license agreements of $331.8 million and $288.5 million, respectively.

On February 22, 2013, Genentech announced that the FDA approved Kadcyla® for second line treatment of HER2-positive metastatic breast cancer and first line treatment for those patients who relapse within six months following adjuvant therapy. Roche has submitted a Marketing Authorization Application to other regulatory authorities around the world, including the EMA, for Kadcyla for the treatment of people with HER2-positive metastatic breast cancer. On September 20, 2013, the EU's Committee for Medicinal Products for Human Use recommended its approval for the treatment of adults with HER2-positive, inoperable locally advanced or metastatic breast cancer who previously received trastuzumab and a taxane, separately or in combination. Also on September 20, 2013, Japan approved it for the same indication. PDL began receiving royalties in the second quarter of 2013 for the sales that occurred in the first quarter of 2013. Because Kadcyla is an antibody drug conjugate, i.e., made up of the antibody, trastuzumab, and the chemotherapy, DM1, joined together using a stable linker, it is a "combination product" under the terms of the license agreement and PDL will not receive royalties on that portion of the sales of the drug attributable to the DM1.

Genentech

We entered into a master patent license agreement, effective September 25, 1998, under which we granted Genentech a license under our Queen et al. patents to make, use and sell certain antibody products. Our license agreement with Genentech entitles us to royalties following the expiration of our patents with respect to sales of licensed product manufactured prior to patent

expiry in jurisdictions providing patent protection. Our master patent license agreement with Genentech provides for a tiered royalty structure under which the royalty rate Genentech must pay on royalty-bearing products sold in the United States or manufactured in the United States and used or sold anywhere in the world in a given calendar year decreases on incremental U.S.-based Sales above certain sales thresholds based on 95% of the underlying gross U.S.-based Sales. The net sales thresholds and the applicable royalty rates are outlined below:

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

As a result of the tiered royalty structure, Genentech's average annual royalty rate for a given year will decline as Genentech's U.S.-based Sales increase during that year. Because we receive royalties one quarter in arrears, the average royalty rates for the payments we receive from Genentech for U.S.-based Sales in the second calendar quarter for Genentech's sales from the first calendar quarter have been and are expected to continue to be higher than the average royalty rates for following quarters. The average royalty rates for payments we receive from Genentech are generally lowest in the fourth and first calendar quarters for Genentech's sales from the third and fourth calendar quarters when more of Genentech's U.S.-based Sales bear royalties at the 1% royalty rate.

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2013	**2012**	**2013**	**2012**
Avastin				
Ex-U.S.-based Sales	59%	56%	58%	56%
Ex-U.S.-based Manufacturing and Sales	38%	29%	45%	25%
Herceptin				
Ex-U.S.-based Sales	69%	70%	68%	70%
Ex-U.S.-based Manufacturing and Sales	38%	37%	38%	38%
Kadcyla				
Ex-U.S.-based Sales	1%	0%	1%	0%
Ex-U.S.-based Manufacturing and Sales	0%	0%	0%	0%
Lucentis				
Ex-U.S.-based Sales	63%	65%	65%	62%
Ex-U.S.-based Manufacturing and Sales	0%	0%	0%	0%
Perjeta				
Ex-U.S.-based Sales	26%	0%	16%	0%
Ex-U.S.-based Manufacturing and Sales	0%	0%	0%	0%
Xolair				
Ex-U.S.-based Sales	40%	39%	40%	39%
Ex-U.S.-based Manufacturing and Sales	40%	39%	40%	39%

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

In the nine months ended September 30, 2013 and 2012, PDL received royalties from ex-U.S. based Manufacturing and Sales of three of Genentech's licensed products: Herceptin, Avastin and Xolair. Roche, Genentech's parent company, produces Avastin and Herceptin in plants in Basel, Switzerland and Penzberg, Germany, respectively. Roche has announced that there are new plants in Singapore for the potential production of Avastin and Lucentis.

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

On June 8, 2012, Genentech announced that the U.S. Food and Drug Administration approved Perjeta (pertuzumab). Perjeta is approved in combination with Herceptin and docetaxel chemotherapy for the treatment of people with HER2-postive metastatic breast cancer who have not received prior anti-HER2 therapy or chemotherapy for metastatic disease. PDL began receiving royalties generated from Perjeta during the quarter ended September 30, 2012.

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

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

On February 22, 2013, Genentech announced that the FDA approved Kadcyla for second line treatment of HER2-positive metastatic breast cancer and first line treatment for those patients who relapse within six months following adjuvant therapy. Roche has submitted a Marketing Authorization Application to other regulatory authorities around the world, including the EMA, for Kadcyla for the treatment of people with HER2-positive metastatic breast cancer. On September 20, 2013, the EU's Committee for Medicinal Products for Human Use recommended its approval for the treatment of adults with HER2-positive, inoperable locally advanced or metastatic breast cancer who previously received trastuzumab and a taxane, separately or in combination. Also on September 20, 2013, Japan approved it for the same indication. PDL began receiving royalties in the second quarter of 2013 for the sales that occurred in the first quarter of 2013. Because Kadcyla is an antibody drug conjugate, i.e., made up of the antibody, trastuzumab, and the chemotherapy, DM1, joined together using a stable linker, it is a "combination product" under the terms of the license agreement and PDL will not receive royalties on that portion of the sales of the drug attributable to the DM1.

In 2010 we initiated an audit of Genentech related to its payment of royalties for the period 2007-2009. KPMG, who Genentech and PDL agreed would be the independent auditor for this purpose, concluded that, based on the information available to it, Genentech may have underpaid royalties during the audited period. Genentech disagrees with KPMG's conclusions. Since we have been unable to resolve this matter with Genentech, we filed a Notice of Arbitration on June 7, 2013, against Genentech alleging that Genentech underpaid royalties going back to at least 2007 and impeded our attempts to have Genentech's books and records inspected to determine whether Genentech's past payments to PDL were accurately calculated. The outcome of this arbitration is uncertain, and we may not be successful in our allegations.

Biogen Idec

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

Chugai

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

Licensing Agreements for Non-Marketed Products

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

Economic and Industry-wide Factors

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

Critical Accounting Policies and Uses of Estimates

During the nine months ended September 30, 2013, there have been no significant changes to our critical accounting policies since those presented in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2012.

Operating Results

Three and nine months ended September 30, 2013, compared to three and nine months ended September 30, 2012

Revenues

	Three Months Ended September 30,		Change from Prior	Nine Months Ended September 30,		Change from Prior
	2013	2012	Year %	2013	2012	Year %
(Dollars in thousands)						
Revenues						
Royalties	$ 96,314	$ 85,231	13%	$ 331,778	$ 288,479	15%
License and other	1,000	—	N/M	1,000	—	N/M
Total revenues	$ 97,314	$ 85,231	14%	$ 332,778	$ 288,479	15%

N/M = Not meaningful

Total royalty revenues were $96.3 million and $85.2 million for the three months ended September 30, 2013 and 2012, respectively, and $331.8 million and $288.5 million for the nine months ended September 30, 2013 and 2012, respectively, and

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

Royalty revenues increased 13% for the three months ended September 30, 2013, when compared to the same period in 2012, and increased 15% for the nine months ended September 30, 2013, when compared to the same period in 2012. The growth is primarily driven by increased royalties in the first, second and third quarters of 2013 related to sales of Avastin, Herceptin, Lucentis, Xolair, Perjeta, Kadcyla and Actemra by our licensees. Net sales of Avastin, Herceptin, Lucentis, Xolair, Perjeta and Kadcyla are subject to a tiered royalty rate except in the case when the product is ex-U.S. Manufactured and Sold, in which case it is subject to a flat three percent royalty rate.

Total revenues were $97.3 million and $332.8 million for the three and nine months ended September 30, 2013, respectively, and consisted of royalty revenues as well as license and other revenues including a total of $1.0 million in milestone payments from Roche related to obinutuzumab in the period. There were no license and other revenues during the same periods ending September 30, 2012.

The following table summarizes the percentage of our total revenues earned from our licensees' net product sales that individually accounted for 10% or more of our total revenues for the three and nine months ended September 30, 2013 and 2012:

		Three Months Ended September 30,		Nine Months Ended September 30,	
Licensee	**Product Name**	**2013**	**2012**	**2013**	**2012**
Genentech	*Avastin*	33%	30%	34%	31%
	Herceptin	32%	36%	33%	35%
	Lucentis	14%	15%	17%	18%
Biogen Idec[1]	*Tysabri*	12%	14%	11%	12%

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

Foreign currency exchange rates also impact our reported revenues. More than 50% of our licensees' product sales are in currencies other than U.S. dollars; as such, our revenues may fluctuate due to changes in foreign currency exchange rates and are subject to foreign currency exchange risk. While foreign currency conversion terms vary by license agreement, generally most agreements require that royalties first be calculated in the currency of sale and then converted into U.S. dollars using the average daily exchange rates for that currency for a specified period at the end of the calendar quarter. Accordingly, when the U.S. dollar weakens against other currencies, the converted amount is greater than it would have been had the U.S. dollar not weakened. For example, in a quarter in which we generate $70 million in royalty revenues, and when approximately $35 million is based on sales in currencies other than U.S. dollar, if the U.S. dollar strengthens across all currencies by ten percent during the conversion period for that quarter, when compared to the same amount of local currency royalties for the prior year, U.S. dollar converted royalties will be approximately $3.5 million less in the current quarter than in the prior year quarter. The impact on full year revenue is greatest in the second quarter when we receive the largest amount of royalties because the Genentech tiered royalties are at their highest rate for first quarter sales.

As a result of our Euro forward contracts, recognized royalty revenues did not increase for the three months ended September 30, 2013 and decreased $0.5 million for the three months ended 2012, and decreased $1.6 million and $1.5 million for the nine months ended September 30, 2013 and 2012, respectively.

Operating Expenses

	Three Months Ended September 30,		Change from Prior	Nine Months Ended September 30,		Change from Prior
	2013	2012	Year %	2013	2012	Year %
(In thousands)						
General and administrative	$ 7,925	$ 5,647	40%	$ 21,894	$ 17,737	23%
Percentage of total revenues	8%	7%		7%	6%	

The increase in operating expenses for the three and nine months ended September 30, 2013 compared to the same periods in 2012 was a result of increased legal expenses related to litigation.

Non-operating Expense, Net

For the three months ended September 30, 2013, compared to the three months ended September 30, 2012, non-operating expense, net, decreased primarily due to a $1.0 million increase in interest income from the notes receivables entered into during 2012 and 2013 and $0.4 million lower interest expense as a result of our repayment of the principal balance of our Non-Recourse Notes.

For the nine months ended September 30, 2013, compared to the nine months ended September 30, 2012, non-operating expense, net, decreased primarily due to a $9.3 million increase in interest income from the notes receivables entered into during 2012 and 2013 and $4.9 million lower interest expense as a result of our repayment of the principal balance of our Non-Recourse Notes.

Income Taxes

Income tax expense for the three months ended September 30, 2013 and 2012, was $30.0 million and $26.4 million, respectively, and for the nine months ended September 30, 2013 and 2012, was $101.0 million and $87.8 million, respectively, which resulted primarily from applying the federal statutory income tax rate to income before income taxes.

During the second and third quarters of 2013, the Company released tax liabilities for the federal tax credits taken on the 2009 income tax return, in the amount of $5.7 million and $0.4 million, respectively. This resulted in a reduction to income tax expense for the second and third quarters of 2013. We expect to release additional tax liabilities in the third quarter of 2014 of approximately $7.0 million.

Net Income per Share

Net income per share for the three and nine months ended September 30, 2013 and 2012, was:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income per basic share	$ 0.40	$ 0.35	$ 1.45	$ 1.16
Net income per diluted share	$ 0.36	$ 0.32	$ 1.31	$ 1.08

The increase in the net income per diluted share is due to the increase in royalty revenues and the resulting increase in net income.

Liquidity and Capital Resources

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

We had cash, cash equivalents and investments in the aggregate of $326.5 million and $148.7 million, excluding restricted investments, at September 30, 2013, and December 31, 2012, respectively. The increase was primarily attributable to net cash provided by operating activities of $209.7 million and repayment of notes receivable of $58.1 million, offset in part by payment of dividends of $62.9 million and cash advanced on notes receivable of $48.7 million. We believe that cash from future royalty revenues, net of operating expenses, debt service and income taxes, plus cash on hand, will be sufficient to fund our operations over the next several years. The last of our Queen et al. patents expires in December 2014, with the obligation to pay royalties under various license agreements expiring sometime thereafter, and we do not expect to receive any meaningful revenue from the inventories produced prior to the expiration of our Queen et al. patents beyond the first quarter of 2016.

We continuously evaluate alternatives to increase return for our stockholders by, for example, purchasing income generating assets, buying back our convertible notes, repurchasing our common stock, paying dividends and selling the Company. On January 23, 2013, our board of directors declared regular quarterly dividends of $0.15 per share of common stock, payable on March 12, June 12, September 12 and December 12 of 2013 to stockholders of record on March 5, June 5, September 5 and December 5 of 2013, the record dates for each of the dividend payments, respectively.

Notes and Other Long-term Receivables

Wellstat Diagnostics Note Receivable and Credit Agreement

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

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

In January 2013, the Company was informed that, as of November 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. PDL sent Wellstat Diagnostics a notice of default on January 22, 2013, and accelerated the amounts owed under the credit agreement. In connection with the notice of default, PDL exercised one of its available remedies and transferred approximately $8.1 million of available cash from a bank account of Wellstat Diagnostics to PDL and applied the funds to amounts due under the credit agreement. On February 28, 2013, the parties entered into a forbearance agreement whereby PDL agreed to refrain from exercising additional remedies for 120 days while Wellstat Diagnostics raised funds to capitalize the business and the parties attempted to negotiate a revised credit agreement. PDL agreed to provide up to $7.9 million to Wellstat Diagnostics to fund the business for the 120-day forbearance period under the terms of the forbearance agreement. Following the conclusion of the June 28 forbearance period, the Company agreed to forbear in its exercise of remedies for additional periods of time to allow the owners and affiliates of Wellstat Diagnostics to complete a pending financing transaction. During such forbearance period, the Company provided approximately $1.3 million to Wellstat Diagnostics to fund ongoing operations of the business. During the nine months ended September 30, 2013, approximately $8.7 million was advanced pursuant to the forbearance agreement.

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

Except as otherwise described here, the material terms of the amended credit agreement are substantially the same as those of the original credit agreement, including quarterly interest payments at the rate of 5% per annum (payable in cash or in kind). In addition, PDL will continue to receive quarterly royalty payments based on a low double digit royalty rate of Wellstat Diagnostics' net revenues. However, pursuant to the amended credit agreement: (i) the principal amount was reset to approximately $44.1 million which was comprised of approximately $33.7 million original loan principal and interest, $1.3 million term loan principal and interest and $9.1 million forbearance principal and interest; (ii) the specified internal rates of return increased; (iii) the default interest rate was increased; (iv) Wellstat Diagnostics' obligation to provide certain financial information increased in frequency to monthly; (v) internal financial controls were strengthened by requiring Wellstat Diagnostics to maintain an independent, third-party financial professional with control over fund disbursements; (vi) the

Company waived the existing events of default; and (vii) the owners and affiliates of Wellstat Diagnostics are required to contribute additional capital to Wellstat Diagnostics upon the sale of an affiliate entity. The restated credit agreement continues to have an ultimate maturity date of December 31, 2021 (but may mature earlier upon certain specified events).

Wellstat Diagnostics may prepay the amended credit agreement at a price that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company. In the event of a change of control, bankruptcy or certain other customary events of defaults, or Wellstat Diagnostics' failure to achieve a specified annual revenue threshold in 2017, Wellstat Diagnostics will be required to prepay the credit agreement at a price that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company. The amended credit agreement is secured by a pledge of all of the assets of Wellstat Diagnostics, a pledge of all of Wellstat Diagnostics' equity interests by the holders thereof, and a second lien on the assets of the affiliates of Wellstat Diagnostics. The Company believes the fair value of the collateral is not less than $76.6 million.

At September 30, 2013, the carrying value of the note was included in non-current assets.

Merus Labs Receivable and Credit Agreement

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

Outstanding borrowings under the July 2012 loan bore interest at the rate of 13.5% per annum and outstanding borrowings as a result of the draw on the letter of credit bore interest at the rate of 14.0% per annum. Merus Labs was required to make four periodic principal payments in respect of the July 2012 loan, with repayment of the remaining principal balance of all loans due on March 31, 2015. The borrowings were subject to mandatory prepayments upon certain asset dispositions or debt issuances as set forth in the credit agreement. Merus Labs made the first of these payments in December 2012 in the amount of $5.0 million, and made the second payment in June 2013 in the amount of $7.5 million. In September 2013, Merus Labs made two additional payments totaling $43.3 million, including the prepayment fee, in order to pay its remaining outstanding balance. In September 2013, Merus Labs prepaid its entire outstanding balance, including accrued interest through the payment date and a prepayment penalty. There was no outstanding balance as of September 30, 2013.

AxoGen Note Receivable and Royalty Agreement

In October 2012, PDL entered into the Royalty Agreement with AxoGen pursuant to which the Company will receive specified royalties on AxoGen's net revenues (as defined in the Royalty Agreement) generated by the sale, distribution or other use of AxoGen's products. The Royalty Agreement has an eight year term and provides PDL with royalties of 9.95% based on AxoGen Net Revenues, subject to agreed-upon guaranteed quarterly minimum payments of approximately $1.3 to $2.3 million beginning in the fourth quarter of 2014, and the right to require AxoGen to repurchase the Royalty Agreement at the end of the fourth year. AxoGen has been granted certain rights to call the contract in years five through eight. The total consideration PDL paid to AxoGen for the royalty rights was $20.8 million, including the termination of an interim funding of $1.8 million in August 2012. AxoGen was required to use a portion of the proceeds from the Royalty Agreement to pay the outstanding balance under its existing credit facility. AxoGen plans to use the remainder of the proceeds to support the business plan for its products. The royalty rights are secured by the cash and accounts receivable of AxoGen.

Under the Royalty Agreement, beginning on October 1, 2016, or in the event of the occurrence of a material adverse event or AxoGen's bankruptcy or material breach of the Royalty Agreement, the Company may require AxoGen to repurchase the royalty rights at a price that, together with payments already made by AxoGen, would generate a specified internal rate of return to the Company. The Company has concluded that the repurchase option is an embedded derivative which should be bifurcated and separately recorded at fair value. The fair value of the repurchase option was not material on September 30, 2013.

In the event of a change of control, AxoGen must repurchase the assigned interests from the Company for a repurchase price equal to an amount that, together with payments already made by AxoGen, would generate a 32.5% internal rate of return to the Company. The Company has concluded that the change of control provision is an embedded derivative that should be bifurcated and separately accounted for at fair value. The estimated fair value of the change of control provision was approximately $1.0 million on September 30, 2013.

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

On August 14, 2013, PDL purchased 1,166,666 shares of AXGN at $3.00 per share, totaling $3.5 million. The shares are classified as available for sale and recorded as short term investments on the balance sheet. As of September 30, 2013, the shares were valued at $5.2 million, which results in an unrealized gain of $1.7 million and is recorded in other comprehensive income.

Avinger Credit and Royalty Agreement

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

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

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

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

Convertible Notes

Series 2012 Notes

In January 2012, we exchanged $169.0 million aggregate principal amount of our February 2015 Notes, for an identical principal amount of new Series 2012 Notes, plus a cash payment of $5.00 for each $1,000 principal amount tendered for a total cash incentive payment of approximately $0.8 million. Additionally, in February 2012, we entered into separate privately negotiated exchange agreements under which we exchanged an additional $10.0 million aggregate principal amount of our February 2015 Notes for an identical principal amount of our new Series 2012 Notes. In August 2013, the Company entered into a separate privately negotiated exchange agreement under which it retired the final $1.0 million aggregate principal amount of the Company's outstanding February 2015 Notes. Pursuant to the exchange agreement, the holder of the February 2015 Notes received $1.0 million aggregate principal amount of the Company's Series 2012 Notes. Immediately following the exchange, no principal amount of the February 2015 Notes remained outstanding and $180.0 million principal amount of the Series 2012 Notes is outstanding. Our Series 2012 Notes net share settle, meaning that if a conversion occurs, the principal amount will be settled in cash and the excess, if any, will be settled in the Company’s common stock.

Our Series 2012 Notes bear interest at a rate of 2.875% per annum, payable semiannually in arrears on February 15 and August 15 of each year, beginning on February 15, 2012. The Series 2012 Notes mature on February 15, 2015, unless earlier repurchased or converted. The Company may not redeem the Series 2012 Notes prior to their stated maturity date. Our Series 2012 Notes are not puttable by the note holders other than in the context of a fundamental change resulting in the reclassification, conversion, exchange or cancellation of our common stock. Such repurchase event or fundamental change is generally defined to include a merger involving PDL, an acquisition of a majority of PDL’s outstanding common stock and a change of a majority of PDL’s board of directors without the approval of the board of directors.

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

- During any fiscal quarter commencing after the fiscal quarter ending December 31, 2011, if the closing price of the Company's common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price for the Series 2012 Notes on the last day of such preceding fiscal quarter;
- During the five business-day period immediately after any five consecutive trading-day period in which the trading price per $1,000 principal amount of the Series 2012 Notes for each trading day of that measurement period was less than 98% of the product of the closing price of the Company's common stock and the conversion rate for the Series 2012 Notes for that trading day;
- Upon the occurrence of certain corporate transactions as provided in the indenture; or
- Anytime, at the holder's option, beginning on August 15, 2014.

Upon conversion of Series 2012 Notes, the Company will be required to pay cash and, if applicable, deliver shares of the Company's common stock. Our Series 2012 Notes are convertible into 179.777 shares of the Company's common stock per $1,000 of principal amount or approximately $5.56 per share of our common stock, subject to further adjustment upon certain events including dividend payments. As of September 30, 2013, $180.0 million of our Series 2012 Notes were outstanding and the if-converted value exceeded the principal amount by approximately $77.9 million. Our common stock did exceed the conversion threshold price of $7.37 for at least 20 days during the 30 consecutive trading days ended June 30, 2013; accordingly, the Series 2012 Notes were convertible at the option of the holder during the quarter ended September 30, 2013. Our common stock did exceed the conversion threshold price of $7.23 for at least 20 days during the 30 consecutive trading days ended September 30, 2013; accordingly, the Series 2012 Notes are convertible at the option of the holder during the quarter ending December 31, 2013. In the second quarter of 2013, the Series 2012 Notes have been reclassified from non-current to current as the notes will be due upon demand within one year of the quarter end September 30, 2013.

As of November 4, 2013, we have not received notices for the conversion of the Series 2012 Notes. If we do receive any conversion notices they would be net settled in cash and the excess, if any, will be settled in the Company's common stock. We do not expect the current capital market conditions and credit environment to create incentives for note holders to convert their notes, however, there can be no assurance that our holders will not request conversion. If the full $180.0 million in aggregate convertible debt was called for conversion prior to December 31, 2013, given our current cash and cash equivalents balance, we would have sufficient unrestricted cash and cash equivalents on hand to satisfy the conversion without additional liquidity. We may also consider restructuring our obligations under the convertible debt, or raising additional cash through sales of investments, assets or common stock, or from borrowings to fund this conversion.

May 2015 Notes

Our May 2015 Notes are due May 1, 2015, and bear interest at a rate of 3.75% per annum, payable semiannually in arrears on May 1 and November 1 of each year, beginning November 1, 2011. Upon the occurrence of a fundamental change, as defined in the indenture, holders have the option to require PDL to repurchase their May 2015 Notes at a purchase price equal to 100% of the principal, plus accrued interest. Our May 2015 Notes are convertible under any of the following circumstances:

- During any fiscal quarter commencing after the fiscal quarter ending June 30, 2011, if the closing price of the Company's common stock for at least 20 trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the conversion price for the Series 2012 Notes on the last day of such preceding fiscal quarter;
- During the five business-day period immediately after any five consecutive trading-day period, which we refer to as the measurement period, in which the trading price per $1,000 principal amount of notes for each trading day of that measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate for the notes for each such day;
- Upon the occurrence of certain corporate transactions as provided in the indenture; or
- Anytime, on or after November 1, 2014.

Upon conversion of the May 2015 Notes, the Company will be required to pay cash, and if applicable, deliver shares of the Company's common stock. Our May 2015 Notes are convertible into 157.3700 shares of the Company's common stock per $1,000 of principal amount, or approximately $6.35 per share of our common stock, subject to further adjustment upon certain

events including dividend payments. As of September 30, 2013, $155.3 million of our May 2015 Notes were outstanding and the if-converted value exceeded the principal amount by approximately $39.5 million. However, our common stock price did not exceed the threshold price of $8.42 per common share for at least 20 days during the 30 consecutive trading days ended June 30, 2013; accordingly, the May 2015 Notes were not convertible at the option of the holder during the quarter ended September 30, 2013. Our common stock did not exceed the conversion threshold price of $8.26 for at least 20 days during the 30 consecutive trading days ended September 30, 2013; accordingly, the May 2015 Notes are not convertible at the option of the holder during the quarter ending December 31, 2013.

Purchased Call Options and Warrants

In connection with the issuance of our May 2015 Notes, we entered into purchased call option transactions with two hedge counterparties. We paid an aggregate amount of $20.8 million, plus legal fees, for the purchased call options with terms substantially similar to the embedded conversion options in our May 2015 Notes. The purchased call options cover, subject to anti-dilution and certain other customary adjustments substantially similar to those in our May 2015 Notes, approximately 24.4 million shares of our common stock at a strike price of approximately $6.35, which corresponds to the conversion price of our May 2015 Notes. We may exercise the purchased call options upon conversion of our May 2015 Notes and require the hedge counterparty to deliver shares to the Company in an amount equal to the shares required to be delivered by the Company to the note holder for the excess conversion value. The purchased call options expire on May 1, 2015, or the last day any of our May 2015 Notes remain outstanding.

In addition, we sold to the hedge counterparties warrants exercisable, on a cashless basis, for the sale of rights to receive up to 27.5 million shares of common stock underlying our May 2015 Notes, at a current strike price of approximately $7.48 per share, subject to additional anti-dilution and certain other customary adjustments. We received an aggregate amount of $10.9 million for the sale from the two counterparties. The warrant counterparties may exercise the warrants on their specified expiration dates that occur over a period of time ending on January 20, 2016. If the VWAP of our common stock, as defined in the warrants, exceeds the strike price of the warrants, we will deliver to the warrant counterparties shares equal to the spread between the VWAP on the date of exercise or expiration and the strike price. If the VWAP is less than the strike price, neither party is obligated to deliver anything to the other.

The purchased call option transactions and warrant sales effectively serve to reduce the potential dilution associated with conversion of our May 2015 Notes.

If the share price is above $6.35, but below $7.48, upon conversion of our May 2015 Notes, the purchased call options will offset the share dilution, because the Company will receive shares on exercise of the purchased call options equal to the shares that the Company must deliver to the note holders. If the share price is above $7.48, upon exercise of the warrants, the Company will deliver shares to the counterparties in an amount equal to the excess of the share price over $7.48. For example, a 10% increase in the share price above $7.48 would result in the issuance of 1.9 million incremental shares upon exercise of the warrants. As our share price continues to increase, additional dilution would occur.

While the purchased call options are expected to reduce the potential equity dilution upon conversion of our May 2015 Notes, prior to conversion or exercise, our May 2015 Notes and the warrants could have a dilutive effect on the Company's earnings per share to the extent that the price of the Company's common stock during a given measurement period exceeds the respective exercise prices of those instruments. As of September 30, 2013, the market price condition for convertibility of our May 2015 Notes was not met and there were no related purchased call options or warrants exercised.

The purchased call options and warrants are considered indexed to PDL stock, require net-share settlement, and met all criteria for equity classification at inception and at September 30, 2013, and December 31, 2012. The purchased call options cost, including legal fees, $20.8 million, less deferred taxes of $7.2 million, and the $10.9 million received for the warrants were recorded as adjustments to additional paid-in capital. Subsequent changes in fair value will not be recognized as long as the purchased call options and warrants continue to meet the criteria for equity classification.

Off-Balance Sheet Arrangements

As of September 30, 2013, we did not have any off-balance sheet arrangements, as defined under SEC Regulation S-K Item 303(a)(4)(ii).

Contractual Obligations

Convertible Notes

As of September 30, 2013, our contractual obligations consisted primarily of our Series 2012 Notes and May 2015 Notes, which in the aggregate totaled $335.3 million in principal. Our Series 2012 and our May 2015 Notes are not puttable by the note holders other than in the context of a fundamental change.

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

Notes Receivable and Other Long Term Receivables

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

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

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

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

Lease Guarantee

In connection with the Spin-Off, we entered into amendments to the leases for our former facilities in Redwood City, California, under which Facet was added as a co-tenant, and a Co-Tenancy Agreement, under which Facet agreed to indemnify us for all matters related to the leases attributable to the period after the Spin-Off date. Should Facet default under its lease obligations, we could be held liable by the landlord as a co-tenant and, thus, we have in substance guaranteed the payments under the lease agreements for the Redwood City facilities. As of September 30, 2013, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $92.7 million. If Facet were to default, we could also be responsible for lease related costs including utilities, property taxes and common area maintenance which may be as much as the actual lease payments. We have recorded a liability of $10.7 million on our Condensed Consolidated Balance Sheets as of September 30, 2013, and December 31, 2012, related to this guarantee.

Indemnification

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

The underlying sales of our licensees' products are conducted in multiple countries and in multiple currencies throughout the world. While foreign currency conversion terms vary by license agreement, generally most agreements require that royalties first be calculated in the currency of sale and then converted into U.S. dollars using the average daily exchange rates for that currency for a specified period at the end of the calendar quarter. Accordingly, when the U.S. dollar weakens in relation to other currencies, the converted amount is greater than it would have been had the U.S. dollar not weakened. More than 50% of our licensees' product sales are in currencies other than U.S. dollars; as such, our revenues may fluctuate due to changes in foreign currency exchange rates and are subject to foreign currency exchange risk. For example, in a quarter in which we generate $70 million in royalty revenues, and when approximately $35 million is based on sales in currencies other than the U.S. dollar, if the U.S. dollar strengthens across all currencies by 10% during the conversion period for that quarter, when compared to the same amount of local currency royalties for the prior year, U.S. dollar converted royalties will be approximately $3.5 million less in that current quarter sales, assuming that the currency risk in such forecasted sales was not hedged.

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

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

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

Gains or losses on our cash flow hedges are recognized in the same period that the hedged transaction impacts earnings as an adjustment to royalty revenue. Ineffectiveness, if any, resulting from the change in fair value of the modified 2012 hedge or lower than forecasted Euro-based royalties will be reclassified from other comprehensive income (loss) and recorded as interest and other income, net, in the period it occurs. The following table summarizes the notional amounts, Euro exchange rates and fair values of our outstanding Euro contracts designated as hedges at September 30, 2013, and December 31, 2012:

Euro Forward Contracts			**September 30, 2013**		**December 31, 2012**	
			(In thousands)		***(In thousands)***	
Currency	**Settlement Price ($ per Euro)**	**Type**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Euro	1.230	Sell Euro	$ —	$ —	$ 27,553	$ (2,036)
Euro	1.240	Sell Euro	10,850	(982)	10,850	(726)
Euro	1.270	Sell Euro	44,450	(2,887)	44,450	(1,950)
Euro	1.281	Sell Euro	36,814	(2,076)	36,814	(1,331)
Euro	1.300	Sell Euro	39,000	(1,563)	91,000	(1,538)
Total			$ 131,114	$ (7,508)	$ 210,667	$ (7,581)

Interest Rate Risk

Our investment portfolio was approximately $276.7 million at September 30, 2013, and $140.8 million at December 31, 2012, and consisted of investments in Rule 2a-7 money market funds, certificates of deposit and corporate debt securities. If market

interest rates were to have increased by 1% in either of these years, there would have been no material impact on the fair value of our portfolio.

The aggregate fair value of our convertible notes was estimated to be $457.1 million at September 30, 2013, and $410.5 million at December 31, 2012, based on available pricing information. At September 30, 2013, and December 31, 2012, our convertible notes consisted of our Series 2012 Notes, with a fixed interest rate of 2.875%, and our May 2015 Notes, with a fixed interest rate of 3.75%. These obligations are subject to interest rate risk because the fixed interest rates under these obligations may exceed current market interest rates.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2013, our disclosure controls and procedures were effective to ensure the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Controls

There were no changes in our internal controls over financial reporting during the quarter ended September 30, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within an organization have been detected. We continue to improve and refine our internal controls and our compliance with existing controls is an ongoing process.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Genentech / Roche Matter

Communications with Genentech regarding European SPCs

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

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

If Genentech is successful in asserting this position, then under the terms of our license agreements with Genentech, it would not owe us royalties on sales of Avastin, Herceptin, Lucentis and Xolair that are both manufactured and sold outside of the United States. Royalties on sales of Avastin, Herceptin, Lucentis and Xolair that are ex-U.S.-based Manufacturing and Sales accounted for approximately 42% of our royalty revenues for the nine months ended September 30, 2013.

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

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

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

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

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

The parties have been engaged in discovery motion practice. On March 29, 2013, the court affirmed an order of the discovery commissioner requiring the production of certain documents in the possession of Roche and Genentech to PDL. Roche and Genentech have communicated to us that they have requested review of the court's order from the Nevada Supreme Court. The parties have agreed to a stay in the proceedings pending the decision of the Nevada Supreme Court regarding whether they will review the court's order. In the event that the Nevada Supreme Court agrees to consider Roche and Genentech's request and review the court's order, we expect a lengthy delay in the case schedule for a period that may extend for a number of months, and, while no trial date is currently scheduled with the District Court, the likelihood is that a trial date will be at some point between mid-2014 to mid-2015. The outcome of this litigation is uncertain and we may not be successful in our allegations.

On June 7, 2013, the Company filed a Notice of Arbitration against Genentech with the American Arbitration Association in Voorhees, New Jersey, alleging, *inter alia*, that Genentech underpaid royalties going back to at least 2007 and impeded PDL's attempts to have Genentech's books and records inspected to determine whether Genentech's past payments to PDL were accurately calculated.

In 2009, PDL retained KPMG to conduct an independent inspection and analysis of the books and records of Genentech and its sublicensees for the three year period covering January 1, 2007 to December 31, 2009, a right granted to PDL under PDL's Patent License Master Agreement and license agreements with Genentech. KPMG reported to PDL that, due to limitations on its inspection imposed by Genentech, it was unable to assess the completeness or accuracy of Genentech's reporting of royalties. KPMG concluded that, based on the limited information it was able to review, Genentech appears to have underpaid PDL in an amount that, if substantiated, PDL believes would be material. Genentech has informed PDL that it disagrees with KPMG's conclusions and that it believes that it has correctly calculated royalties due.

In the arbitration, PDL: (i) requests a declaration of the parties' rights and obligations with respect to reporting and payment of royalties under the license agreements; (ii) alleges that Genentech has breached the license agreements due to its obstruction of KPMG's inspection and underpayment of royalties; and (iii) alleges that Genentech breached the implied covenant of good faith and fair dealing by depriving PDL of the benefits of the license agreements through its obstruction of the inspection, which we further assert concealed the nature and extent of its underpayment.

On July 3, 2013, Genentech filed its Response and Counterclaim in which Genentech requests that the arbitrator (i) reject PDL's claims that Genentech breached the license agreements by underpaying royalties owed to PDL, obstructing KPMG's inspection, or violating the covenant of good faith and fair dealing; (ii) reject PDL's claim that Genentech owed any royalties to PDL on Herceptin, Avastin and Xolair manufactured and sold outside of the United States prior to December 27, 2009 on the ground that those products did not infringe the '216B patent prior to its expiration; (iii) offset any royalties underpaid during the audit period by the amount Genentech claims to have overpaid in royalties attributable to the sale of Herceptin, Avastin and Xolair manufactured and sold outside of the United States prior to December 27, 2009; and (iv) award damages to Genentech in the amount of $428,751, representing royalties Genentech overpaid during the audit period, as well as costs and reasonable attorney's fees. Genentech's counterclaim does not challenge whether Herceptin, Avastin and Xolair manufactured and sold outside of the United States after December 27, 2009, are Licensed Products (and subject to a royalty under PDL's SPCs issued to such products in Europe) as Genentech's ability to contest infringement of PDL's SPCs is the subject of pending litigation in Nevada.

The parties have mutually agreed to stay the arbitration proceedings and to extend the deadline for responses in the Nevada litigation to allow time for discussions to occur to determine if a settlement of certain issues is possible. The parties may not reach agreement regarding settlement terms and PDL expects that it will renew its litigation efforts if settlement is unsuccessful.

The outcome of this arbitration is uncertain, and PDL may not be successful in its allegations.

Other Legal Proceedings

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

ITEM 1A. RISK FACTORS

Except as set forth below, during the nine months ended September 30, 2013, there were no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. Please carefully consider the information set forth in this Quarterly Report on Form 10-Q and the risk factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K, as well as other risks and uncertainties, could materially and adversely affect our business, results of operations and financial condition, which in turn could materially and adversely affect the trading price of shares of our common stock. Additional risks not currently known or currently material to us may also harm our business.

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

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

Although we regularly exercise our royalty audit rights, we rely in the first instance on our licensees to accurately report sales and calculate and pay applicable royalties and, upon exercise of such royalty audit rights, we rely on licensees' cooperation in performing such audits. In the absence of such cooperation, we may be forced to exercise legal remedies to enforce our agreements. For example, after a protracted audit of our licensee, Genentech, we initiated an arbitration procedure to resolve disputes over Genentech's cooperation and the underpayment of royalties as reported to us by the independent auditor.

ITEM 6. EXHIBITS

10.1*	Offer Letter between the Company and David Montez, executed July 4, 2013 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed July 24, 2013)
10.2#	Amended and Restated Credit Agreement between the Company and Wellstat Diagnostics, LLC, dated August 15, 2013†
12.1#	Ratio of Earnings to Fixed Charges
31.1#	Certification of Principal Executive 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 by the Principal Executive, as required by Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)
32.2**#	Certification by the Principal Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

#	Filed herewith.
*	Management contract or compensatory plan or arrangement.
**	This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.
†	Certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request under 17 C.F.R. Sections 200.80(b)(4) and 24b-2.

SIGNATURES

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

Dated: November 6, 2013

PDL BIOPHARMA, INC. (REGISTRANT)

/s/ John P. McLaughlin

John P. McLaughlin

President and Chief Executive Officer (Principal Executive Officer)

/s/ Peter S. Garcia

Peter S. Garcia

Vice President and Chief Financial Officer (Principal Financial Officer)

/s/ David Montez

David Montez

Controller and Chief Accounting Officer (Principal Accounting Officer)

Exhibit 10.2

Pursuant to 17 CFR 240.24b-2, confidential information has been omitted in places marked "* * *" and has been filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Application filed with the Commission.

AMENDED AND RESTATED CREDIT AGREEMENT

dated as of August 15, 2013

among

WELLSTAT DIAGNOSTICS, LLC

as the Borrower,

PDL BIOPHARMA, INC.,

as the Lender,

and

PDL BIOPHARMA, INC.,

as the Agent

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AMENDED AND RESTATED CREDIT AGREEMENT

This Amended and Restated Credit Agreement dated as of August 15, 2013 (as amended, restated or otherwise modified from time to time, this "Agreement"), is made among WELLSTAT DIAGNOSTICS, LLC, a Delaware limited liability company (the "Borrower"), PDL BIOPHARMA, INC. (the "Lender"), and PDL BIOPHARMA, INC., not individually, but as the Agent (as defined below).

The Borrower, the Lender and the Agent previously entered into the Credit Agreement, dated as of November 2, 2012 (the "Existing Credit Agreement"), pursuant to which the Borrower agreed to incur certain debt obligations. The Borrower has requested, and the Lender and the Agent have agreed, subject to the terms and conditions set forth herein, to amend and restate the Existing Credit Agreement in the form of this Agreement, and in connection therewith, the Borrower shall make the representations and warranties, covenants and undertakings as hereinafter set forth.

Section 1. Definitions; Interpretation.

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

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

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

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

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

"Applicable IRR Amount" means (i) on or before December 31, 2014, the IRR * * * Return Amount, (ii) after December 31, 2014, but on or before December 31, 2016, the IRR * * * Return Amount and (iii) at all times after December 31, 2016, the IRR * * * Return Amount.

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

"Assigned Interests" means an amount equal to * * * of Net Revenues for each calendar month, commencing with the first calendar month of Commercialization.

"Assigned Interests Payment" means each monthly payment of Assigned Interests.

"Audit Costs" means the reasonable out-of-pocket costs of any audit of the books and records of the Borrower and its Subsidiaries with respect to amounts paid or payable under this Agreement, including all fees and expenses incurred in connection therewith.

"BioVeris" has the meaning set forth in Section 7.16(a).

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

"Borrower Security Agreement" means the Security Agreement, dated as of the Closing Date, made by the Borrower in favor of the Agent, and governed by the laws of the State of New York, as amended, restated or otherwise modified from time to time in accordance with the terms hereof and thereof.

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

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

"Capital Stock" means, with respect to any Person, the Stock and Stock Equivalents of such Person.

"Cash Equivalent Investment" means, at any time, (a) any evidence of Debt, maturing not more than one year after such time, issued or guaranteed by the United States Government or any agency thereof, (b) commercial paper, or corporate demand notes, in each case rated at least A-l by Standard & Poor's Ratings Group or P-l by Moody's Investors Service, Inc., (c) any certificate of deposit (or time deposit represented by a certificate of deposit) or banker's acceptance maturing not more than one year after such time, or any overnight Federal Funds transaction that is issued or sold by a commercial banking institution that is a member of the Federal Reserve System and has a combined capital and surplus and undivided profits of not less than $500,000,000, (d) any repurchase agreement entered into with any commercial banking institution of the nature referred to in clause (c) above which (i) is secured by a fully perfected

security interest in any obligation of the type described in any of clauses (a) through (c) above and (ii) has a market value at the time such repurchase agreement is entered into of not less than 100% of the repurchase obligation of such commercial banking institution thereunder, (e) money market accounts or mutual funds which invest predominantly in assets satisfying the foregoing requirements and (f) other short term liquid investments approved in writing by the Agent.

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

(a) any "person" or "group" (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) (other than the Holders) becomes the "beneficial owner" (as defined in Rules 13-d and 13d-5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have "beneficial ownership" of all Stock that such person or group has the right to acquire (such right, an "option right"), whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of fifty percent (50%) or more of the Stock and Stock Equivalents of the Borrower entitled to vote for members of the board of directors or equivalent governing body of the Borrower on a fully diluted basis (and taking into account all such securities that such person or group has the right to acquire pursuant to any option right);

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

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

(d) the Holders shall fail to hold directly 100% of the Capital Stock of the Borrower and pledge such Capital Stock to the Agent pursuant to a perfected first priority security interest therein.

"Closing Date" means November 2, 2012.

"Closing Fee" means the fee due from the Borrower to the Agent on or before the Closing Date in an amount equal to * * * of the aggregate principal amount of the Initial Term Loan.

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

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

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

"Commercialization" means any (i) sale, lease or other transfer of Product by any Person or (ii) license, assignment or other transfer of Intellectual Property to market, sell, lease or transfer Product or any other product utilizing such Intellectual Property resulting under clause (i) or (ii), in the receipt by any of the Loan Parties of revenue pursuant to such transactions; provided, that, the use, sale, license or other transfer of Product or Intellectual Property solely for research and development purposes by a Third Party that results in the receipt by the Loan Parties of revenue not to exceed * * * in the aggregate during the term of this Agreement shall not constitute Commercialization.

"Commitment" means, as to the Lender, the Lender's commitment to provide the Initial Term Loan in the aggregate principal amount of $40,000,000 pursuant to Section 2.1.1.

"Compliance Certificate" means a certificate substantially in the form of Exhibit A.

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

"Control Agreement" means a tri-party deposit account, securities account or commodities account Control Agreement by and among the applicable Loan Party, the Agent and the depository, securities intermediary or commodities intermediary, and each in form and

substance satisfactory in all respects to the Agent in its reasonable discretion and in any event providing to the Agent "control" of such deposit account, securities or commodities account within the meaning of Articles 8 and 9 of the UCC.

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

"CRO" has the meaning set forth in Section 6.9.

"Current Financial Statements" has the meaning set forth in Section 5.4.

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

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

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

"Disqualified Capital Stock" means any Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, (a) matures (excluding any maturity as the result of an optional redemption by the issuer thereof) or is mandatorily redeemable or is redeemable at the option of the holder thereof, in whole or in part, on or prior to December 31, 2022, (b) is convertible into or exchangeable (unless at the sole option of the issuer thereof) for (i) debt securities or (ii) any Stock referred to in (a) above, in each case at any time on or prior to December 31, 2022, or (c) contains any repurchase obligation which may come into effect prior to the Obligations being Paid in Full; provided that any Stock that would not constitute Disqualified Capital Stock but for provisions thereof giving holders thereof (or the holders of any security into or for which such Stock is

convertible, exchangeable or exercisable) the right to require the issuer thereof to redeem or repurchase such Stock upon the occurrence of a change in control or an asset sale occurring prior to December 31, 2022 shall not constitute Disqualified Capital Stock if such Stock provides that the issuer thereof will not redeem or repurchase any such Stock pursuant to such provisions prior to the repayment in full of the Obligations.

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

"Effective Date" means the date on which the conditions set forth in Section 4.1 have been satisfied or waived by the Lender.

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

"Environmental Laws" means all present or future federal, state, provincial or local laws, statutes, common law duties, rules, regulations, ordinances and codes, including all amendments, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case relating to any matter arising out of or relating to health and safety, or pollution or protection of the environment, natural resources or workplace, including any of the foregoing relating to the presence, use, production, recycling, reclamation, generation, handling, transport, treatment, storage, disposal, distribution, discharge, release, emission, control, cleanup or investigation or management of any Hazardous Substance.

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

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

"Excluded Taxes" has the meaning set forth in Section 3.1(a).

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

"Existing Loan Documents" means that certain Loan Agreement dated as of March 21, 2012, as amended by the First Amendment to Loan Agreement dated as of August 8, 2012, between Samuel J. Wohlstadter and Nadine H. Wohlstadter, as borrower, and PDL BioPharma, Inc., a Delaware corporation, as lender, and all documents and instruments executed and delivered from time to time in connection therewith.

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

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

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

"Forbearance Agreement" has the meaning set forth in Section 10.12.

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

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

"Governmental Authority" means any nation or government, any state, province, municipality or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank), and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"Gross Revenue" means, for any period of determination, the sum of the following for such period: (i) the amounts invoiced and recognized as revenue in accordance with GAAP by the Borrower, its Subsidiaries or any of their Affiliates with respect to (a) the sale of Product to a Third Party by the Borrower, its Subsidiaries or any of their Affiliates, (b) the sale, distribution or other commercial use of Product by such Third Party in connection with any marketing, royalty, manufacturing, co-promotion, co-development, or other strategic arrangements, (c) the license, assignment or other transfer of Intellectual Property to market, sell, lease or transfer Product or any other product utilizing such Intellectual Property and (ii) any collections in respect of write-offs or allowances for bad debts in respect of items described in the preceding clause (i). For purposes of prevention of duplication, "Gross Revenue" shall not include amounts invoiced by Affiliates, distributors, wholesalers or other Persons acting in similar capacities to the extent that such amounts are duplicative.

"Guarantee and Pledge Agreement" means the Amended and Restated Guarantee and Pledge Agreement, dated as of February 28, 2013, made by the Holders in favor of the Agent, and governed by the laws of New York, as amended, restated or otherwise modified from time to time in accordance with the terms hereof and thereof.

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

"Hedging Obligation" means, with respect to any Person, any liability of such Person under any interest rate, currency or commodity swap agreement, cap agreement or collar agreement, and any other agreement or arrangement designed to protect a Person against fluctuations in interest rates, currency exchange rates or commodity prices. The amount of any

Person's obligation in respect of any Hedging Obligation shall be deemed to be the incremental obligation that would be reflected in the financial statements of such Person in accordance with GAAP.

"Holders" means, each of Samuel J. Wohlstadter and Nadine H. Wohlstadter, each natural relative who is a rightful heir of the foregoing, and any trust maintained by or for the benefit of any of the foregoing.

"Hyperion" means Hyperion Catalysis International, Inc., a California corporation.

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

"Initial Term Loan" means the term loan from the Lender in a principal amount of $40,000,000 made to the Borrower on the Closing Date.

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

"Intercreditor Agreement" means that certain Intercreditor Agreement dated as of the date hereof between Agent and the Second Lien Agent.

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

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

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

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

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

"IRR" shall mean the internal rate of return utilizing the same methodology utilized by the XIRR function in Microsoft Excel, version 2010.

"IRR * * * Return Amount" shall mean an aggregate amount such that, when paid to the Agent and taken together with all payments made by the Borrower to the Agent pursuant to this Agreement, including interest (including interest paid in kind and added to principal) and any Assigned Interests Payment but excluding payment or reimbursement of any fees, costs or expenses (including the Closing Fee or any Indemnified Liability), would equal the sum of (i) the Reset Amount and (ii) such additional amount that would generate an IRR to the Lender in respect of the Reset Amount of * * * percent (* * *) as of the date of payment, taking into account the amount and timing of all payments made by the Borrower pursuant to this Agreement as calculated pursuant to Annex I.

"IRR * * * Return Amount" shall mean an aggregate amount such that, when paid to the Agent and taken together with all payments made by the Borrower to the Agent pursuant to this Agreement, including interest (including interest paid in kind and added to principal) and any Assigned Interests Payment but excluding payment or reimbursement of any fees, costs or expenses (including the Closing Fee or any Indemnified Liability), would equal the sum of (i) Reset Amount and (ii) such additional amount that would generate an IRR to the Lender in respect of the Reset Amount of * * * percent (* * *) as of the date of payment, taking into account the amount and timing of all payments made by the Borrower pursuant to this Agreement as calculated pursuant to Annex I.

"IRR * * * Return Amount" shall mean an aggregate amount such that, when paid to the Agent and taken together with all payments made by the Borrower to the Agent pursuant to this Agreement, including interest (including interest paid in kind and added to principal) and any Assigned Interests Payment but excluding payment or reimbursement of any fees, costs or expenses (including the Closing Fee or any Indemnified Liability), would equal the sum of (i) the Reset Amount and (ii) such additional amount that would generate an IRR to the Lender in respect of the Reset Amount of * * * percent (* * *) as of the date of payment, taking into account the amount and timing of all payments made by the Borrower pursuant to this Agreement as calculated pursuant to Annex I.

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

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

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

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

"License Agreement" has the meaning set forth in Section 7.16(a).

"Lien" means, with respect to any Person, any interest granted by such Person in any real or personal property, asset or other right owned or being purchased or acquired by such Person which secures payment or performance of any obligation and shall include any mortgage, lien,

encumbrance, charge or other security interest of any kind, whether arising by contract, as a matter of law, by judicial process or otherwise.

"Loans" means (i) the Initial Term Loan and (ii) the advances from the Lender made to the Borrower after the Closing Date (and on or prior to the date hereof) in the aggregate principal amount of $4,102,939.72.

"Loan Documents" means this Agreement, the Notes, the Collateral Documents, the Letter Agreement, the Intercreditor Agreement and all other documents, instruments and agreements delivered in connection with the foregoing, all as amended, restated or otherwise modified from time to time in accordance with the terms hereof and thereof.

"Loan Party" means the Borrower and each Subsidiary of the Borrower.

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

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

"Maturity Date" means the earliest of (a) the date of any sale, by means of one or more transactions, of all or substantially all of the assets or all or substantially all of the Intellectual Property of the Loan Parties, (b) December 31, 2017 if, as of such date, the consolidated revenue (as determined in accordance with GAAP) of the Loan Parties for the fiscal year ended as of such date is less than the Minimum 2017 Revenue Amount, (c) December 31, 2021, and (d) any date upon which the aggregate amount of all payments made by the Borrower to the Agent pursuant to this Agreement, including interest (including interest paid in kind and added to principal) and any Assigned Interests Payment but excluding payment or reimbursement of any fees, costs or expenses (including the Closing Fee or any Indemnified Liability), equals the Applicable IRR Amount.

"Minimum 2017 Revenue Amount" means * * *.

"Monthly Net Revenue Report" means, with respect to the relevant calendar month, a report reflecting Net Revenue for such calendar month, including a description of Gross Revenue for such calendar month and the adjustments and other reconciliations used to arrive at Net Revenue, in form and substance acceptable to the Agent and the Lender.

"Net Revenue" means, for any period of determination, the difference between (a) Gross Revenue for such period, less (b) the sum, with respect to the items described in clauses (i) and (ii) of the definition of Gross Revenue, without duplication, of (i) bona fide cash, trade discounts and rebates actually granted or paid to Third Parties in accordance with customary industry standards, (ii) allowances and adjustments actually credited to customers for Product that is

spoiled, damaged, outdated, obsolete, returned or otherwise recalled, but only if and to the extent the same are in accordance with sound business practices and not in excess of customary industry standards, (iii) charges for freight, postage, shipping, delivery, service and insurance charges, to the extent invoiced, (iv) taxes, duties or other governmental charges to the extent invoiced, (v) write-offs or allowances for bad debts, (vi) rebates and chargebacks and other price reduction programs, and (vii) other payments required by Applicable Law, in each case as determined in accordance with GAAP.

"Non-Excluded Taxes" has the meaning set forth in Section 3.1(a).

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

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

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

"Other Taxes" means all present or future stamp, court or documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document.

"Paid in Full" or "Payment in Full" means, with respect to any Obligations, the payment in full in cash and performance of all such Obligations.

"Patents" means all (i) all patents and certificates of invention, or similar property rights, and applications for any of the foregoing, of the United States, any other country or any political subdivision thereof, (ii) all reissues, divisions, continuations, continuations-in-part, extensions, renewals, and reexaminations thereof, (iii) all rights corresponding thereto throughout the world, (iv) all inventions and improvements described therein, (v) all rights to sue for past, present and future infringements thereof, (vi) all licenses, claims, damages, and proceeds of suit arising therefrom, (vii) all proceeds of the foregoing, including, without limitation, licenses, royalties, and income, and (viii) without duplication, all IP Ancillary Rights in respect of the foregoing.

"Permitted Lien" means any Lien expressly permitted by Section 7.2.

"Permitted Refinancing" means any replacement, renewal, refinancing or extension of any existing Debt, in any such case, permitted by this Agreement that (a) does not exceed the aggregate principal amount (plus accrued interest and any applicable premium and associated fees and expenses) of the Debt being replaced, renewed, refinanced or extended, (b) does not

have a weighted average life to maturity at the time of such replacement, renewal, refinancing or extension that is less than the weighted average life to maturity of the Debt being replaced, renewed, refinanced or extended, (c) does not rank at the time of such replacement, renewal, refinancing or extension senior to the Debt being replaced, renewed, refinanced or extended, and (d) does not contain terms (including, without limitation, terms relating to security, amortization, interest rate, premiums, fees, covenants, subordination, event of default and remedies) that are less favorable to any Loan Party or adverse to the interests of the Agent and the Lender than those applicable to the Debt being replaced, renewed, refinanced or extended.

"Person" means any natural person, corporation, partnership, trust, limited liability company, association, Governmental Authority or unit, or any other entity, whether acting in an individual, fiduciary or other capacity.

"Product" means and includes any point-of-care device or assay used or useable on such device, and laboratory services business related to any of the foregoing and any and all future iterations of any of the foregoing.

"Qualified Capital Stock" of any person shall mean any Stock of such person that is not Disqualified Capital Stock.

"Reset Amount" means the aggregate outstanding principal amount of Loans as of the Effective Date as set forth on Annex III.

"Restricted Payment" has the meaning set forth in Section 7.3.

"ROFR Provisions" has the meaning set forth in Section 7.16(b).

"Second Lien Agent" means the administrative agent under the Second Lien Credit Agreement.

"Second Lien Credit Agreement" means the Credit Agreement dated as of the date hereof among Borrower, the lenders party thereto and White Oak Global Advisors, LLC, a Delaware limited liability company, as second lien agent (as amended to the extent permitted under the Intercreditor Agreement).

"Second Lien Debt" has the meaning set forth in Section 7.2(j).

"Second Lien Loan Documents" means the Loan Documents (as defined in the Second Lien Credit Agreement).

"Security Agreement" means the Borrower Security Agreement or the Subsidiary Security Agreement, as applicable.

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

"Stock Equivalents" means all securities convertible into or exchangeable for Stock or any other Stock Equivalent and all warrants, options or other rights to purchase, subscribe for or otherwise acquire any Stock or any other Stock Equivalent, whether or not presently convertible, exchangeable or exercisable.

"Subsidiary" means, with respect to any Person, a corporation, partnership, limited liability company or other entity of which such Person owns, directly or indirectly, such number of outstanding shares of voting Stock or Stock Equivalents as to have more than 50% of the ordinary voting power for the election of directors or other managers of such corporation, partnership, limited liability company or other entity. Unless the context otherwise requires, each reference to Subsidiaries herein shall be a reference to Subsidiaries of the Borrower.

"Subsidiary Guaranty" means each Subsidiary Guaranty executed and delivered by a Subsidiary in favor of the Agent pursuant to Section 6.7 (to be based on the guaranty provisions of the Guarantee and Pledge Agreement, without the limitation on recourse set forth therein), in form and substance satisfactory to the Agent and the Lender.

"Subsidiary Security Agreement" means the Security Agreement, dated as of February 28, 2013, made by Wellstat Management LLC, a Delaware limited liability company, Wellstat Biologics LLC, a Delaware limited liability company, Wellstat Therapeutics LLC, a Delaware limited liability company, Wellstat Ophthalmics LLC, a Delaware limited liability company, Wellstat Vaccines LLC, a Delaware limited liability company, Wellstat Immunotherapeutics LLC, a Delaware limited liability company, and Hyperion Catalysis International, Inc., a California corporation, in favor of the Agent, and governed by the laws of the State of New York, as amended, restated or otherwise modified from time to time in accordance with the terms hereof and thereof.

"Surviving Debt" means the loans in the aggregate principal amount of * * * as of September 30, 2012 owed by the Borrower to Samuel and Nadine Wohlstadter.

"Surviving Debt Subordination Agreement and Acknowledgment" means the Subordination Acknowledgment and Agreement dated as of the Closing Date delivered by each of the Holders to the Borrower in form and substance acceptable to the Borrower.

"Taxes" has the meaning set forth in Section 3.1(a).

"Tax Returns" has the meaning set forth in Section 5.12.

"Third Party" means any Person other than the Borrower, Lender and Agent.

"Trade Secrets" means all right, title and interest (and all related IP Ancillary Rights) arising under any Applicable Law in or relating to trade secrets.

"Trademark" means all rights, title and interests (and all related IP Ancillary Rights) arising under any Applicable Law in trademarks, trade names, corporate names, company names, business names, fictitious business names, trade styles, service marks, logos and other source or business identifiers and, in each case, all goodwill associated therewith, all registrations and recordations thereof and all applications in connection therewith.

"UCC" means the Uniform Commercial Code as in effect in from time to time in the State of New York.

"Wholly-Owned Subsidiary" means, as to any Subsidiary, all of the Stock and Stock Equivalents of which (except directors' qualifying shares) are at the time directly or indirectly owned by the Borrower and/or another Wholly-Owned Subsidiary of the Borrower.

1.2. Interpretation. In the case of this Agreement and each other Loan Document, (a) the meanings of defined terms are equally applicable to the singular and plural forms of the defined terms; (b) Annex, Exhibit, Schedule and Section references in each Loan Document are to the particular Annex, Exhibit, Schedule and Section of such Loan Document unless otherwise specified; (c) the term "including" is not limiting and means "including but not limited to"; (d) in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding", and the word "through" means "to and including"; (e) unless otherwise expressly provided in such Loan Document, (i) references to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications thereto, but only to the extent such amendments and other modifications are not prohibited by the terms of any Loan Document, and (ii) references to any statute or regulation shall be construed as including all statutory and regulatory provisions amending, replacing, supplementing or interpreting such statute or regulation; (f) this Agreement and the other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters, all of which are cumulative and each shall be performed in accordance with its terms; and (g) this Agreement and the other Loan Documents are the result of negotiations among and have been reviewed by counsel to the Agent, the Borrower, the Lender and the other parties hereto and thereto and are the products of all parties; accordingly, they shall not be construed against the Agent or the Lender merely because of the Agent's or the Lender's involvement in their preparation. Any reference in any Loan Document to a Permitted Lien is not intended to subordinate or postpone, and shall not be interpreted as subordinating or postponing, or as any agreement to subordinate or postpone, any Lien created by any of the Loan Documents to any Permitted Lien.

Section 2. Credit Facilities.

2.1. Loans.

2.1.1. Loans. On the terms and subject to the conditions of this Agreement, the Lender previously agreed to lend to the Borrower on the Closing Date the entire amount of its Commitment, after which the Commitment was terminated. After the Closing Date, the Lender agreed to make certain cash advances to the Borrower in installments to meet certain cash needs reflected in an operating budget previously delivered to the Agent.

2.1.2. General. No portion of any Loan may be re-borrowed once repaid. The proceeds of the Initial Term Loan shall be used to repay and terminate the Existing Obligations in full concurrently with the incurrence of the Initial Term Loan and for development of the Borrower's Intellectual Property rights, products and businesses in accordance with the Borrower's business activities as set forth in Section 7.9, in each case in accordance with the Loan Documents and Applicable Law.

2.2. Loan Accounting.

2.2.1. Recordkeeping. The Agent, on behalf of the Lender, shall record in its records the date and amount of any Loan made by the Lender, each interest payment paid in kind, accrued interest and each repayment of principal or interest thereon. The aggregate unpaid principal amount so recorded shall be rebuttably presumptive evidence of the principal amount of Loans owing and unpaid. The failure to so record any such amount or any error in so recording any such amount shall not, however, limit or otherwise affect the Obligations of the Borrower hereunder or under any Note to repay the principal amount of the Loans hereunder, together with all interest accruing thereon.

2.2.2. Notes. At the request of the Lender, the Loans shall be evidenced by one or more Notes, with appropriate insertions, payable to the order of the Lender in a face principal amount equal to the Loans and payable in such amounts and on such dates as are set forth herein.

2.3. Interest.

2.3.1. Interest Rate. The Borrower promises to pay interest on the unpaid principal amount of the Loans for the period commencing on the Closing Date until the Loans have been Paid in Full at a rate payable in cash or in kind, at the election of the Borrower, per annum equal to 5.00%. The foregoing notwithstanding, (i) at any time an Event of Default exists, if requested by the Agent or the Lender, the interest rate then applicable to the Loans shall be increased by * * * percent (* * *) per annum (any such increased rate, the "Default Rate"), (ii) any such increase may thereafter be rescinded by the Lender, and (iii) upon the occurrence of an Event of Default under Section 8.1.1 or 8.1.3, any such increase described in the foregoing clause (i) shall occur automatically. In the event that the Obligations are not Paid in Full as of the Maturity Date, or in the event that the Obligations shall be declared or shall become due and payable pursuant to Section 8.2, the Obligations shall bear interest subsequent thereto at the Default Rate and such interest shall be payable in cash on demand. In no event shall interest or other amounts payable by the Borrower to the Lender hereunder exceed the maximum rate permitted under Applicable Law, and if any such provision of this Agreement is in contravention of any such law, (x) any amounts paid hereunder shall be deemed to be and shall be applied against the principal amount of the Obligations to the extent necessary such that the amounts paid hereunder do not exceed the maximum rate under Applicable Law and (y) such provision shall otherwise be deemed modified as necessary to limit such amounts paid to the maximum rate permitted under Applicable Law.

2.3.2. Interest Payments. Interest accrued on any Loan during the period from the Closing Date until the Maturity Date shall accrue and be payable in cash or in kind, at the election of the Borrower, quarterly on each March 31, June 30, September 30 and December 31, in arrears, and, to the extent not paid in advance, upon a prepayment of the Loans in accordance with Section 2.4 and at maturity, in each such case, in cash. After maturity and at any time an Event of Default exists, all accrued interest on the Loans shall be payable in cash on demand at the rates specified in Section 2.3.1.

2.3.3. Computation of Interest. Interest shall be computed for the actual number of days elapsed on the basis of a year of 360 days consisting of twelve 30-day months.

2.4. Prepayment.

2.4.1. Voluntary Prepayment. The Borrower may, on at least three (3) Business Days' prior written notice to the Agent, not later than 12:00 noon New York City time on such day, prepay the Loans in full, provided that the amount so prepaid as of the date of prepayment is equal to the Applicable IRR Amount.

2.4.2. Payments in Respect of the Assigned Interests. Commencing upon Commercialization, the Borrower shall pay to the Lender the Assigned Interests in respect of Net Revenues earned during the immediately preceding month concurrently with the delivery of each Monthly Net Revenue Report in the amount set forth thereon, until the Maturity Date.

2.5. Payment Upon Maturity. The Loans shall be Paid in Full on the Maturity Date by and upon payment in full of the Applicable IRR Amount. The parties hereto agree that the amounts payable hereunder in respect of the Applicable IRR Amount are a reasonable calculation of the parties' expected return to the Lender arising out of the transactions described herein, and, in the case of a prepayment of the Loans, foregone returns, and agree that the payment of such amounts constitute consideration pursuant to this Agreement that the parties agree is fair and reasonable.

2.6. Making of Payments. All payments on the Loans in accordance with this Agreement, including any payment in respect of the Applicable IRR Amount and all payments of fees and expenses, shall be made by the Borrower to the Agent without setoff, recoupment or counterclaim and in immediately available funds, in United States Dollars, by wire transfer to the account of the Agent set forth on Annex II or as otherwise specified by the Agent, in any case, not later than 1:00 p.m. New York City time on the date due, and funds received after that hour shall be deemed to have been received by the Agent on the following Business Day. The Agent shall promptly remit to the Lender all payments received in collected funds by the Agent for the account of such Lender.

2.7. Application of Payments and Proceeds. Any payment by the Borrower hereunder shall be in respect of the Payment in Full of the Obligations; in the event that the Agent shall consent to any partial prepayment hereunder the proceeds of such partial prepayment shall be applied to such Obligations as the Agent shall determine in its sole discretion.

2.8. Payment Dates. If any payment of principal of or interest on a Loan, or of any fees, falls due on a day which is not a Business Day, then such due date shall be extended to the immediately following Business Day and, in the case of principal, additional interest shall accrue and be payable for the period of any such extension.

2.9. Set-off. The Borrower agrees that the Agent and the Lender and its Affiliates have all rights of set-off and bankers' lien provided by Applicable Law, and in addition thereto, the Borrower agrees that at any time an Event of Default has occurred and is continuing, the Agent and the Lender may apply to the payment of any Obligations of the Borrower hereunder, whether or not then due, any and all balances, credits, deposits, accounts or moneys of the Borrower then or thereafter maintained with the Agent or such Lender.

2.10. Currency Matters. All amounts payable under this Agreement and the other Loan Documents to the Agent and the Lender shall be payable in Dollars.

Section 3. Yield Protection.

3.1. Taxes.

(a) Except as otherwise provided in this Section 3.1, all payments of principal and interest on the Loans and all other amounts payable under any Loan Document shall be made free and clear of and without deduction or withholding for any present or future income, excise, stamp, documentary, property or franchise taxes or other taxes, fees, duties, levies, withholdings or other charges of any nature whatsoever imposed by any taxing authority, including any interest, additions to tax or penalties applicable thereto ("Taxes"), excluding taxes imposed on or measured by the Lender's net income by the jurisdiction under which the Lender is organized or conducts business (other than business arising from the Lender having executed, delivered, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, engaged in any other transaction with respect to the Loans or pursuant to or enforced any Loan Document (collectively, "Excluded Taxes" and all such non-Excluded Taxes, "Non-Excluded Taxes")). If any withholding or deduction from any payment to be made by the Borrower hereunder is required in respect of any Taxes pursuant to any Applicable Law (as determined in the good faith reasonable discretion of the Borrower or the Agent), rule or regulation, then the Borrower shall: (i) timely pay directly to the relevant taxing authority the full amount required to be so withheld or deducted; (ii) within thirty (30) days after the date of any such payment of Taxes, forward to the Agent an official receipt or other documentation satisfactory to the Agent evidencing such payment to such authority; and (iii) in the case of Non-Excluded Taxes, pay to the Agent for the account of the Lender such additional amount or amounts as is necessary to ensure that the net amount actually received by the Lender will equal the full amount the Lender would have received had no such withholding or deduction (including withholdings and deductions applicable to any additional sums payable under this Section 3.1) been required.

(b) the Borrower shall timely pay to the relevant Governmental Authority in accordance with Applicable Law, or at the option of the Agent timely reimburse it for the payment of, any Other Taxes.

(c) The Borrower shall reimburse and indemnify, within 10 days after receipt of demand therefor (with copy to the Agent), the Agent and the Lender for all Non-Excluded Taxes and Other Taxes (including any additional Taxes imposed by any jurisdiction on amounts payable under this Section 3.1) paid by the Agent or the Lender, or required to be withheld or deducted from a

payment to the Agent or the Lender, and any liabilities arising therefrom or with respect thereto (including any penalty, interest or expense), whether or not such Taxes were correctly or legally asserted. A certificate of the Agent or the Lender (or of the Agent on behalf of the Lender) claiming any compensation under this clause (c), setting forth the amounts to be paid thereunder and delivered to the Borrower with copy to the Agent, shall be conclusive, binding and final for all purposes, absent manifest error.

The provisions of this Section 3.1 shall survive the termination of this Agreement and repayment of all Obligations.

3.2. Increased Cost.

(a) If, after the Closing Date, the adoption or taking effect of, or any change in, any Applicable Law, rule, regulation or treaty, or any change in the interpretation or administration of any Applicable Law, rule, regulation or treaty by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Lender with any request, rule, guideline or directive (whether or not having the force of law) of any such authority, central bank or comparable agency: (i) shall impose, modify or deem applicable any reserve (including any reserve imposed by the FRB), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by the Lender; (ii) subject the Lender or the Agent to any Taxes (other than Taxes indemnified pursuant to Section 3.1); or (iii) shall impose on the Lender any other condition affecting its Loans, its Note or its obligation to make the Loans; and the result of anything described in clauses (i) through (iii) above is to increase the cost to (or to impose a cost on) such Lender of making or maintaining its Loans, or to reduce the amount of any sum received or receivable by such Lender under this Agreement or under its Note with respect thereto, then, upon demand by such Lender (which demand shall be accompanied by a statement setting forth the basis for such demand and a calculation of the amount thereof in reasonable detail, a copy of which shall be furnished to the Agent), the Borrower shall pay directly to the Lender such additional amount as will compensate the Lender for such increased cost or such reduction.

(b) If the Lender shall reasonably determine that any change in, or the adoption or phase-in of, any Applicable Law, rule or regulation regarding capital adequacy, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or the compliance by the Lender or any Person controlling the Lender with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on the Lender’s or such controlling Person’s capital as a consequence of such Lender’s Commitments hereunder to a level below that which the Lender or such controlling Person could have achieved but for such change, adoption,

phase-in or compliance (taking into consideration the Lender's or such controlling Person's policies with respect to capital adequacy) by an amount deemed by the Lender or such controlling Person to be material, then from time to time, upon demand by the Lender (which demand shall be accompanied by a statement setting forth the basis for such demand and a calculation of the amount thereof in reasonable detail, a copy of which shall be furnished to the Agent), the Borrower shall pay to the Lender such additional amount as will compensate the Lender or such controlling Person for such reduction.

(c) Notwithstanding anything herein to the contrary, (i) all requests, rules, guidelines, requirements and directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or by United States or foreign regulatory authorities, in each case pursuant to Basel III, and (ii) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines, requirements and directives thereunder or issued in connection therewith or in implementation thereof, shall in each case be deemed to be a change in law, regardless of the date enacted, adopted, issued or implemented.

3.3. Mitigation of Circumstances.

The Lender shall promptly notify the Borrower and the Agent of any event of which it has knowledge which will result in, and will use reasonable commercial efforts available to it (and not, in such Lender's sole judgment, otherwise disadvantageous to such Lender) to mitigate or avoid, any obligation by the Borrower to pay any amount pursuant to Section 3.1 or 3.2; provided, that this Section 3.3 shall not apply to, or operate to prevent, any assignment of the Loans and the rights and obligations of the Lender pursuant to Section 10.13. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by the Lender in connection with this Section 3.3.

3.4. Conclusiveness of Statements; Survival. Determinations and statements of the Lender pursuant to Sections 3.1 or 3.2 shall be conclusive absent demonstrable error provided that the Lender or the Agent provides the Borrower with written notification of such determinations and statements. The Lender may use reasonable averaging and attribution methods in determining compensation under Sections 3.1 or 3.2 and the provisions of such Sections shall survive repayment of the Loans, cancellation of the Notes and termination of this Agreement.

Section 4. Conditions Precedent.

4.1. Loans. This Agreement shall become effective upon satisfaction of the following conditions precedent, each of which shall be satisfactory in all respects to the Agent and the Lender:

4.1.1. Delivery of Loan Documents. The Borrower shall have delivered the following documents in form and substance satisfactory to the Agent (and, as applicable, duly

executed by all Persons named as parties thereto and dated the Effective Date or an earlier date satisfactory to the Agent):

(a) Agreement. This Agreement.

(b) Notes. A Note in respect of the Loans.

(c) Collateral Documents. The Borrower Security Agreement, the Subsidiary Security Agreement, the Guarantee and Pledge Agreement, all other Collateral Documents, and all instruments, documents, certificates and agreements executed or delivered pursuant thereto (including Intellectual Property assignments and pledged equity and limited liability company interests in the Borrower and the Borrower's Subsidiaries, if any, with undated irrevocable transfer powers executed in blank), in each case, executed and delivered by the Holders, each Loan Party and each other Person named as a party thereto.

(d) Financing Statements. Properly completed Uniform Commercial Code financing statements and other filings and documents required by law or the Loan Documents to provide the Agent perfected Liens (subject only to Permitted Liens) in the Collateral.

(e) Lien Searches. Copies of Uniform Commercial Code search reports listing all effective financing statements or equivalent filings filed against the Holders or any Loan Party, with copies of such financing statements and filings; and copies of Patent, Trademark, Copyright and Internet Domain Name search reports in material jurisdictions listing all effective collateral assignments in respect of such Intellectual Property filed with respect to any Loan Party, with copies of such collateral assignment documentation.

(f) Authorization Documents. For each Loan Party, such Person's (i) charter (or similar formation document), certified by the appropriate Governmental Authority (as applicable) in its jurisdiction of incorporation (or formation), (ii) good standing certificates in its jurisdiction of incorporation (or formation) and in each other jurisdiction requested by the Agent or the Lender, (iii) limited liability company agreement, partnership agreement, bylaws (and similar governing document) (as applicable), (iv) resolutions of its board of directors (or similar governing body) approving and authorizing such Person's execution, delivery and performance of the Loan Documents to which it is party and the transactions contemplated thereby, and (v) signature and incumbency certificates of its directors and/or officers executing any of the Loan Documents, all certified by its secretary or an assistant secretary (or similar officer) as being in full force and effect without modification.

(g) Opinions of Counsel. Opinions of counsel for each Loan Party, in form and substance requested by the Agent.

(h) Insurance. Certificates or other evidence of insurance in effect as required by Section 6.3(b), with endorsements naming the Agent as lenders' loss payee and/or additional insured, as applicable.

(i) Second Lien Loan Documents. Evidence that the Second Lien Loan Documents (including, without limitation, the Intercreditor Agreement) have been executed and delivered in form and substance satisfactory to Agent and Lender in the sole discretion of the Agent and Lender and that the financing contemplated therein has been provided thereunder.

(j) Other Documents. Such other certificates, documents and agreements that may be listed on the closing checklist provided by the Agent to the Borrower or as the Agent or the Lender may request.

4.1.2. Payment of Fees, Expenses and Existing Obligations. The Borrower shall have paid, on or prior to the Effective Date, (i) all fees and expenses (including, without limitation, any legal fees and expenses incurred by the Agent and Lender) owing and payable to the Agent and the Lender as of the Effective Date by including such fees and expenses as additional advances by the Lender to the Borrower in the calculation of the Reset Amount, (ii) subject to Section 10.3 and without duplication, all fees, expenses and other amounts payable set forth herein and costs and expenses incurred by the Agent and the Lender in connection with the transactions contemplated hereby which are required to be paid by the Borrower and (iii) all Existing Obligations, and shall provide evidence acceptable to the Agent of each of the foregoing.

4.1.3. Representations and Warranties. Each representation and warranty by each Loan Party contained herein or by the Holders and each Loan Party in any other Loan Document to which the Holders or such Loan Party is a party, shall be true and correct in all material respects (without duplication of any materiality qualifier contained therein) as of the Effective Date.

4.1.4. No Default. Except as set forth on Schedule 5.6, no Default or Event of Default shall have occurred and be continuing.

4.1.5. No Material Adverse Change. Except as set forth on Schedule 5.6, since December 31, 2012, there has been no event or occurrence that has or could reasonably be expected to result in a Material Adverse Effect.

4.1.6. Surviving Debt Subordination Agreement and Acknowledgment. The Holders shall have executed and delivered to the Agent the Surviving Debt Subordination Agreement and Acknowledgment pursuant to which the Holders shall agree and acknowledge that the Surviving Debt is subordinated to the Obligations as set forth therein.

4.1.7. Execution and Delivery of Letter Agreement. The Borrower shall have executed and delivered a letter agreement to the Agent (the "Letter Agreement") containing, among other items, certain representations and warranties regarding its Intellectual Property, on terms and conditions acceptable to the Lender and Agent.

4.1.8. Control Agreements. The Loan Parties shall deliver to the Agent a deposit account or securities account, as applicable, Control Agreement for each deposit account and securities account maintained by any Loan Party (other than zero balance payroll and similar accounts), in form and substance satisfactory to the Agent.

4.1.9. Cash Contributions. The Agent and the Lender shall have received evidence that the Borrower shall have received an aggregate minimum amount of $15,000,000 in cash in a deposit account subject to a Control Agreement.

Section 5. Representations and Warranties.

To induce the Agent and the Lender to enter into this Agreement and to induce the Lender to advance the Loans hereunder, the Borrower represents and warrants to the Agent and the Lender that each of the following are, and after giving effect to the borrowing of the Loans, will be, true, correct and complete:

5.1. Organization. The Borrower is a limited liability company validly existing and in good standing under the laws of the State of Delaware; and each other Loan Party is validly existing and in good standing (as applicable) under the laws of the jurisdiction of its organization; and each Loan Party is duly qualified to do business in each jurisdiction where, because of the nature of its activities or properties, such qualification is required, except for such jurisdictions where the failure to so qualify could not reasonably be expected to have a Material Adverse Effect.

5.2. Authorization; No Conflict. Each of the Borrower and each other Loan Party is duly authorized to execute and deliver each Loan Document to which it is a party, the Borrower is duly authorized to borrow monies hereunder, the granting of the security interests pursuant to the Collateral Documents is within the corporate purposes of the Borrower and each other Loan Party party thereto, and the Borrower and each other Loan Party is duly authorized to perform its Obligations under each Loan Document to which it is a party. The execution, delivery and performance by the Borrower of this Agreement and by each of the Holders, the Borrower and each Loan Party of each Loan Document to which it is a party, and the borrowings by the Borrower hereunder, do not and will not (a) require any consent or approval of any Governmental Authority (other than (i) any consent or approval which has been obtained and is in full force and effect and (ii) recordings and filings in connection with the Liens granted to the Agent under the Collateral Documents), (b) conflict with (i) any provision of Applicable Law, (ii) the charter, by-laws, limited liability company agreement, partnership agreement or other organizational documents of any Loan Party or (iii) any agreement, indenture, instrument or other document, or any judgment, order or decree, which is binding upon the Holders or any Loan Party or any of their respective properties or (c) require, or result in, the creation or imposition of any Lien on any asset of the Holders, the Borrower or any other Loan Party (other than Liens in favor of the Agent created pursuant to the Collateral Documents).

5.3. Validity; Binding Nature. Each of this Agreement and each other Loan Document to which the Holders, the Borrower or any other Loan Party is a party is the legal, valid and binding obligation of such Person, enforceable against such Person in accordance with

its terms, subject to bankruptcy, insolvency and similar laws affecting the enforceability of creditors' rights generally and to general principles of equity.

5.4. Financial Condition. The unaudited consolidated financial statements of the Borrower and its Subsidiaries (presented on a consolidated basis) as at December 31, 2012, together with the unaudited consolidated financial statements of the Borrower and its Subsidiaries (presented on a consolidated basis) as at June 30, 2013 ("Current Financial Statements") have been prepared on a cash/tax accounting basis and present fairly the consolidated financial condition of such Persons as at such dates and the results of their operations for the periods then ended. As of the Effective Date, the Borrower and its Subsidiaries have no liabilities other than as set forth on the foregoing financial statements other than trade payables and compensation costs incurred in the ordinary course of business.

5.5. No Material Adverse Change. Except as set forth on Schedule 5.6, since December 31, 2012, there has been no event or occurrence that has or could reasonably be expected to result in a Material Adverse Effect.

5.6. Litigation. Except as set forth on Schedule 5.6, no litigation (including derivative actions), arbitration proceeding or governmental investigation or proceeding is pending or, to the Holders or any Loan Party's knowledge, threatened, against the Holders or any Loan Party or any of their respective properties which (i) purport to affect or pertain to this Agreement, any other Loan Document or any of the transactions contemplated hereby or (ii) could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. No injunction, writ, temporary restraining order or any order of any nature has been issued by any court or other Governmental Authority purporting to enjoin or restrain the execution, delivery or performance of this Agreement, any other Loan Document, or directing that the transactions provided for herein not be consummated as herein provided. As of the Effective Date, neither the Holders nor any Loan Party is the subject of an audit or, to the Holders and each Loan Party's knowledge, any review or investigation by any Governmental Authority (excluding the IRS and other taxing authorities) concerning the violation or possible violation of any requirement of law.

5.7. Ownership of Properties; Liens. There are no Liens on the Collateral other than those granted in favor of the Agent to secure the Obligations and Permitted Liens. Each of the Borrower and each other Loan Party owns good and, in the case of real property, marketable, title to all of its properties and assets, real and personal, tangible and intangible, of any nature whatsoever (including patents, trademarks, trade names, service marks and copyrights), free and clear of all Liens, charges and claims (including infringement claims with respect to Intellectual Property), and the Holders hold 100% of the Capital Stock of the Borrower free and clear of all Liens, charges and claims except as permitted by Section 7.2. As of the Effective Date, Schedule 5.7 lists all of the real property owned, leased, subleased or otherwise owned or occupied by any Loan Party.

5.8. Capitalization; Subsidiaries.

(a) Equity Interests. As of the Effective Date, the Borrower has no Subsidiaries and does not hold any Capital Stock of any other Person. All

Stock and Stock Equivalents of each Loan Party are duly and validly issued and, in the case of each entity that is a corporation, are fully paid and non-assessable, and, other than the Stock and Stock Equivalents of the Borrower, are owned by the Borrower, directly or indirectly through Wholly-Owned Subsidiaries. The Holders and each Loan Party is the record and beneficial owner of, and has good and marketable title to, the Stock and Stock Equivalents pledged by it to the Agent under the Collateral Documents, free of any and all Liens, rights or claims of other persons, except the security interest created by the Collateral Documents, and there are no outstanding warrants, options or other rights to purchase, or shareholder, voting trust or similar agreements outstanding with respect to, or property that is convertible into, or that requires the issuance or sale of, any such Stock and Stock Equivalents. As of the Effective Date, no Loan Party is engaged in any joint venture with any other Person.

(b) No Consent of Third Parties Required. No consent of any person including any other general or limited partner, any other member of a limited liability company, any other shareholder or any other trust beneficiary is necessary or reasonably desirable (from the perspective of a secured party) in connection with the creation, perfection or first priority status of the security interest of the Agent in any Stock and Stock Equivalents pledged to the Agent for the benefit of the Lender under the Collateral Documents or the exercise by the Agent of the voting or other rights provided for in the Collateral Documents or the exercise of remedies in respect thereof.

5.9. Pension Plans. No Loan Parties have any liability under ERISA and no Loan Party sponsors any "pension plan" or has any liability subject to Title IV of ERISA.

5.10. Compliance with Law; Investment Company Act; Other Regulated Entities. Except as set out in Schedule 5.10, the Borrower and each other Loan Party possesses all necessary authorizations, permits, licenses and approvals from all Governmental Authorities in order to conduct their respective businesses as presently conducted. All business and operations of the Borrower and each other Loan Party complies with all applicable federal, state and local laws and regulations, except where the failure so to comply could not reasonably be expected to result in a Material Adverse Effect. Neither the Borrower nor any other Loan Party is operating any aspect of its business under any agreement, settlement, order or other arrangement with any Governmental Authority. Neither the Borrower nor any other Loan Party is an "investment company" or a company "controlled" by an "investment company" or a "subsidiary" of an "investment company", within the meaning of the Investment Company Act of 1940. None of any Loan Party, any Person controlling any Loan Party, or any Subsidiary of any Loan Party, is subject to regulation under any Federal or state statute, rule or regulation limiting its ability to incur Debt, pledge its assets or perform its Obligations under the Loan Documents.

5.11. Margin Stock. Neither the Borrower nor any Loan Party is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying Margin Stock. No portion of the Obligations is secured directly or indirectly by Margin Stock.

5.12. Taxes. Each of the Borrower and each other Loan Party has filed all federal, and all other material state, provincial, local and foreign income, sales, goods and services, harmonized sales and franchise and other tax returns, reports and statements (collectively, the "Tax Returns") with the appropriate Governmental Authorities in all jurisdictions in which such Tax Returns are or were required to be filed. All such Tax Returns are true and correct in all material respects. All Taxes, charges and other impositions reflected therein or otherwise due and payable have been paid prior to the date on which any liability may be added thereto for non-payment thereof, except for those contested in good faith by appropriate proceedings diligently conducted and for which adequate reserves are maintained on the books of the appropriate Loan Party, as applicable. As of the Effective Date, no Tax Return is under audit or examination by any Governmental Authority and no notice of such an audit or examination or any assertion of any claim for Taxes has been given or made by any Governmental Authority. Proper and accurate amounts have been withheld by the each Loan Party, as applicable, from their respective employees for all periods in full and complete compliance with the tax, social security and unemployment withholding provisions of Applicable Law and such withholdings have been timely paid to the respective Governmental Authorities. No Loan Party has been a member of an affiliated, combined or unitary group other than the group of which the Holders or a Loan Party is the common parent or has liability for Taxes of any other person.

5.13. Solvency. On the Effective Date, and both immediately before and after giving effect to (a) the Loans made on or prior to the date this representation and warranty is made or remade, (b) the disbursement of proceeds of such Loans, and (c) the payment and accrual of all transaction costs in connection with the foregoing, with respect to the Borrower and each other Loan Party, on a consolidated basis, (i) the fair value of its assets is greater than the amount of its liabilities (including disputed, contingent and unliquidated liabilities) as such value is established and liabilities evaluated, (ii) the present fair saleable value of its assets is not less than the amount that will be required to pay the probable liability on its debts as they become absolute and matured, (iii) it is able to realize upon its assets and pay its debts and other liabilities (including disputed, contingent and unliquidated liabilities) as they mature in the normal course of business, (iv) it does not intend to, and does not believe that it will, incur debts or liabilities beyond its ability to pay as such debts and liabilities mature and (v) it is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which its property would constitute unreasonably small capital.

5.14. Environmental Matters. The on-going operations of the Borrower and each other Loan Party comply in all respects with all Environmental Laws, except such non-compliance which could not (if enforced in accordance with Applicable Law) reasonably be expected to result in a Material Adverse Effect. The Borrower and each other Loan Party have obtained, and maintained in good standing, all licenses, permits, authorizations and registrations required under any Environmental Law and necessary for their respective ordinary course operations, and the Borrower and each other Loan Party are in compliance with all material terms and conditions thereof, except where the failure to do so could not reasonably be expected to result in material liability to the Borrower or any other Loan Party and could not reasonably be expected to result in a Material Adverse Effect. None of the Borrower, any other Loan Party or any of their respective properties or operations is subject to any outstanding written order from or agreement with any federal, state or local Governmental Authority, nor subject to any judicial

or docketed administrative proceeding, nor subject to any indemnification agreement or other contractual obligation, respecting any Environmental Law, Environmental Claim or Hazardous Substance. There are no Hazardous Substances or other conditions or circumstances existing with respect to any property, or arising from operations prior to the Effective Date, of the Borrower or any other Loan Party that could reasonably be expected to result in a Material Adverse Effect. Neither the Borrower nor any other Loan Party has any underground or above ground storage tanks that are not properly registered or permitted under applicable Environmental Laws or that are leaking or disposing of Hazardous Substances.

5.15. Insurance. The Borrower and each other Loan Party and their respective properties are insured with financially sound and reputable insurance companies which are not Affiliates of the Borrower, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the Borrower or such other Loan Party operates. A true and complete listing of such insurance as of the Effective Date, including issuers, coverages and deductibles, is set forth on Schedule 5.15.

5.16. Information. All information heretofore or contemporaneously herewith furnished in writing by the Holders, the Borrower or any other Loan Party to the Agent or the Lender for purposes of or in connection with this Agreement and the transactions contemplated hereby is, and all written information hereafter furnished by or on behalf of the Holders, the Borrower or any Loan Party to the Agent or the Lender pursuant hereto or in connection herewith will be, true and accurate in every material respect on the date as of which such information is dated or certified, and none of such information is or will be incomplete by omitting to state any material fact necessary to make such information not misleading in light of the circumstances under which made (it being recognized by the Agent and the Lender that any projections and forecasts provided by the Borrower are based on good faith estimates and assumptions believed by the Borrower to be reasonable as of the date of the applicable projections or assumptions and that actual results during the period or periods covered by any such projections and forecasts may differ from projected or forecasted results).

5.17. Intellectual Property. Each Loan Party owns, or is licensed or otherwise has the right to use, all Intellectual Property necessary to conduct its business as currently conducted except for such Intellectual Property the failure of which to own or have a license or other right to use would not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect. To the knowledge of each Loan Party, (a) the conduct and operations of the businesses of each Loan Party do not, and the anticipated products and Intellectual Property applications of the Loan Parties will not, infringe upon, misappropriate, dilute or violate any Intellectual Property owned by any other Person and (b) no other Person has contested any right, title or interest of any Loan Party in any Intellectual Property or any anticipated products and applications derived or expected to be derived therefrom, other than, in each case, as cannot reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect. The Intellectual Property of the Loan Parties is sufficient, and conveys adequate rights, title and interests, for the Borrower and other Loan Parties to develop and commercialize its anticipated products and Intellectual Property applications.

5.18. Labor Matters. Except as set forth on Schedule 5.18, neither the Borrower nor any other Loan Party is subject to any labor or collective bargaining agreement. There are no existing or threatened strikes, lockouts or other labor disputes involving the Borrower or any other Loan Party that singly or in the aggregate could reasonably be expected to have a Material Adverse Effect. Hours worked by and payment made to employees of the Borrower and the other Loan Parties are not in violation of the Fair Labor Standards Act or any other Applicable Law, rule or regulation dealing with such matters.

5.19. No Default. Except as set forth on Schedule 5.6, no Loan Party is in default under or with respect to any contractual obligation in any respect which, individually or together with all such defaults, would reasonably be expected to have a Material Adverse Effect.

5.20. Foreign Assets Control Regulations and Anti-Money Laundering.

5.20.1. OFAC. Each Loan Party is and will remain in compliance in all material respects with all U.S. economic sanctions laws, Executive Orders and implementing regulations as promulgated by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") and all applicable anti-money laundering and counter-terrorism financing provisions of the Bank Secrecy Act and all regulations issued pursuant to any of the foregoing. No Loan Party (i) is a Person designated by the U.S. government on the list of the Specially Designated Nationals and Blocked Persons (the "SDN List") with which a U.S. Person cannot deal with or otherwise engage in business transactions, (ii) is a Person who is otherwise the target of U.S. economic sanctions laws such that a U.S. Person cannot deal or otherwise engage in business transactions with such Person or (iii) is controlled by (including without limitation by virtue of such person being a director or owning voting shares or interests), or acts, directly or indirectly, for or on behalf of, any person or entity on the SDN List, a Terrorist List or a foreign government that is the target of U.S. economic sanctions prohibitions such that the entry into, or performance under, this Agreement or any other Loan Document would be prohibited under U.S. law.

5.20.2. Patriot Act. The Loan Parties and each of their Affiliates are in compliance with (a) the Trading with the Enemy Act, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B Chapter V, as amended) and any other enabling legislation or executive order relating thereto and (b) the Patriot Act. No part of the proceeds of any Loans will be used directly or indirectly for any payments to any government official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977.

Section 6. Affirmative Covenants.

Until all Obligations (other than contingent indemnification obligations to the extent no claim giving rise thereto has been asserted) are Paid in Full, the Borrower agrees that, unless at any time the Lender shall otherwise expressly consent in writing, it will:

6.1. Information. Furnish to the Agent and the Lender:

6.1.1. Annual Report. Promptly when available and in any event within 90 days of the end of each Fiscal Year of the Borrower beginning with the Fiscal Year ended December 31, 2013, the unaudited consolidated financial statements of the Borrower and the Subsidiaries as at the end of such Fiscal Year prepared, (i) if Commercialization has not occurred as of the last day of such period, on a basis consistent with the Current Financial Statements or (ii) if Commercialization has occurred as of the last day of such period, on a basis consistent with GAAP.

6.1.2. Quarterly Reports. Commencing with respect to the third Fiscal Quarter of 2013, promptly when available and in any event within 45 days of the end of such Fiscal Quarter and each subsequent Fiscal Quarter, consolidated balance sheets of the Borrower and its Subsidiaries as of the end of such fiscal quarter, together with consolidated financial statements for such period prepared, (i) if Commercialization has not occurred as of the last day of such period, on a basis consistent with the Current Financial Statements or (ii) if Commercialization has occurred as of the last day of such period, on a basis consistent with GAAP, and a management discussion and analysis relating to such information in reasonable detail, together with a comparison with the corresponding period of the previous Fiscal Year and a comparison with the budget for such period of the current Fiscal Year, certified by the chief financial officer (or similar titled officer) of the Borrower.

6.1.3. Monthly Reports. As soon as available, but in any event not more than ten (10) calendar days after the end of each month, deliver (i) a consolidated balance sheet of the Borrower and its subsidiaries as at the end of such month, and the related consolidated statements of income or operations for such month and the entire period commencing on the Effective Date through the date of delivery of such statements, setting forth in each case in comparative form the actual figures and the most recently delivered operating budget and a variance report, all in reasonable detail, certified by an officer of the Borrower as fairly presenting the financial condition, results of operations and cash flows of the Borrower and its subsidiaries in accordance with the standards of preparation set forth in the Loan Documents, and (ii) if requested by the Agent in its sole discretion, a management discussion and analysis of financial condition and results of operations, discussing and analyzing the results of operations for the Borrower and its subsidiaries for such month.

6.1.4. Compliance Certificate. Contemporaneously with the furnishing of the financial statements required pursuant to Sections 6.1.1 and 6.1.2, a duly completed Compliance Certificate signed by the chief financial officer (or similar titled officer) of the Borrower to the effect that such officer has not become aware of any Event of Default or Default that has occurred and is continuing or, if there is any such Event of Default, describing it and the steps, if any, being taken to cure it, and providing such other information as required thereby.

6.1.5. Monthly Net Revenue Report. Commencing upon Commercialization, and thereafter promptly when available and in any event within 30 days after the end of each calendar month, a Monthly Net Revenue Report, together with a certificate of the Borrower signed by the chief financial officer (or similar titled officer) of the Borrower certifying that the foregoing report is true, correct and accurate in all material respects as of such date.

6.1.6. Notice of Default; Litigation; ERISA Matters. Promptly upon becoming aware of any of the following, written notice describing the same and the steps being taken by the Borrower or the applicable Loan Party affected thereby with respect thereto:

(a) the occurrence of an Event of Default or a Default;

(b) any litigation, arbitration or governmental investigation or proceeding not previously disclosed by the Borrower to the Lender which has been instituted or, to the knowledge of the Borrower, is threatened against the Holders, the Borrower or any other Loan Party, or to which any of the properties of any thereof is subject, which could reasonably be expected to have a Material Adverse Effect;

(c) any cancellation or material change in coverage in any insurance maintained by the Borrower or any other Loan Party; or

(d) any other event (including (i) any violation of any Environmental Law or the assertion of any Environmental Claim, (ii) the enactment or effectiveness of any law, rule or regulation, (iii) any violation or noncompliance with any law or (iv) any breach or non-performance of, or any default under, any contractual obligation of the Holders or any Loan Party) which could reasonably be expected to have a Material Adverse Effect.

6.1.7. Reserved.

6.1.8. Budgets. As soon as practicable, and in any event not later than 30 days after the commencement of each Fiscal Quarter, an annual operating budget of the Borrower and its Subsidiaries for the relevant Fiscal Year (including quarterly operating and cash flow budgets) prepared in a manner reasonably satisfactory to the Agent, accompanied by a certificate of the chief financial officer (or similar titled officer) of the Borrower to the effect that (a) such budget was prepared by the Borrower, in good faith, (b) the Borrower has a reasonable basis for the assumptions contained in such budget and (c) such budget has been prepared in accordance with such assumptions.

6.1.9. Other Information. Promptly from time to time, such other information (including any technical progress updates as the Lender or the Agent may reasonably request, but no more frequently than monthly) concerning the Holders, the Borrower and any other Loan Party as the Lender or the Agent may reasonably request.

6.2. Books; Records; Inspections. Keep, and cause the Borrower and each other Loan Party to keep, its books and records in accordance with sound business practices sufficient to allow the preparation of financial statements in accordance with GAAP; permit, and cause the Borrower and each other Loan Party to permit, the Agent, the Lender, or any representative of the foregoing to inspect, at any reasonable time and with reasonable notice (or at any time without notice if an Event of Default exists), the properties and operations of the Borrower or such other Loan Party; and permit, and cause the Borrower and each other Loan Party to permit, at any reasonable time and with reasonable notice (or at any time without notice if an Event of Default exists), the Agent, the Lender, or any representative thereof to visit any or

all of its offices, to discuss its financial matters with its directors or officers and its independent auditors, if any (and the Borrower hereby authorizes such independent auditors, if any, to discuss such financial matters with the Lender or the Agent or any representative thereof), and to examine (and, at the expense of the Borrower or the applicable Loan Party, photocopy extracts from) any of its books or other records; and permit, and cause the Borrower and each other Loan Party to permit, the Agent, the Lender and their representatives to inspect, at any reasonable time and with reasonable notice (or at any time without notice if an Event of Default exists), the Collateral and other tangible assets of the Borrower or such Loan Party, to perform appraisals of the equipment of the Borrower or such Party, and to inspect, audit, check and make copies of and extracts from the books, records, computer data, computer programs, journals, orders, receipts, correspondence and other data relating to any Collateral, including the Assigned Interests for purposes of or otherwise in connection with conducting a review, audit or appraisal of such books and records. In the event that the Agent or Lender shall determine pursuant to any audit of the books and records of the Borrower and its Subsidiaries conducted pursuant to this Section 6.2 that the aggregate amount paid to the Lender hereunder during any period covered by such audit is less than the aggregate amount that was in fact due and payable in respect of such period the Borrower shall promptly remit the amount of such shortfall to the Agent together with interest thereon payable at the Default Rate.

6.3. Maintenance of Property; Insurance.

(a) Keep, and cause each other Loan Party to keep, all property useful and necessary in the business of the Borrower or such other Loan Party in good working order and condition, ordinary wear and tear excepted, and maintain, and cause each other Loan Party to maintain, its Intellectual Property in accordance with the provisions of the Collateral Documents.

(b) Maintain, and cause each other Loan Party to maintain, with responsible insurance companies, such insurance coverage as shall be required by all laws, governmental regulations and court decrees and orders applicable to it and such other insurance, to such extent and against such hazards and liabilities, as is customarily maintained by companies similarly situated; provided that in any event, such insurance shall insure against all risks and liabilities of the type insured against as of the Closing Date and shall have insured amounts no less than, and deductibles no higher than, those amounts provided for as of the Closing Date. Upon request of the Agent or the Lender, the Borrower shall furnish to the Agent or such Lender a certificate setting forth in reasonable detail the nature and extent of all insurance maintained by the Borrower and each other Loan Party. The Borrower shall cause each issuer of an insurance policy to provide the Agent with an endorsement (i) showing the Agent as a loss payee with respect to each policy of property or casualty insurance and naming the Agent as an additional insured with respect to each policy of liability insurance, (ii) providing that 30 days' notice will be given to the Agent prior to any cancellation of, or reduction or change in coverage provided by or other material modification to such policy and (iii) acceptable in all other respects to the Agent. The Borrower shall execute and deliver to the Agent, upon request of the Agent, a

collateral assignment, in form and substance satisfactory to the Agent, of each business interruption insurance policy maintained by the Loan Parties.

(c) Unless the Borrower provides the Agent with evidence of the continuing insurance coverage required by this Agreement, the Agent may purchase insurance (to the extent of such insurance coverage as shall be required by clause (b) above) at the Borrower's expense to protect the Agent's and the Lender's interests in the Collateral. This insurance may, but need not, protect the Borrower's and each other Loan Party's interests. The coverage that the Agent purchases may, but need not, pay any claim that is made against the Borrower or any other Loan Party in connection with the Collateral. The Borrower may later cancel any insurance purchased by the Agent, but only after providing the Agent with evidence that the Borrower has obtained the insurance coverage required by this Agreement. If the Agent purchases insurance for the Collateral, as set forth above, the Borrower will be responsible for the costs of that insurance, including interest and any other charges that may be imposed with the placement of the insurance, until the effective date of the cancellation or expiration of the insurance and the costs of the insurance may be added to the principal amount of the Loan owing hereunder.

6.4. Compliance with Laws and Contractual Obligations; Payment of Taxes and Liabilities. Comply, and cause each other Loan Party to comply, in all material respects with all Applicable Laws, rules, regulations, decrees, orders, judgments, licenses and permits and all indentures, agreements and other instruments binding upon it or its property, except where failure to comply could not reasonably be expected to have a Material Adverse Effect; (b) without limiting clause (a) above, ensure, and cause each other Loan Party to ensure, that no person who owns a controlling interest in or otherwise controls a Loan Party is or shall be (i) listed on the Specially Designated Nationals and Blocked Person List maintained by OFAC, Department of the Treasury, and/or any other similar lists maintained by OFAC pursuant to any authorizing statute, Executive Order or regulation or (ii) a person designated under Section 1(b), (c) or (d) of Executive Order 13224, any related enabling legislation or any other similar Executive Orders; (c) without limiting clause (a) above, comply and cause each other Loan Party to comply, with all applicable Bank Secrecy Act and anti-money laundering laws and regulations; and (d) timely prepare and file all Federal and all other material Tax Returns required to be filed by Applicable Law and pay, and cause each other Loan Party to pay, prior to delinquency, all taxes and other governmental charges against it or any of its property, as well as claims of any kind which, if unpaid, could become a Lien on any of its property; provided that the foregoing shall not require the Borrower or any other Loan Party to pay any such Tax or charge so long as it shall promptly contest the validity thereof in good faith by appropriate proceedings and shall set aside on its books adequate reserves with respect thereto in accordance with GAAP.

6.5. Maintenance of Existence. Maintain and preserve, and (subject to Section 7.4) cause each other Loan Party to maintain and preserve, (a) its existence and good standing (as applicable) in the jurisdiction of its organization and (b) its qualification to do business and good standing (as applicable) in each jurisdiction where the nature of its business makes such qualification necessary, other than any such jurisdiction where the failure to be

qualified or in good standing could not reasonably be expected to have a Material Adverse Effect.

6.6. Environmental Matters. If any release or disposal of Hazardous Substances shall occur or shall have occurred on or from any real property or any other assets of the Borrower or any other Loan Party, cause, or direct the applicable Loan Party to cause, the prompt containment and removal of such Hazardous Substances and the remediation of such real property or other assets as is necessary to comply with all Environmental Laws and to preserve the value of such real property or other assets. Without limiting the generality of the foregoing, the Borrower shall, and shall cause each other Loan Party to, comply with each valid Federal or state judicial or administrative order requiring the performance at any real property by the Borrower or any other Loan Party of activities in response to the release or threatened release of a Hazardous Substance. If any violation of any Environmental Law shall occur or shall have occurred at any real property or any other assets of the Borrower or any other Loan Party or otherwise in connection with their operations, cause, or direct the applicable Loan Party to cause, the prompt correction of such violation.

6.7. Further Assurances. Promptly upon request by the Agent, the Holders and the Loan Parties shall (and, subject to the limitations hereinafter set forth, shall cause each of their Subsidiaries to) take such additional actions as the Agent may reasonably require from time to time in order (i) to subject to the Liens created by any of the Collateral Documents any of the properties, rights or interests, whether now owned or hereafter acquired, covered or intended to be covered by any of the Collateral Documents, (ii) to perfect and maintain the validity, effectiveness and priority of any of the Collateral Documents and the Liens intended to be created thereby, and (iii) to better assure, convey, grant, assign, transfer, preserve, protect and confirm to the Agent and the Lender the rights granted or now or hereafter intended to be granted to the Agent and the Lender under any Loan Document or under any other document executed in connection therewith. Without limiting the generality of the foregoing and except as otherwise approved in writing by the Lender, the Loan Parties shall cause each of their Subsidiaries (including any Subsidiary formed or acquired after the Closing Date) to guaranty the Obligations and cause each such Subsidiary to grant to the Agent, for the benefit of the Agent and the Lender, a security interest in, subject to the limitations hereinafter set forth, all of such Subsidiary's property to secure such guaranty, in each case pursuant to the execution and delivery of a Subsidiary Guaranty and a joinder to the Borrower Security Agreement and such other documents as may be reasonably requested, each in form and substance reasonably satisfactory to the Agent. Furthermore and except as otherwise approved in writing by the Lender, the Borrower shall, and shall cause each of its Subsidiaries (except Inactive Subsidiaries) to, pledge all of the Stock and Stock Equivalents of each of its Subsidiaries to the Agent for the benefit of the Agent and the Lender, to secure the Obligations, in each case pursuant to documents in form and substance reasonably satisfactory to the Agent. In connection with each pledge of Capital Stock, the Holders, the Borrower and each Subsidiary shall deliver, or cause to be delivered, to the Agent, irrevocable proxies and stock powers and/or assignments, as applicable, duly executed in blank, in each case pursuant to documents in form and substance reasonably satisfactory to the Agent. In the event that any Capital Stock of the Borrower shall be transferred to any new Holder the Borrower shall cause such Holder to execute and deliver a Guarantee and Pledge Agreement to the Agent prior to or concurrently with such transfer. The Borrower and each Loan Party shall be under an ongoing obligation to use commercially

reasonable efforts to obtain a Collateral Access Agreement from the lessor of each leased property, bailee in possession of any Collateral with respect to each location where any Collateral is stored or located, which Collateral Access Agreement shall be in form and substance reasonably satisfactory to the Agent. Without limiting the requirements of the Collateral Documents, in the event that any Loan Party shall acquire, develop, or otherwise obtain, register or seek to register any Patent, Copyright, Trademark, or other Intellectual Property with any Governmental Authority, or obtain, register or seek to register any application for, or license in respect of, any of the foregoing, the Borrower shall notify the Agent thereof within five (5) Business Days and shall promptly thereafter execute and deliver to the Agent, for the benefit of Lender, such Intellectual Property Assignments, other Collateral Documents or other documents as the Agent may request in order to secure and perfect the security interest in respect of such Intellectual Property.

6.8. Assigned Interests Payments. In the event of Commercialization, it shall remit to the Lender amounts pursuant to Section 2.4.2.

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

6.10. Sale of Hyperion. Within five (5) Business Days after the consummation of any sale transaction with respect to Hyperion, Borrower shall (i) deposit not less than * * * from the proceeds of such sale transaction into a deposit account of the Borrower (such deposit account shall be subject to a Control Agreement) and (ii) shall pay, or cause Hyperion to pay, to Lender the amount of * * * owing by Hyperion to Lender for Lender's own account.

6.11. BioVeris. * * *

Section 7. Negative Covenants.

Until the Obligations (other than contingent indemnification obligations to the extent no claim giving rise thereto has been asserted) are Paid in Full, the Borrower agrees that, unless at any time the Lender shall otherwise expressly consent in writing, it will:

7.1. Debt. Not, and not suffer or permit any Loan Party to, create, incur, assume or suffer to exist any Debt, except for the following Debt of the Borrower and/or Loan Party Subsidiaries:

(a) Obligations under this Agreement and the other Loan Documents;

(b) Debt that is unsecured or secured by Liens permitted by Section 7.2(d); provided that the aggregate principal amount of all such Debt at any time outstanding shall not exceed $50,000;

(c) Debt of the Borrower to any Loan Party that is a Wholly-Owned Subsidiary of the Borrower or Debt of any Loan Party that is a Wholly-Owned Subsidiary of the Borrower to the Borrower or another Loan Party that is a Wholly-Owned Subsidiary of the Borrower; provided that all such Debt shall be evidenced by a global intercompany demand note in form and substance satisfactory to the Agent and pledged and delivered to the Agent pursuant to the applicable Collateral Document as additional collateral security for the Obligations, and the obligations under such demand note shall be subordinated to the Obligations hereunder in a manner satisfactory to the Agent;

(d) Debt described on Schedule 7.1 as of the Closing Date, and any Permitted Refinancing thereof;

(e) Contingent Obligations arising with respect to customary indemnification obligations in favor of purchasers in connection with dispositions permitted under Section 7.4;

(f) Debt arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business, provided that such Debt is extinguished within two (2) Business Days of notice to the Borrower or the relevant Subsidiary of its incurrence;

(g) Debt incurred in connection with the financing of insurance premiums in the ordinary course of business;

(h) guaranties by the Borrower of the Debt of any Loan Party that is a Wholly-Owned Subsidiary of the Borrower or guaranties by any Subsidiary thereof of the Debt of the Borrower in each case so long as such Debt is otherwise permitted under Section 7.1(a) or (b); and

(i) Second Lien Debt, and any Permitted Refinancing acceptable to the Agent thereof.

7.2. Liens. Not, and not suffer or permit any Loan Party to, create or permit to exist any Lien on any of its real or personal properties, assets or rights of whatsoever nature (whether now owned or hereafter acquired), except:

(a) Liens for Taxes or other governmental charges not at the time delinquent or thereafter payable without penalty or being diligently contested in good faith by appropriate proceedings and, in each case, for which it maintains adequate reserves in accordance with GAAP and the execution or other enforcement of which is effectively stayed;

(b) Liens arising in the ordinary course of business (such as (i) Liens of carriers, warehousemen, mechanics, customs brokers, landlords and materialmen and other similar Liens imposed by law and (ii) Liens consisting of pledges or deposits incurred in connection with worker's compensation, unemployment compensation and other types of social security (excluding Liens arising under ERISA) or in connection with surety bonds, bids, performance bonds and similar obligations) for sums not overdue or being diligently contested in good faith by appropriate proceedings and not involving any deposits or advances or borrowed money or the deferred purchase price of property or services and, in each case, for which it maintains adequate reserves in accordance with GAAP and the execution or other enforcement of which is effectively stayed;

(c) Liens described on Schedule 7.2 as of the Closing Date;

(d) (i) Liens arising in connection with Capital Leases (and attaching only to the property being leased), and (ii) Liens that constitute purchase money security interests on any property securing debt incurred for the purpose of financing all or any part of the cost of acquiring such property, in each case permitted by Section 7.1(b); provided that any such Lien attaches to such property within 60 days of the acquisition thereof and attaches solely to the property so acquired;

(e) attachments, appeal bonds, judgments and other similar Liens, in connection with judgments the existence of which do not constitute an Event of Default;

(f) easements, encroachments, rights of way, leases, subleases, restrictions, minor defects or irregularities in title and other similar Liens not interfering in any material respect with the ordinary conduct of the business of the Borrower or any Subsidiary;

(g) any interest or title of a lessor or sublessor under any lease (other than a Capital Lease) or of a licensor or sublicensor under any license, in each case permitted by this Agreement;

(h) Liens arising from precautionary uniform commercial code financing statements filed under any lease (other than a Capital Lease) permitted by this Agreement;

(i) Liens arising under the Loan Documents;

(j) Liens securing Debt under the Second Lien Credit Agreement (the "Second Lien Debt"); and

(k) the replacement, extension or renewal of any Lien permitted by clause (d) above upon or in the same property subject thereto arising out of the Permitted Refinancing of the Debt secured thereby.

7.3. Restricted Payments. Not, and not suffer or permit any Loan Party to, (i) declare or make any dividend payment or other distribution of assets, properties, cash, rights, obligations or securities on account of any Stock or Stock Equivalent, (ii) purchase, redeem or otherwise acquire for value any Stock or Stock Equivalent now or hereafter outstanding or (iii) make any payment or prepayment of principal of, premium, if any, interest, fees, redemption, exchange, purchase, retirement, defeasance, sinking fund or similar payment with respect to, Debt that is subordinated by its terms to the payment of the Obligations, including any Surviving Debt or any other indebtedness which is intended to be subordinated to the Obligations (the items described in clauses (i), (ii) and (iii) above are referred to as "Restricted Payments") except that any Subsidiary of the Borrower may declare and pay dividends to, repay intercompany debt owed to, and make internal profit-sharing payments to, the Borrower or any other Loan Party that is a Wholly-Owned Subsidiary of the Borrower.

7.4. Mergers; Consolidations; Asset Sales.

(a) Not, and not suffer or permit any Loan Party to, be a party to any merger, consolidation or amalgamation, except for any such merger or consolidation (i) of any Subsidiary of the Borrower into the Borrower (so long as the Borrower survives such merger) or any Loan Party that is a Wholly-Owned Subsidiary of the Borrower, as applicable (so long as such Loan Party that is a Wholly-Owned Subsidiary survives such merger) or (ii) in which the Obligations shall be Paid in Full prior to or concurrently with the consummation of such transaction.

(b) Not, and not suffer or permit any Loan Party to, sell, transfer, dispose of, convey or lease any of its assets or Capital Stock of any Loan Party, or sell or assign with or without recourse any receivables, except for (i) sales or dispositions of worn-out or surplus equipment, all in the ordinary course of business, (ii) the abandonment or other disposition of Intellectual Property that is no longer useful or material to the conduct of the business of the Loan Parties as determined by the Borrower in its reasonable business judgment, (iii) dispositions of cash and Cash Equivalent Investments, (iv) licenses, sublicenses, leases or subleases (including any license or sublicense of Intellectual Property) granted to third parties in the ordinary course of business not interfering with the business of the Loan Parties in any material respect as determined by the Borrower in its reasonable business judgment, (v) the granting of Liens permitted under Section 7.2, Restricted Payments permitted by Section 7.3, transactions permitted by Section 7.4(a) and Investments permitted by Section 7.10, (vi) dispositions resulting from any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceeding of, any property or asset of any Loan Party provided the proceeds thereof are promptly applied to replace such assets, and (vii) dispositions in connection with the Commercialization of Intellectual Property the revenues of which are applied in accordance with Section 6.9 or research and development activities not constituting Commercialization pursuant to the proviso of the definition thereof.

(c) Not, and not suffer or permit any Loan Party to, sell, transfer, dispose of, convey or license any of its Intellectual Property other than as permitted by the foregoing clauses (a) and (b) of this Section 7.4.

7.5. Modification of Organizational Documents or Surviving Debt Subordination Agreement and Acknowledgment. Not waive, amend or modify, and not suffer or permit any waiver, amendment or modification of, any term of the charter, limited liability company agreement, partnership agreement, articles of incorporation, by-laws or other organizational documents of the Borrower or any other Loan Party or the Surviving Debt Subordination Agreement and Acknowledgment, in each case except for those amendments and modifications that do not materially adversely affect the interests of the Agent or the Lender under the Loan Documents or in the Collateral (it being understood and agreed that any adverse impact on the effectiveness or validity of any Collateral Document or the Liens granted to the Agent thereunder or any amendment to the Surviving Debt Subordination Agreement and Acknowledgment that shall render the indebtedness incurred thereunder, including any principal, interest, fee or any other payment in respect thereof, payable in cash on or before the date that is ninety-one (91) days subsequent to the final Maturity Date, shall each be deemed to materially adversely affect such interests of the Agent and the Lender).

7.6. Use of Proceeds. Not use the proceeds of the Loans for any purposes other than solely as expressly provided in Section 2.1.2.

7.7. Transactions with Affiliates. Not, and not suffer or permit any Loan Party to, enter into any transaction or arrangement with any Affiliate of the Borrower or of any such Loan Party, except:

(a) Restricted Payments permitted by Section 7.3, intercompany loans among Loan Parties permitted by Section 7.1(c), transactions permitted by Section 7.4(a) and Investments permitted by Section 7.10(a) and (b);

(b) in the ordinary course of business and pursuant to the reasonable requirements of the business of such Loan Party or such Subsidiary; provided that, in the case of this clause (b), such transaction shall be upon fair and reasonable terms no less favorable to such Loan Party or such Subsidiary than would be obtained in a comparable arm's length transaction with a Person not an Affiliate of the Borrower or such Subsidiary and which are disclosed in writing to the Agent;

(c) payment of compensation and benefits (including customary indemnities) to officers, directors and employees for actual services rendered to the Loan Parties in the ordinary course of business;

(d) payment of reasonable and customary fees to members of the boards of directors (or similar governing body) of the Loan Parties, and the reimbursement of actual out of pocket expenses incurred in connection with attending board of director meetings; and

(e) advances for reasonable travel and entertainment expenses and reasonable relocation costs and expenses and other reasonable loans and advances in the ordinary course of business.

7.8. Inconsistent Agreements. Not, and not suffer or permit the Holders or any other Loan Party to, enter into any agreement containing any provision which would (i) be violated or breached by any borrowing by the Borrower hereunder or by the performance by the Holders, the Borrower or any other Loan Party of any of its Obligations hereunder or under any other Loan Document, (ii) prohibit the Holders, the Borrower or any other Loan Party from granting to the Agent and the Lender a Lien on any of its assets that constitute Collateral or (iii) other than pursuant to the Loan Documents, create or permit to exist or become effective any encumbrance or restriction on the ability of any other Subsidiary to (x) pay dividends or make other distributions to the Borrower or any Wholly-Owned Subsidiary, or pay any Debt owed to the Borrower or any Wholly-Owned Subsidiary, (y) make loans or advances to the Borrower or any Wholly-Owned Subsidiary or (z) transfer any of its assets or properties to the Borrower or any Wholly-Owned Subsidiary, except, in the case of clause (ii) and (iii) above: (a) negative pledges and restrictions on Liens in favor of any holder of Debt permitted under Section 7.1(b) but solely to the extent any negative pledge or limitation on Liens relates to the property that is the subject of such Debt and the proceeds and products thereof, (b) customary restrictions on leases, subleases, licenses or asset sale agreements otherwise permitted hereby so long as such restrictions relate to the assets subject thereto, (c) customary provisions restricting assignment of any agreement entered into in the ordinary course of business, (d) prohibitions and limitations that exist pursuant to Applicable Law and (e) restrictions set forth in the Second Lien Loan Documents.

7.9. Business Activities. Not, and not suffer or permit any Loan Party to, engage in any line of business other than the businesses engaged in on the Closing Date and businesses directly related thereto. As of the Closing Date, the Borrower and other Loan Parties engage in the business of the development, manufacture, sale and distribution of small point of care diagnostic systems that can perform a wide variety of tests targeting the clinical diagnostics market utilizing electrochemiluminescence technology.

7.10. Investments. Not, and not suffer or permit any Loan Party to, make or permit to exist, any Investment in any other Person, except the following:

(a) Investments between or among the Loan Parties;

(b) Investments constituting Debt permitted by Section 7.1(c);

(c) Contingent Obligations constituting Debt permitted by Section 7.1;

(d) Cash Equivalent Investments;

(e) Investments listed on Schedule 7.10 as of the Closing Date;

(f) extensions of trade credit in the ordinary course of business;

(g) other Investments in an aggregate amount not to exceed $50,000 at any time outstanding.

7.11. Fiscal Year. Not, and not suffer or permit any other Loan Party to, change its Fiscal Year.

7.12. Deposit Accounts and Securities Accounts. Not, and not suffer or permit any Loan Party to, maintain or establish any deposit account or securities account other than the deposit accounts and securities accounts set forth on Schedule 7.12 without prior written notice to the Agent and unless the Agent, the Borrower or such other Loan Party and the bank or securities intermediary at which such deposit account or securities account, as applicable, is to be opened or maintained enter into a Control Agreement regarding such deposit account or securities account, as applicable, on terms satisfactory to the Agent.

7.13. Sale-Leasebacks. Not and not suffer or permit any Loan Party to, engage in a sale leaseback, synthetic lease or similar transaction involving any of its assets.

7.14. Hazardous Substances. Not, and not suffer or permit any other Loan Party to, cause or suffer to exist any release of any Hazardous Substances at, to or from any real property owned, leased, subleased or otherwise operated or occupied by any Loan Party that would violate any Environmental Law, form the basis for any Environmental Claims or otherwise adversely affect the value or marketability of any real property (whether or not owned by any Loan Party), other than such violations, Environmental Claims and effects that would not, in the aggregate, be reasonably be expected to have a Material Adverse Effect. Notwithstanding the foregoing, under no circumstances will any Loan Party cause or suffer to exist any disposal of any Hazardous Substances at, on, under or in any real property owned, leased, subleased, or otherwise operated or occupied by any Loan Party.

7.15. ERISA Liability. Not, and not suffer or permit, any liability under ERISA and the sponsorship of any "pension plan" or any liability subject to Title IV of ERISA.

7.16. BioVeris. Not, and not suffer or permit any Loan Party to:

(a) without the prior written consent of the Agent, not to be unreasonably withheld with respect to subsection (iii), (i) amend, modify, supplement, breach or terminate the License Agreement dated as of June 26, 2007 (as amended to date, the "License Agreement"), by and between BioVeris Corporation (or its successor, "BioVeris"), as licensor, and the Borrower, as licensee, (ii) engage in any discussion with BioVeris regarding the amendment, modification, or termination of the License Agreement or (iii) assert any claim or commence any litigation or proceeding against BioVeris irrespective of whether such claim or proceeding arises out of, or is in connection with, the License Agreement, and shall promptly provide copies of all material communications sent or received after the date hereof between any Loan Party or any Affiliate, on one hand, and BioVeris, on the other hand, with respect to the License Agreement; or

(b) directly or indirectly contest (or solicit or otherwise cause or encourage any other person to contest) any disposition of the Collateral pursuant to the UCC on the grounds that a disposition in compliance with the right of first refusal (the "ROFR Provisions") set forth under Section 12.2 of the License Agreement, is commercially unreasonable. The Loan Parties hereby acknowledge and agree that the procedures set forth with respect to a sale of the Borrower conducted in accordance with the ROFR Provisions, the related provisions of the License Agreement and this Agreement, and otherwise in accordance with the UCC, is and shall be commercially reasonable in all respects.

Section 8. Events of Default; Remedies.

8.1. Events of Default. Each of the following shall constitute an Event of Default under this Agreement:

8.1.1. Non-Payment of Credit. Default, in the payment when due of the principal of the Loans or of any interest, fee, or other amount payable hereunder, including any Applicable IRR Amount or any Assigned Interests Payment, by any Loan Party, or any default in any payment of any amount due under any other Loan Document, shall occur.

8.1.2. Default Under Other Debt.

(a) Any default for the payment of principal or interest when due shall occur under the terms applicable to any Debt (other than the Obligations) of any Loan Party in an aggregate amount (for all such Debt so affected and including undrawn committed or available amounts and amounts owing to all creditors under any combined or syndicated credit arrangement) exceeding $50,000; and

(b) Any default shall occur under the terms applicable to any Debt (other than the Obligations) of any Loan Party in an aggregate amount (for all such Debt so affected and including undrawn committed or available amounts and amounts owing to all creditors under any combined or syndicated credit arrangement) exceeding $50,000 and such default shall result in the acceleration of the maturity of such Debt or permit the holder or holders thereof, or any trustee or agent for such holder or holders, to cause such Debt to become due and payable (or require the Borrower or any other Loan Party to purchase or redeem such Debt or post cash collateral in respect thereof) prior to its expressed maturity.

8.1.3. Bankruptcy; Insolvency. (i) Any Loan Party becomes insolvent or generally fails to pay, or admits in writing its inability or refusal to pay, debts as they become due; (ii) any Holder or any Loan Party commences any case, proceeding or other action (x) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (y) seeking appointment of a receiver, trustee, custodian, conservator

or other similar official for it or for all or any substantial part of its assets; or (iii) there shall be commenced against any Holder or any Loan Party any case, proceeding or other action of a nature referred to in clause (ii) above that (x) results in the entry of an order for relief or any such adjudication or appointment or (y) remains undismissed or undischarged for a period of 60 days; (iv) there shall be commenced against any Holder or any Loan Party any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets that results in the entry of an order for any such relief that shall not have been vacated, discharged, or stayed or bonded pending appeal within 60 days from the entry thereof; (v) any Holder or any Loan Party shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (ii), (iii) or (iv) above; or (vi) any Holder or any Loan Party shall make a general assignment for the benefit of its creditors.

8.1.4. Non-Compliance with Loan Documents.

(a) Failure by the Borrower or any other Loan Party to comply with or to perform any covenant set forth in Sections 6.1, 6.4, 6.5, 6.6, 6.8, 6.9 and 7; or (b) failure by any Holder, the Borrower or any other Loan Party to comply with or to perform any other provision of this Agreement or any other Loan Document applicable to it (and not constituting an Event of Default under any other provision of this Section 8) and continuance of such failure described in this clause (b) for 30 days.

8.1.5. Representations; Warranties. Any representation or warranty made by or in respect of any Holder or any Loan Party herein or any other Loan Document is breached or is false or misleading in any material respect, or any schedule, certificate, financial statement, report, notice or other writing furnished by any Holder or any Loan Party to the Agent or the Lender in connection herewith is false or misleading in any material respect on the date as of which the facts therein set forth are stated or certified.

8.1.6. Judgments.

(a) Final judgments which exceed an aggregate of $50,000 shall be rendered against any Loan Party and shall not have been paid, discharged or vacated or had execution thereof stayed pending appeal within 30 days after entry or filing of such judgments; or

(b) One or more non-monetary judgments, orders or decrees shall be rendered against any one or more of the Loan Parties or any of their respective Subsidiaries which has had or would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect, and there shall be any period of ten (10) consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect.

8.1.7. Invalidity of Collateral Documents. Any Collateral Document shall cease to be in full force and effect; or any Holder or any Loan Party or other grantor or pledgor

(or any Person by, through or on behalf of any Loan Party, grantor or pledgor) shall contest in any manner the validity, binding nature or enforceability of any Collateral Document.

8.1.8. Invalidity of Subordination Provisions. Any subordination provision in any document or instrument governing Debt that is intended to be subordinated to the Obligations or any subordination provision in any subordination agreement that relates to any such Debt, or any subordination provision in any guaranty by any Loan Party of any such Debt, shall cease to be in full force and effect, or any Person (including the holder of any applicable Debt) shall contest in any manner the validity, binding nature or enforceability of any such provision.

8.1.9. Change of Control. (a) A Change of Control shall occur or (b) a "Change of Control" or other similar event shall occur, as defined in, or under, (i) the License Agreement, (ii) any material indenture, agreement or instrument or (iii) any agreement or other documentation evidencing or otherwise relating to any Debt.

8.1.10. Invalidity of Subordination Provisions. Any subordination provision in the Intercreditor Agreement or any document or instrument governing the Surviving Debt or any other indebtedness that is intended to be subordinated to the Obligations or any subordination provision in any subordination agreement that relates to any such indebtedness, or any subordination provision in any guaranty by any Loan Party of any such indebtedness, shall cease to be in full force and effect, or any Person (including the holder of any applicable indebtedness) shall contest in any manner the validity, binding nature or enforceability of any such provision.

8.1.11. Key Employees. The failure by the Borrower to (i) retain any key employee or manager of the Borrower listed on Schedule 8.1 and (ii) hire a replacement for such key employee or manager, mutually agreeable to the Borrower and the Agent, within sixty (60) calendar days from the date of such key employee or manager's departure.

8.2. Remedies. If any Event of Default described in Section 8.1.3 shall occur, the Loans and all other Obligations (including the Applicable IRR Amount) shall become immediately due and payable and all outstanding Commitments shall terminate, all without presentment, demand, protest or notice of any kind; and, if any other Event of Default shall occur and be continuing, the Agent may, and upon the written request of the Lender shall, declare all or any part of the Loans and other Obligations (including the Applicable IRR Amount) to be due and payable and/or all or any part of the Commitments then outstanding to be terminated, whereupon the Loans and other Obligations (including the Applicable IRR Amount) shall become immediately due and payable (in whole or in part, as applicable), and such Commitments shall immediately terminate (in whole or in part, as applicable), all without presentment, demand, protest or notice of any kind. The Agent shall promptly advise the Borrower of any such declaration, but failure to do so shall not impair the effect of such declaration. Any cash collateral delivered hereunder shall be applied by the Agent to any remaining Obligations (including the Applicable IRR Amount) and any excess remaining after the Obligations (including the Applicable IRR Amount) shall have been Paid in Full shall be delivered to the Borrower or as a court of competent jurisdiction may elect. Upon the declaration of the Obligations (including the Applicable IRR Amount) to be, or the Obligations (including the Applicable IRR Amount) becoming, due and payable pursuant to this Section 8.2

such Obligations (including the Applicable IRR Amount) shall bear interest at the Default Rate as provided in Section 2.3.1.

Section 9. The Agent.

9.1. Appointment; Authorization.

(a) Each Lender hereby irrevocably appoints, designates and authorizes the Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere in this Agreement or in any other Loan Document, the Agent shall not have any duty or responsibility except those expressly set forth herein, nor shall the Agent have or be deemed to have any fiduciary relationship with the Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Agent.

9.2. Delegation of Duties. The Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys in fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agent or attorney in fact that it selects with reasonable care.

9.3. Limited Liability. None of the Agent or any of its directors, officers, employees or agents shall (a) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except to the extent resulting from its own gross negligence or willful misconduct as determined in a final non-appealable judgment by a court of competent jurisdiction), or (b) be responsible in any manner to the Lender for any recital, statement, representation or warranty made by any Holder or any Loan Party or Affiliate of Holders or of any Loan Party, or any officer thereof, contained in this Agreement or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document (or the creation, perfection or priority of any Lien or security interest therein), or for any failure of any Holder or any Loan Party or any other party to any Loan Document to perform its Obligations hereunder or thereunder. The Agent shall not be under any obligation to the Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of any Holder or any Loan Party or Affiliate of any Loan Party.

9.4. Successor Agent. The Agent may resign as the Agent at any time upon 30 days' prior notice to the Lender. If the Agent resigns under this Agreement, the Lender shall,

with (so long as no Event of Default exists) the consent of the Borrower (which shall not be unreasonably withheld or delayed), appoint a successor agent for the Lender. If no successor agent is appointed prior to the effective date of the resignation of the Agent, the Agent may appoint, on behalf of the Lender after consulting with the Lender and (so long as no Event of Default exists) the Borrower, a successor agent. Upon the acceptance of its appointment as successor agent hereunder, such successor agent shall succeed to all the rights, powers and duties of the retiring Agent and the term "Agent" shall mean such successor agent, and the retiring Agent's appointment, powers and duties as the Agent shall be terminated. After any retiring the Agent's resignation hereunder as the Agent, the provisions of this Section 9 and Sections 10.4 and 10.5 shall continue to inure to its benefit as to any actions taken or omitted to be taken by it while it was the Agent under this Agreement. If no successor agent has accepted appointment as the Agent by the date which is 30 days following a retiring the Agent's notice of resignation, the retiring Agent's resignation shall nevertheless thereupon become effective and the Lender shall perform all of the duties of the Agent hereunder until such time as the Lender shall appoint a successor agent as provided for above.

9.5. Collateral Matters. Each Lender irrevocably authorizes the Agent, at its option and in its discretion, to release any Lien granted to or held by the Agent under any Collateral Document (i) when all Obligations have been Paid in Full; (ii) constituting property sold or to be sold or disposed of as part of or in connection with any sale or other disposition permitted hereunder (it being agreed and understood that the Agent may conclusively rely without further inquiry on a certificate of an officer of the Borrower as to the sale or other disposition of property being made in compliance with this Agreement); or (iii) subject to Section 10.1, if approved, authorized or ratified in writing by the Lender. Upon request by the Agent at any time, the Lender will confirm in writing the Agent's authority to release types or items of Collateral pursuant to this Section 9.5. The Agent shall have the right, in accordance with the Collateral Documents, to sell, lease or otherwise dispose of any Collateral for cash, credit or any combination thereof, and the Agent may purchase any Collateral at public or, if permitted by law, private sale and, in lieu of actual payment of the purchase price, may credit bid and setoff the amount of such price against the Obligations.

Section 10. Miscellaneous.

10.1. Waiver; Amendments. No delay on the part of the Agent or the Lender in the exercise of any right, power or remedy shall operate as a waiver thereof, nor shall any single or partial exercise by any of them of any right, power or remedy preclude other or further exercise thereof, or the exercise of any other right, power or remedy. No amendment, modification or waiver of, or consent with respect to, any provision of this Agreement, the Notes or any of the other Loan Documents (or any subordination and intercreditor agreement or other subordination provisions relating to any other Debt) shall in any event be effective unless the same shall be in writing and approved by the Agent and the Lender, and then any such amendment, modification, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No provision of Section 9 or other provision of this Agreement affecting the Agent in its capacity as such shall be amended, modified or waived without the consent of the Agent.

10.2. Notices. All notices hereunder shall be in writing (including facsimile transmission) and shall be sent to the applicable party at its address shown on Annex II or at such other address as such party may, by written notice received by the other parties, have designated as its address for such purpose. Notices sent by facsimile or other electronic transmission shall be deemed to have been given when sent; notices sent to the Borrower by mail shall be deemed to have been given three Business Days after the date when sent by registered or certified mail, postage prepaid; and notices sent by hand delivery or overnight courier service shall be deemed to have been given when received.

10.3. Costs; Expenses. The Borrower agrees to pay on demand all reasonable out-of-pocket costs and expenses of the Agent and the Lender (including Legal Costs) in connection with the administration (including perfection and protection of Collateral subsequent to the Closing Date) of this Agreement, the other Loan Documents and all other documents provided for herein or delivered or to be delivered hereunder or in connection herewith (including any proposed or actual amendment, supplement or waiver to any Loan Document), and all out-of-pocket costs and expenses (including Legal Costs) incurred by the Agent and the Lender in connection with the collection of the Obligations and enforcement of this Agreement, the other Loan Documents or any such other documents. In addition, the parties agree that in the event that the Agent or Lender determines pursuant to any audit of the books and records of the Borrower and its Subsidiaries conducted pursuant to Section 6.2 that the aggregate amount paid to the Lender hereunder during any period covered by such audit was less than the aggregate amount that was in fact due and payable in respect of such period and the amount of such shortfall exceeds five percent (5%) of the amount that was due and payable, then all Audit Costs in respect of such audit shall be borne by the Borrower and reimbursed to the Agent or Lender, as applicable, and in all other cases, such Audit Costs shall be borne by the Agent or Lender conducting such audit. All Obligations provided for in this Section 10.3 shall survive repayment of the Loans, cancellation of the Notes and termination of this Agreement.

10.4. Indemnification by the Borrower. In consideration of the execution and delivery of this Agreement by the Agent and the Lender and the agreement to extend the Commitments provided hereunder, the Borrower hereby agrees to indemnify, exonerate and hold the Agent, the Lender and each of the officers, directors, employees, Affiliates, controlling persons, advisors and agents of the Agent and the Lender (each a "Lender Party") free and harmless from and against any and all actions, causes of action, suits, losses, liabilities (including, without limitation, strict liabilities), obligations, damages, penalties, judgments, fines, disbursements, expenses and costs, including Legal Costs (collectively, the "Indemnified Liabilities"), incurred by the Lender Parties or asserted against the Lender Party by any Person (including in connection with any action, suit or proceeding brought by any Holder, the Borrower, any other Loan Party or any Lender Party) as a result of, or arising out of, or relating to the execution, delivery, performance, administration or enforcement of this Agreement or any other Loan Document, the use of proceeds of the Loans, or the violation of, noncompliance with or liability under, any Environmental Law applicable to the operations of any Loan Party, except to the extent any such Indemnified Liabilities result from the applicable Lender Party's own gross negligence, willful misconduct, or material breach of any Loan Document, in each case as determined by a court of competent jurisdiction in a final, non-appealable determination. If and to the extent that the foregoing undertaking may be unenforceable for any reason, the Borrower hereby agrees to make the maximum contribution to the payment and satisfaction of each of the

Indemnified Liabilities which is permissible under Applicable Law. All Obligations provided for in this Section 10.4 shall survive repayment of the Loans, cancellation of the Notes, any foreclosure under, or any modification, release or discharge of, any or all of the Collateral Documents and termination of this Agreement.

10.5. Marshaling; Payments Set Aside. Neither the Agent nor the Lender shall be under any obligation to marshal any assets in favor of the Borrower or any other Person or against or in payment of any or all of the Obligations. To the extent that the Borrower makes a payment or payments to the Agent or the Lender, or the Agent or the Lender enforces its Liens or exercises its rights of set-off, and such payment or payments or the proceeds of such enforcement or set-off or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Agent or the Lender in its discretion) to be repaid to a trustee, receiver or any other party in connection with any bankruptcy, insolvency or similar proceeding, or otherwise, then (a) to the extent of such recovery, the obligation hereunder or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred and (b) the Lender severally agrees to pay to the Agent upon demand its ratable share of the total amount so recovered from or repaid by the Agent to the extent paid to such Lender.

10.6. Nonliability of the Lender. The relationship between the Borrower on the one hand and the Lender and the Agent on the other hand shall be solely that of borrower and lender. Neither the Agent nor the Lender shall have any fiduciary responsibility to the Holders, the Borrower or any other Loan Party. Neither the Agent nor the Lender undertakes any responsibility to the Holders, the Borrower or any other Loan Party to review or inform (including payment of all outstanding principal), the Borrower or any other Loan Party of any matter in connection with any phase of the Borrower's or any other Loan Party's business or operations. Execution of this Agreement by the Borrower constitutes a full, complete and irrevocable release of any and all claims which the Borrower may have at law or in equity in respect of all prior discussions and understandings, oral or written, relating to the subject matter of this Agreement and the other Loan Documents. Neither the Borrower, the Agent nor the Lender shall have any liability with respect to, and the Borrower, Agent and Lender each hereby waives, releases and agrees not to sue for, any special, indirect, punitive or consequential damages or liabilities.

10.7. Confidentiality. The Agent and the Lender agree to use commercially reasonable efforts (equivalent to the efforts the Agent or such Lender applies to maintain the confidentiality of its own confidential information) to maintain as confidential all information provided to them by the Holders or any Loan Party and designated as confidential, except that the Agent and the Lender may disclose such information (a) to Persons employed or engaged by the Agent or such Lender or any of their Affiliates (including collateral managers of the Lender) in evaluating, approving, structuring or administering the Loan and the Commitments; (b) to any assignee or participant or potential assignee or participant that has agreed to comply with the covenant contained in this Section 10.7 (and any such assignee or participant or potential assignee or participant may disclose such information to Persons employed or engaged by them as described in clause (a) above); (c) as required or requested by any federal or state regulatory authority or examiner, or as reasonably believed by the Agent or such Lender to be compelled by

any court decree, subpoena or legal or administrative order or process; (d) as, on the advice of the Agent's or such Lender's counsel, is required by law; (e) in connection with the exercise of any right or remedy under the Loan Documents or in connection with any litigation to which the Agent or such Lender is a party; (f) to any nationally recognized rating agency or investor of the Lender that requires access to information about the Lender's investment portfolio in connection with ratings issued or investment decisions with respect to such Lender; (g) that ceases to be confidential through no fault of the Agent or the Lender; or (h) to a Person that is an investor or prospective investor in the Agent or any of its Affiliates.

10.8. Captions. Captions used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

10.9. Nature of Remedies. All Obligations of the Borrower and rights of the Agent and the Lender expressed herein or in any other Loan Document shall be in addition to and not in limitation of those provided by Applicable Law. No failure to exercise and no delay in exercising, on the part of the Agent or the Lender, any right, remedy, power or privilege hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

10.10. Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Agreement. Receipt by telecopy or electronic transmission of any executed signature page to this Agreement or any other Loan Document shall constitute effective delivery of such signature page.

10.11. Severability. The illegality or unenforceability of any provision of this Agreement or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Agreement or any instrument or agreement required hereunder.

10.12. Entire Agreement. This Agreement, together with the other Loan Documents, embodies the entire agreement and understanding among the parties hereto and supersedes all prior or contemporaneous agreements and understandings of such Persons, verbal or written, relating to the subject matter hereof and thereof, including that certain Forbearance Agreement, dated as of February 28, 2013 (the "Forbearance Agreement"), by and among the Borrower, Lender, Agent and the other parties thereto, and any prior arrangements made with respect to the payment by the Borrower of (or any indemnification for) any fees, costs or expenses payable to or incurred (or to be incurred) by or on behalf of the Agent or the Lender

10.13. Successors; Assigns. This Agreement shall be binding upon the Borrower, the Lender and the Agent and their respective successors and assigns, and shall inure to the benefit of the Borrower, the Lender and the Agent and the successors and assigns of the Lender and the Agent. No other Person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any of the other Loan Documents. The Borrower may not assign or transfer any of its rights or Obligations

under this Agreement without the prior written consent of the Agent and the Lender. The Lender may sell, transfer, or assign all or a portion of its rights and obligations hereunder to any Person acceptable to the Lender pursuant to assignment documentation reasonably acceptable to Lender and such assignee.

10.14. Governing Law. THIS AGREEMENT AND EACH NOTE SHALL BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES (OTHER THAN SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW).

10.15. Forum Selection; Consent to Jurisdiction; Service of Process. ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, SHALL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE COURTS OF THE STATE OF NEW YORK OR IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK; PROVIDED THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT AGENT'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. EACH LOAN PARTY HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK AND OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE. EACH LOAN PARTY FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF NEW YORK. EACH LOAN PARTY HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. Each Loan Party hereby appoints CT Corporation as such Loan Party's agent where notices and demands to or upon such Loan Party in respect of this Agreement or any other Loan Document may be served (without prejudice to the right of the Agent or the Lender to serve process in any other manner permitted by law). If for any reason such process agent is unable to act as such, such Loan Party will within 30 days appoint a substitute process agent located in the State of New York and give notice of such appointment to the Agent.

10.16. Waiver of Jury Trial. EACH LOAN PARTY, AGENT AND EACH LENDER HEREBY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT, ANY NOTE, ANY OTHER LOAN DOCUMENT AND ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HEREWITH OR THEREWITH OR ARISING FROM ANY LENDING RELATIONSHIP EXISTING IN CONNECTION WITH ANY OF

THE FOREGOING, AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

10.17. Collateral Agent. Each Lender hereby appoints PDL BioPharma, Inc. as its collateral agent under each Security Agreement and agrees that in so acting PDL BioPharma, Inc. will have all the rights, protections, exculpations, indemnities and other benefits provided to PDL BioPharma, Inc. under Section 9 hereof, and authorizes and directs PDL BioPharma, Inc. to take or refrain from taking any and all action that it deems necessary or advisable in fulfilling its role as Collateral Agent under each Security Agreement.

10.18. Agreements of Lender and Agent. Lender and Agent agree with Borrower as follows:

10.18.1. All Existing Events of Default (as defined in the Forbearance Agreement) are hereby waived and shall have no force or effect under this Agreement.

10.18.2. As of the Effective Date, the Loans shall no longer bear interest at the Default Rate under the Existing Credit Agreement but shall bear interest at the rate set forth in Section 2.3.1 (or at the Default Rate upon the occurrence of an Event of Default under this Agreement).

10.18.3. Borrower shall be entitled to pay * * *.

10.18.4. If and when the Second Lien Agent releases the Liens securing the Second Lien Debt pursuant to the Second Lien Loan Documents and the Intercreditor Agreement, Lender and Agent shall (i) terminate the Subsidiary Security Agreement and release the Liens created thereby and (ii) amend the Guarantee and Pledge Agreement to, among other things, provide that recourse to the Holders shall be limited to all of the Holders' interest in, and right and title to, the equity of the Borrower.

[signature pages follow]

The parties hereto have caused this Agreement to be duly executed and delivered by their duly authorized officers as of the date first set forth above.

WELLSTAT DIAGNOSTICS, LLC

By:__/s/ Samuel J. Wohlstadter_____
Name: Samuel J. Wohlstadter
Title: Managing Member

PDL BIOPHARMA, INC.,
as the Agent and the Lender

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

ANNEX I

Internal Rate of Return Formula

IRR CALCULATION

Term 9yr
Interest 5%
Principal 40

	10/31/2012	12/31/2012	3/31/2013	3/20/2013	2/20/2014	2/20/2015	2/20/2016	2/20/2017	2/20/2018	2/20/2019	2/20/2020	2/20/2021
Out	(40.000)											
Interest - Cash												
Interest - PIK												
Royalty Payments												
Total	(40.000)	—	—	—	—	—	—	—	—	—	—	—
	40.000		—	—	—	—	—	—	—	—	—	—

XIRR

Cash on Cash

Notes:

1.Royalty Payments should be * * * of net sales each month; this amount does not go towards principal repayment and currently does not hit interest; Wellstat to elect to pay interest in cash by making cash payment of interest due

2.Payment dates to be set based on date payment received

3.Outstanding principal used to calculate the required interest PIK; “Payment in Full” of the debt is based on the “Applicable IRR” at the time of payment

4.Interest can be paid by Wellstat In cash or PIK notes at Wellstat election

ANNEX II

Addresses

LOAN PARTIES

Address for Notices:

Wellstat Diagnostics, LLC
930 Clopper Road
Gaithersburg, Maryland 20878
Attn: Manager
Telephone: (240) 631-2500
Facsimile: (240) 683-3793

Copy to:

Thomas F. Cooney, III, Esq.
K&L GATES LLP
1601 K Street, N.W.
Washington, D.C. 20006
Telephone: (202) 778-9076
Facsimile: (202) 778-9100

AGENT

PDL BioPharma, Inc.,
as the Agent and the Lender

Address for Notices:
932 Southwood Boulevard
Incline Village, NV 89451
Attention: General Counsel
Telephone: (775) 832-8500
Facsimile: (775) 832-8501

Bank:
Wells Fargo Bank, N.A.
San Francisco, CA 94136

Account #:
* * *

ABA Routing #:
* * *

Swift Code:
* * *

ANNEX III

Reset Amount

Reset Amount: $44,102,939.72

EXHIBIT A

COMPLIANCE CERTIFICATE

Date: _____, 201_

This Compliance Certificate (this "**Certificate**") is given by WELLSTAT DIAGNOSTICS, LLC, a Delaware limited liability company ("**Borrower**"), pursuant to that certain Amended and Restated Credit Agreement dated as of August 15, 2013 (as amended, amended and restated, supplemented or otherwise modified from time to time, the "**Credit Agreement**"; capitalized terms used and not defined herein shall have the meaning set forth in the Credit Agreement), between Borrower and PDL BIOPHARMA, INC., as Lender and Agent ("**Agent**").

Pursuant to Section 6.1.4 of the Credit Agreement, the undersigned hereby certifies that he or she is the duly appointed, qualified, and acting Controller of the Borrower, and in such capacity, certifies on behalf of Borrower to Agent that:

1. The financial statements delivered with this Certificate fairly present, (i) if Commercialization has not occurred as of the last day of the period reflected therein, on a basis consistent with the Current Financial Statements or (ii) if Commercialization has occurred as of the last day of such period, on a basis consistent with GAAP, the financial condition and the results of operations of Borrower and its Subsidiaries as of the dates of and for the periods covered by such financial statements as required by the Credit Agreement;

2. Such officer has reviewed the terms of the Credit Agreement and made, or caused to be made under such officer's supervision, a review in reasonable detail of the transactions and conditions of Borrower and its Subsidiaries during the accounting period covered by such financial statements; and

3. Such review has not disclosed the existence during or at the end of such accounting period, and such officer has no knowledge of, the existence, as of the date hereof, of any condition or event that constitutes a Default or an Event of Default, except as set forth on Schedule 1 hereto[1],which includes a description of the nature and period of existence of such Default or Event of Default and what action Borrower has taken, is undertaking and proposes to take with respect thereto.

IN WITNESS WHEREOF, Borrower has caused this Certificate to be executed as of the date first written above.

WELLSTAT DIAGNOSTICS, LLC
By:
Name:
Title: Controller

[1] Schedule 1 should be prepared and attached if a Default or Event of Default has occurred.

Schedule 5.6

Litigation

BioVeris Corporation v. Wellstat Diagnostics, LLC and Wellstat Vaccines, LLC, United States District Court for the District of Delaware (Case 1:13-cv-01125-UNA). This case was filed on June 24, 2013 for:

- Failure to pay BioVeris Corporation license agreement fee in the amount of $1,618,000 pursuant to the ECL Asset Transfer Agreement dated April 4, 2007, by and between BioVeris Corporation and Wellstat Diagnostics, LLC.

Schedule 5.7

Real Property

Leases

- 9 W. Watkins Mill, Suite 100
  Gaithersburg, MD 20878 (terminates on September 30, 2013)

- 9 W. Watkins Mill, Suite 200
  Gaithersburg, MD 20878 (terminates on September 30, 2013)

- 930 Clopper Road, Gaithersburg, Maryland 20878-1301

- 940 Clopper Road, Gaithersburg, Maryland 20878-1301

Schedule 5.10

Authorizations, Permits, Licenses and Approvals

None.

Schedule 5.15

Insurance

Client#: 4447 WELLSTAT2

ACORD™ CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY): 10/26/2012

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER
William Gallagher Associates
Insurance Brokers, Inc.
5950 Symphony Woods Road #314
Columbia, MD 21044

CONTACT NAME: Paulina Lipinski
PHONE (A/C, No, Ext): 443 283-1360
FAX (A/C, No): 617-330-4628
E-MAIL ADDRESS:

INSURER(S) AFFORDING COVERAGE	NAIC #
INSURER A: Travelers Indemnity Co. of Amer	25666
INSURER B:	
INSURER C:	
INSURER D:	
INSURER E:	
INSURER F:	

INSURED
Wellstat Diagnostics, LLC
Wellstat Management Co. LLC.
930 Clopper Road
Gaithersburg, MD 20878

COVERAGESCERTIFICATE NUMBER:REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
A	**GENERAL LIABILITY**	X		6303B035881	2/15/2012	2/15/2013	EACH OCCURRENCE	$ 1,000,000
	X COMMERCIAL GENERAL LIABILITY						DAMAGE TO RENTED PREMISES (Ea occurrence)	$ 1,000,000
	CLAIMS-MADE X OCCUR						MED EXP (Any one person)	$ 10,000
							PERSONAL & ADV INJURY	$ 1,000,000
							GENERAL AGGREGATE	$ 2,000,000
	GENL. AGGREGATE LIMIT APPLIES PER:						PRODUCTS-COMP/OP AGG	$
	X POLICY PRO-JECT LOC							$
	AUTOMOBILE LIABILITY						COMBINED SINGLE LIMIT (Ea accident)	$
	ANY AUTO						BODILY INJURY (Per person)	$
	ALL OWNED AUTOS / SCHEDULED AUTOS						BODILY INJURY (Per accident)	$
	HIRED AUTOS / NON-OWNED AUTOS						PROPERTY DAMAGE (Per accident)	$
								$
	UMBRELLA LIAB OCCUR						EACH OCCURRENCE	$
	EXCESS LIAB CLAIMS-MADE						AGGREGATE	$
	DED RETENTION $							$
	WORKER'S COMPENSATION AND EMPLOYERS' LIABILITYY/N						WC STATU-TORY LIMITS / OTH-ER	
	ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? ☐	N/A					E.L. EACH ACCIDENT	$
	(Mandatory In NH) If yes, describe under						E.L. DISEASE - EA EMPLOYEE	$
	DESCRIPTION OF OPERATIONS below						E.L. DISEASE - POLICY LIMIT	$
A	Business Personal Property			6303B035881	2/15/2012	2/15/2013	$16,272,500 limit	

DESCRIPTION OF OPERATIONS/LOCATIONS/VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space required)
PDL BioPharma, Inc. is included as an additional insured as their interest may appear.

CERTIFICATE HOLDERCANCELLATION

PDL BioPharma, Inc.
932 Southwood Boulevard
Incline Village, NV 89451

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE

Schedule 5.18

Labor Matters

None.

Schedule 7.1

Existing Debt

Long term note payable to BioVeris (Roche) - $1,618,000
Total debt owed to Samuel and Nadine Wohlstadter as of September 30, 2012-
* * *

Schedule 7.2

Permitted Liens

None.

Schedule 7.10

Existing Investments

None.

Schedule 7.12

Bank Accounts

Bank	**Description**	**Account Number**
Wells Fargo Bank N.A.	Payroll Account	* * *
Wells Fargo Bank N.A.	Operating Account	* * *

Schedule 8.1

Key Employees

Wellstat Diagnostics Key Employees		
Name		**Responsibility**
* * *		* * *
* * *		* * *
* * *		* * *
* * *		* * *
* * *		* * *
* * *		* * *
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* * *		* * *
* * *		* * *

Exhibit 12.1

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

	For the Years Ended December 31,					For the Nine Months Ended
	2008	2009	2010	2011	2012	September 30, 2013
Earnings:						
Income before income taxes	$ 243,334	$ 280,285	$ 150,370	$ 307,428	$ 327,133	$ 304,433
Add: fixed charges	14,285	19,430	43,578	36,153	29,097	18,214
Earnings	$ 257,619	$ 299,715	$ 193,948	$ 343,581	$ 356,230	$ 322,647
Fixed Charges:						
Interest expense[1]	$ 14,219	$ 19,357	$ 43,529	$ 36,102	$ 29,036	$ 18,169
Estimated interest portion of rent expense[2]	66	73	49	51	61	45
Fixed charges	$ 14,285	19,430	$ 43,578	$ 36,153	$ 29,097	$ 18,214
Ratio of earnings to fixed charges	18.03	15.43	4.45	9.50	12.24	17.71

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

Exhibit 31.1

CERTIFICATIONS

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

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

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

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

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

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

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

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

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

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

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

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

Date: November 6, 2013

/s/ John P. McLaughlin

John P. McLaughlin

President and Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Peter S. Garcia, Vice President and Chief Financial Officer, of PDL BioPharma, Inc., certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 6, 2013

/s/ Peter S. Garcia

Peter S. Garcia

Vice President and Chief Financial Officer

(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

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

(1) the Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

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

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

Date: November 6, 2013

/s/ John P. McLaughlin

John P. McLaughlin

President and Chief Executive Officer

(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION

I, Peter S. Garcia, Vice President and Chief Financial Officer of PDL BioPharma, Inc. (the "Registrant"), hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) the Quarterly Report on Form 10-Q for the quarter ended September 30, 2013, of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

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

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

Date: November 6, 2013

/s/ Peter S. Garcia

Peter S. Garcia

Vice President and Chief Financial Officer

(Principal Financial Officer)