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 June 30, 2015

OR

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

Commission File Number: 000-19756

PDL BIOPHARMA, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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 ☒	*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 July 27, 2015, there were 164,177,604 shares of the registrant's Common Stock outstanding.

PDL BIOPHARMA, INC.
2015 Form 10-Q
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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
AbbVie	AbbVie Biotherapeutics, Inc.
Accel 300	Accel 300, LLC, a wholly-owned subsidiary of kaléo, Inc.
APIC	Additional paid-in-capital
ARIAD	ARIAD Pharmaceuticals, Inc.
ARIAD Royalty Agreement	Royalty Interest Assignment Agreement, dated July 28, 2015, between PDL and ARIAD
ARIAD Royalty Rights	The right to receive specified royalties on ARIAD's Net Revenues (as defined in the ARIAD Royalty Agreement) generated by the sale, distribution or other use of ARIAD's product Iclusig® (ponatinib)
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Avinger	Avinger, Inc.
AxoGen	AxoGen, Inc.
AxoGen Royalty Agreement	Revenue Interests Purchase Agreement, dated as of October 5, 2012, between PDL and AxoGen
Biogen	Biogen, Inc.
BioTransplant	BioTransplant, Inc.
CareView	CareView Communications, Inc.
Chugai	Chugai Pharmaceutical Co., Ltd.
Depo DR Sub	Depo DR Sub, LLC, a wholly-owned subsidiary of Depomed
Depomed	Depomed, Inc.
Depomed Royalty Agreement	Royalty Purchase and Sale Agreement, dated as of October 18, 2013, among Depomed, Depo DR Sub and PDL
Direct Flow Medical	Direct Flow Medical, Inc.
Durata	Durata Therapeutics Holding C.V., Durata Therapeutics International B.V. and Durata Therapeutics, Inc. (parent company)
EBITDA	Earnings before interest, taxes, depreciation and amortization
Elan	Elan Corporation, PLC
EPO	European Patent Office
ex-U.S.-based Manufacturing and Sales	Products that are both manufactured and sold outside of the United States
ex-U.S.-based Sales	Products that are manufactured in the United States and sold outside of the United States
Facet	Facet Biotech Corporation. In April 2010, Abbott Laboratories acquired Facet and later renamed the company Abbott Biotherapeutics Corp., and in January 2013, Abbott Biotherapeutics Corp. was renamed AbbVie Biotherapeutics, Inc. and spun off from Abbott Laboratories as a subsidiary of AbbVie Inc.
FASB	Financial Accounting Standards Board
FDA	U.S. Food and Drug Administration
February 2015 Notes	2.875% Convertible Senior Notes due February 15, 2015, fully retired at September 30, 2013
February 2018 Notes	4.0% Convertible Senior Notes due February 1, 2018
GAAP	U.S. Generally Accepted Accounting Principles
Genentech	Genentech, Inc.
Genentech Products	Avastin®, Herceptin®, Lucentis®, Xolair®, Perjeta® and Kadcyla®
Genzyme	Genzyme Corporation (a Sanofi company)
Hyperion	Hyperion Catalysis International, Inc.
IRS	Internal Revenue Service
kaléo	kaléo, Inc. (formerly known as Intellijet, Inc.)
kaléo Revenue Interests	100% of the royalties from kaléo's first approved product, Auvi-Q™ (epinephrine auto-injection, USP) (known as Allerject in Canada) and 10% of net sales of kaléo's second proprietary auto-injector based product, EVZIO (naloxone hydrochloride injection), collectively

KMPG	KPMG, LLP
LENSAR	LENSAR, Inc.
Lilly	Eli Lilly and Company
March 2015 Term Loan	Term Loan borrowed under the Credit Agreement, dated as of March 30, 2015, among PDL, the Royal Bank of Canada and lenders thereto
May 2015 Notes	3.75% Senior Convertible Notes due May 2015
Merck	Merck & Co., Inc.
Michigan Royalty Agreement	Royalty Purchase and Sale Agreement, dated as of November 6, 2014, between The Regents of the University of Michigan and PDL
Novartis	Novartis AG
OCI	Other Comprehensive Income (Loss)
October 2013 Term Loan	Term Loan borrowed under the Credit Agreement, dated October 28, 2013, among PDL, the Royal Bank of Canada and lenders thereto, as amended
Paradigm Spine	Paradigm Spine, LLC
Paradigm Spine Credit Agreement	Paradigm Spine Credit Agreement, dated February 14, 2014, between Paradigm Spine and the Company
PDL, we, us, our, the Company	PDL BioPharma, Inc.
Pfizer	Pfizer, Inc.
Queen et al. patents	PDL's patents in the United States and elsewhere covering the humanization of antibodies
Roche	F. Hoffman LaRoche, Ltd.
SAB	Staff Accounting Bulletin
Salix	Salix Pharmaceuticals, Inc.
Santarus	Santarus, Inc.
SDK	Showa Denka K.K.
SEC	Securities and Exchange Commission
Series 2012 Notes	2.875% Series 2012 Convertible Senior Notes, full retired on February 15, 2015
Settlement Agreement	Settlement Agreement between and among PDL, Genentech and Roche, dated January 31, 2014
SPCs	Supplementary Protection Certificates
SPC Products	Avastin, Herceptin, Lucentis, Xolair and Tysabri
Spin-Off	The spin-off by PDL of Facet
Takeda	Takeda Pharmaceuticals America, Inc.
U-M	University of Michigan
UCB	UCB Pharma S.A.
Valeant Pharmaceuticals	Valeant Pharmaceuticals International, Inc.
VB	Viscogliosi Brothers, LLC
VB Royalty Agreement	Royalty Purchase and Sale Agreement, dated as of June 26, 2014, between Viscogliosi Brothers, LLC and PDL
VWAP	Volume-weighted average share price
Wellstat Diagnostics	Wellstat Diagnostics, LLC
Wellstat Diagnostics Borrower Notice	A notice of default to Wellstat Diagnostics, due to, inter alia, its ongoing failure to pay its debts as they became due and Wellstat Diagnostics' failure to comply with certain covenants included in the first amendment to amended and restated credit agreement by the deadlines to which the parties had agreed
Wellstat Diagnostics Guarantor Notice	A notice to each of the guarantors of Wellstat Diagnostics' obligations to the Company under the credit agreement
Wellstat Diagnostics Note Receivable and Credit Agreement	Senior Secured Note receivable among the Company and the holders of the equity interests in Wellstat Diagnostics, as amended, and Credit Agreement between Wellstat Diagnostics and the Company, dated November 2, 2012, as amended
Wellstat Diagnostics Petition	An Ex Parte Petition for Appointment of Receiver with the Circuit Court of Montgomery County, Maryland

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 June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Revenues				
Royalties from Queen et al. patents	$ 116,884	$ 115,066	$ 244,694	$ 231,092
Royalty rights - change in fair value	12,216	34,498	23,578	46,205
Interest revenue	8,966	12,613	19,500	21,684
License and other	—	575	—	575
Total revenues	138,066	162,752	287,772	299,556
Operating expenses				
General and administrative	7,429	6,920	15,095	11,502
Operating income	130,637	155,832	272,677	288,054
Non-operating expense, net				
Interest and other income, net	121	82	207	132
Interest expense	(7,199)	(9,858)	(15,809)	(20,383)
Loss on extinguishment of debt	—	—	—	(6,143)
Total non-operating expense, net	(7,078)	(9,776)	(15,602)	(26,394)
Income before income taxes	123,559	146,056	257,075	261,660
Income tax expense	45,295	54,001	94,313	96,722
Net income	$ 78,264	$ 92,055	$ 162,762	$ 164,938
Net income per share				
Basic	$ 0.48	$ 0.57	$ 1.00	$ 1.06
Diluted	$ 0.47	$ 0.52	$ 0.97	$ 0.94
Weighted average shares outstanding				
Basic	163,544	160,256	163,188	155,752
Diluted	165,384	177,228	167,376	175,811
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 June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Net income	$ 78,264	$ 92,055	$ 162,762	$ 164,938
Other comprehensive income (loss), net of tax				
Change in unrealized gains on investments in available-for-sale securities:				
Change in fair value of investments in available-for-sale securities, net of tax	(151)	(204)	(189)	(1,296)
Total change in unrealized gains on investments in available-for-sale securities, net of tax[(a)]	(151)	(204)	(189)	(1,296)
Change in unrealized gains (losses) on cash flow hedges:				
Change in fair value of cash flow hedges, net of tax	(1,305)	264	4,363	331
Adjustment to royalties from Queen et al. patents for net (gains) losses realized and included in net income, net of tax	(1,739)	2,027	(2,408)	2,755
Total change in unrealized losses on cash flow hedges, net of tax[(b)]	(3,044)	2,291	1,955	3,086
Total other comprehensive income (loss), net of tax	(3,195)	2,087	1,766	1,790
Comprehensive income	$ 75,069	$ 94,142	$ 164,528	$ 166,728

[(a)] Net of tax of ($82) and ($110) for the three months ended June 30, 2015 and 2014, respectively, and ($102) and ($698) for the six months ended June 30, 2015 and 2014, respectively.
[(b)] Net of tax of ($1,639) and $1,234 for the three months ended June 30, 2015 and 2014, respectively, and $1,053 and $1,662 for the six months ended June 30, 2015 and 2014, respectively.

See accompanying notes.

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

	June 30, 2015	December 31, 2014
	(unaudited)	(Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 292,065	$ 291,377
Short-term investments	2,020	2,310
Receivables from licensees and other	400	300
Deferred tax assets	—	375
Notes receivable	64,797	57,597
Prepaid and other current assets	7,815	3,938
Total current assets	367,097	355,897
Property and equipment, net	42	62
Royalty rights - at fair value	280,731	259,244
Notes and other receivables, long-term	304,910	305,615
Long-term deferred tax assets	35,599	33,799
Other assets	7,162	7,733
Total assets	$ 995,541	$ 962,350
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 701	$ 318
Accrued liabilities	57,951	8,876
Accrued income taxes	—	3,293
Deferred tax liabilities	10,643	—
Term loan payable	74,648	—
Convertible notes payable	—	175,496
Total current liabilities	143,943	187,983
Convertible notes payable	279,751	276,228
Other long-term liabilities	44,633	37,702
Total liabilities	468,327	501,913
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, par value $0.01 per share, 10,000 shares authorized; no shares issued and outstanding	—	—
Common stock, par value $0.01 per share, 350,000 shares authorized; 163,558 and 162,186 shares issued and outstanding at June 30, 2015, and December 31, 2014, respectively	1,636	1,622
Additional paid-in capital	(119,161)	(119,874)
Accumulated other comprehensive income	4,715	2,949
Retained earnings	640,024	575,740
Total stockholders' equity	527,214	460,437
Total liabilities and stockholders' equity	$ 995,541	$ 962,350

See accompanying notes.

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

	Six Months Ended June 30,	
	2015	**2014**
Cash flows from operating activities		
Net income	$ 162,762	$ 164,938
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of convertible notes and term loan offering costs	—	9,568
Change in fair value of royalty rights - at fair value	(23,578)	(45,390)
Loss on extinguishment of convertible notes	—	6,143
Other amortization, depreciation and accretion of embedded derivative	7,230	(94)
Hedge ineffectiveness on foreign exchange contracts	—	(3)
Stock-based compensation expense	727	616
Deferred income taxes	8,358	(2,564)
Changes in assets and liabilities:		
Receivables from licensees and other	(100)	(1,052)
Prepaid and other current assets	(695)	1,759
Accrued interest on notes receivable	(2,527)	(10,165)
Other assets	23	(29)
Accounts payable	383	54
Accrued liabilities	(102)	4,426
Accrued income taxes	(3,293)	10,817
Other long-term liabilities	6,712	7,129
Net cash provided by operating activities	155,900	146,153
Cash flows from investing activities		
Purchase of royalty rights - at fair value	—	(15,500)
Proceeds from royalty rights - at fair value	2,091	49,451
Purchase of notes receivable	(5,226)	(215,000)
Purchase of property and equipment	—	(39)
Net cash used in investing activities	(3,135)	(181,088)
Cash flows from financing activities		
Proceeds from term loan	100,000	—
Repurchase of convertible notes	(177,387)	(29,906)
Payment of debt issuance costs	(607)	(9,824)
Proceeds from the issuance of convertible notes	—	300,000
Purchase of call options	—	(30,951)
Proceeds from the issuance of warrants	—	11,427
Repayment of term loan	(25,000)	(37,500)
Cash dividends paid	(49,083)	(48,088)
Net cash provided by/(used in) financing activities	(152,077)	155,158
Net increase in cash and cash equivalents	688	120,223
Cash and cash equivalents at beginning of the period	291,377	94,302
Cash and cash equivalents at end of period	$ 292,065	$ 214,525
Supplemental cash flow information		
Cash paid for income taxes	$ 84,000	$ 81,000
Cash paid for interest	$ 9,655	$ 8,676
Stock issued to settle debt	$ 9,794	$ 157,591
Warrant received for issuance of notes receivable	$ (1,258)	$ —

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 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 unaudited Condensed Consolidated Financial Statements and related financial information should be read in conjunction with our audited Consolidated Financial Statements and the related notes thereto for the year ended December 31, 2014, included in our Annual Report on Form 10-K, as amended, filed with the SEC. The Condensed Consolidated Balance Sheet at December 31, 2014, has been derived from the audited Consolidated Financial Statements at that date, but does not include all disclosures required by GAAP.

Principles of Consolidation

The accompanying unaudited 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 accompanying unaudited Condensed Consolidated Financial Statements are prepared in accordance with GAAP and the rules and regulations of the SEC.

Management Estimates

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

Notes Receivable and Other Long-Term Receivables

We account for our notes receivable at both amortized cost, net of unamortized origination fees, if any, and as dependent on collateral when the loan for which repayment is expected to be provided solely by the underlying collateral. For loans accounted for at their amortized cost, related fees and costs are recorded net of any amounts reimbursed. Interest is accreted or accrued to "Interest revenue" using the interest method. When and if supplemental royalties are received from certain of these notes and other long-term receivables, an adjustment to the estimated effective interest rate is affected prospectively.

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

Convertible Notes

We issued our Series 2012 Notes, May 2015 Notes and February 2018 Notes with a net share settlement feature, meaning that upon any conversion, the principal amount will be settled in cash and the remaining amount, if any, will be settled in shares of our common stock. In accordance with accounting guidance for convertible debt instruments that may be settled in cash or other assets upon conversion, we separated the principal balance between the fair value of the liability component and the common stock conversion feature using a market interest rate for a similar nonconvertible instrument at the date of issuance.

Queen et al. Royalty Revenues

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

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

Royalty Rights - At Fair Value

Currently, we have elected to account for our investments in royalty rights at fair value with changes in fair value presented in earnings. The fair value of the investments in royalty rights is determined by using a discounted cash flow analysis related to the expected future cash flows to be received. These assets are classified as Level 3 assets within the fair value hierarchy as our valuation estimates utilize significant unobservable inputs, including estimates as to the probability and timing of future sales of the related products. Transaction-related fees and costs are expensed as incurred.

Realized and unrealized gains and losses from investments in royalty rights are presented together on our Condensed Consolidated Statements of Income as a component of revenue under the caption, "Royalty rights - change in fair value."

Customer Concentration

The percentage of total revenue recognized, which individually accounted for 10% or more of our total revenues, was as follows:

		Three Months Ended June 30,		Six Months Ended June 30,	
Licensee	**Product Name**	**2015**	**2014**	**2015**	**2014**
Genentech	*Avastin*	28%	24%	27%	27%
	Herceptin	29%	24%	27%	25%
Biogen	*Tysabri*®	10%	8%	10%	9%
Depomed	*Glumetza*®	—%	16%	—%	13%

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. The last of these contracts expires in the first quarter of 2016. 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 the 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 gains or losses, net of tax, on the effective component of the hedge is recorded in stockholders' equity as "Accumulated other comprehensive income." Realized 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 "Interest and other income, net" in the period the ineffectiveness occurs.

Income Taxes

The provision for income taxes is determined using the asset and liability approach. Tax laws require items to be included in tax filings at different times than the items are reflected in the financial statements. A current liability is recognized for the estimated taxes payable for the current year. Deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. Deferred taxes are adjusted for enacted changes in tax rates and tax laws. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Comprehensive Income

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

Recently Issued Accounting Pronouncements

In April 2015, the FASB issued ASU 2015-03 – *Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU requires retrospective adoption and will be effective for the Company beginning in the first quarter of 2016. The adoption of this ASU is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

2. Net Income per Share

Net Income per Basic and Diluted Share:	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
(in thousands except per share amounts)				
Numerator				
Net income used to compute net income per basic and diluted share	$ 78,264	$ 92,055	$ 162,762	$ 164,938
Denominator				
Weighted-average shares used to compute net income per basic share	163,544	160,256	163,188	155,752
Restricted stock outstanding	134	115	117	90
Effect of dilutive stock options	19	22	19	21
Assumed conversion of February 2018 Notes	—	1,872	—	1,484
Assumed conversion of Series 2012 Notes	—	4,487	266	7,570
Assumed conversion of warrants	503	—	1,551	—
Assumed conversion of May 2015 Notes	1,184	10,476	2,235	10,894
Weighted-average shares used to compute net income per diluted share	165,384	177,228	167,376	175,811
Net income per share - basic	$ 0.48	$ 0.57	$ 1.00	$ 1.06
Net income per share - diluted	$ 0.47	$ 0.52	$ 0.97	$ 0.94

We compute diluted net income per share using the sum of the weighted-average number of common and common equivalent shares outstanding. Common equivalent shares used in the computation of diluted net income per share include shares that may be issued under our stock options and restricted stock awards, our February 2018 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, 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 the first quarter of 2014, $131.7 million aggregate principal of our Series 2012 Notes was retired in a privately negotiated exchange and purchase agreements, in the fourth quarter of 2014, the Company entered into a privately negotiated exchange agreement by which it retired approximately $26.0 million in principal of the outstanding Series 2012 Notes, and, in the first quarter of 2015, the Company completed the retirement of the remaining $22.3 million of aggregate principal of its Series 2012 Notes.

In the second quarter of 2015, the Company completed the retirement of the remaining $155.1 million of aggregate principal of its May 2015 Notes. Concurrently with the retirement of the May 2015 Notes, we exercised our purchased call options and received 5.2 million of PDL's common shares, which was the amount equal to the number of shares required to be delivered by us to the note holders for the excess conversion value (see Note 9).

In May 2011, we issued our May 2015 Notes, in January and February 2012, we issued our Series 2012 Notes, and in February 2014, we issued our February 2018 Notes. The Series 2012 Notes and May 2015 Notes were 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, May 2015 Notes and February 2018 Notes, shown in the table above, include the shares issuable in respect of such excess.

May 2015 Notes Purchased Call Option and Warrant Potential Dilution

The warrants are dilutive for three and six months ended June 30, 2015, as the exercise price of the warrants was lower than the average market price of our common stock. We excluded from our calculations of net income per diluted share zero and 21.8 million shares for the three months ended June 30, 2015 and 2014, respectively, and zero and 21.8 million shares for the six months ended June 30, 2015 and 2014, respectively, for warrants issued in 2011, because the exercise price of the warrants was higher than the average market price of our common stock and thus, for the three and six months ended June 30, 2014, no stock

was issuable upon conversion. Our purchased call options, issued in 2011, will always be anti-dilutive and therefore zero and 25.7 million shares were excluded from our calculations of net income per diluted share for the three months ended June 30, 2015 and 2014 , respectively, and zero and 25.7 million shares were excluded from our calculation of diluted net income per share for the six months ended June 30, 2015 and 2014, 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.

February 2018 Notes Purchased Call Option and Warrant Potential Dilution

We excluded from our calculation of net income per diluted share 29.0 million shares for the three and six months ended June 30, 2015 and 2014, for warrants issued in February 2014, because the exercise price of the warrants exceeded the VWAP of our common stock and conversion of the underlying February 2018 Notes is not assumed, therefore no stock would be issuable upon conversion. These securities could be dilutive in future periods. Our purchased call options, issued in February 2014, will always be anti-dilutive and therefore 32.7 million shares were excluded from our calculation of net income per diluted share for the three and six months ended June 30, 2015 and 2014, 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.

Anti-Dilutive Effect of Stock Options and Restricted Stock Awards

For the three months ended June 30, 2015 and 2014, we excluded approximately 39,000 and 24,000 shares underlying outstanding stock options, respectively, and for the six months ended June 30, 2015 and 2014, we excluded approximately 38,000 and 69,000 shares underlying outstanding stock options, respectively. For the three months ended June 30, 2015, we excluded approximately 449,000 and zero shares underlying restricted stock awards, respectively, and for the six months ended June 30, 2015 and 2014, we excluded approximately 415,000 and zero underlying restricted stock awards, respectively, 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.

	June 30, 2015				December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
(In thousands)								
Financial assets:								
Money market funds	$ 136,454	$ —	$ —	$ 136,454	$ 221,792	$ —	$ —	$ 221,792
Corporate securities	—	2,020	—	2,020	—	2,310	—	2,310
Foreign currency hedge contracts	—	6,985	—	6,985	—	4,069	—	4,069
Warrants	—	1,258	—	1,258	—	—	—	—
Royalty rights - at fair value	—	—	280,731	280,731	—	—	259,244	259,244
Total	$ 136,454	$ 10,263	$ 280,731	$ 427,448	$ 221,792	$ 6,379	$ 259,244	$ 487,415

There have been no transfers between levels during each of the three-month periods ended June 30, 2015, and December 31, 2014. The Company recognizes transfers between levels on the date of the event or change in circumstances that caused the transfer.

Corporate Securities

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.

Royalty Rights - At Fair Value

Depomed Royalty Agreement

On October 18, 2013, PDL entered into the Depomed Royalty Agreement, whereby the Company acquired the rights to receive royalties and milestones payable on sales of Type 2 diabetes products licensed by Depomed in exchange for a $240.5 million cash payment. Total arrangement consideration was $241.3 million, which was comprised of the $240.5 million cash payment to Depomed and $0.8 million in transaction costs.

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

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

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

As of June 30, 2015, and December 31, 2014, the Company determined that its royalty purchase interest in Depo DR Sub represented a variable interest in a variable interest entity. However, the Company does not have the power to direct the activities of Depo DR Sub that most significantly impact Depo DR Sub's economic performance and is not the primary beneficiary of Depo DR Sub; therefore, Depo DR Sub is not subject to consolidation by the Company.

The asset acquired represents a single unit of accounting. The fair value of the asset acquired was determined by using a discounted cash flow analysis related to the expected future cash flows to be generated by each licensed product. This asset is classified as a Level 3 asset within the fair value hierarchy, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future commercialization for products not yet approved by the FDA or other regulatory agencies. The discounted cash flows are based upon expected royalties from sales of licensed products over a nine-year period. The discount rates utilized range from approximately 21% to 25%. Significant judgment is required in selecting appropriate discount rates. At June 30, 2015, an evaluation was performed to assess those rates and general market conditions potentially affecting the fair market value. Should these discount rates increase or decrease by 5%, the fair value of the asset could decrease by $18.4 million or increase by $23.4 million, respectively. A third-party expert was engaged to help management develop its original estimate of the expected future cash flows. The fair value of the asset is subject to variation should those cash flows vary significantly from those estimates. Should the expected royalties increase or decrease by 10%, the fair value of the asset could increase by $15.6 million or decrease by $16.3 million, respectively.

When PDL acquired the Depomed royalties, Glumetza was marketed by Santarus. In January 2014, Salix acquired Santarus and assumed responsibility for commercializing Glumetza, which was generally perceived to be a positive development because of Salix's larger sales force and track record in the successful commercialization of therapies. In late 2014, Salix made a number

of disclosures relating to an excess of supply at the distribution level of Glumetza and other drugs that it commercialized, likely attributable to the practices of its distributors in drawing down such inventory and to a review by Salix's audit committee of its accounting practices. Because of these disclosures and PDL's lack of direct access to information as to the levels of inventory of Glumetza in the distribution channels, PDL commenced a review of all public statements by Salix, publicly available historical third-party prescription data, analyst reports and other relevant data sources. PDL also engaged a third-party expert to specifically assess estimated inventory levels of Glumetza in the distribution channel and to ascertain the potential effects those inventory levels may have on expected future cash flows. Our review concluded that it would be unlikely for us to receive royalties in the first half of 2015. We have received no royalties from Glumetza sales in 2015. Salix was acquired by Valeant Pharmaceuticals in early April 2015. On June 18, 2015, Valeant Pharmaceuticals implemented a price increase on Glumetza. As of June 30, 2015, we have not revised our expectations as to any impact, if any, the acquisition or price increase will have on future cash flows from Glumetza. We will monitor whether the acquisition or price increase by Valeant Pharmaceuticals has any effect on sales of Glumetza and thus royalties on such sales paid to PDL. There can be no assurances that we will be able to fully assess the impact of the acquisition or price increase on sales of Glumetza and thus royalties on such sales paid to PDL.

As of June 30, 2015, and December 31, 2014, the carrying value of the asset acquired as reported in our Condensed Consolidated Balance Sheets was approximately $194.0 million and $176.2 million, respectively. As of June 30, 2015, the maximum loss exposure was $194.0 million.

VB Royalty Agreement

On June 26, 2014, PDL entered into the VB Royalty Agreement, whereby VB conveyed to the Company the right to receive royalties payable on sales of a spinal implant that has received pre-market approval from the FDA, in exchange for a $15.5 million cash payment, less fees.

The acquired royalties include royalty amounts accruing from and after April 1, 2014. Under the terms of the VB Royalty Agreement, the Company will receive all royalty payments due to VB pursuant to certain technology transfer agreements between VB and Paradigm Spine until the Company has received payments equal to two and three tenths times the cash payment made to VB, after which all rights to receive royalties will be returned to VB. VB may repurchase the royalty right at any time on or before June 26, 2018, for a specified amount. The acting chief executive officer of Paradigm Spine is one of the owners of VB. The Paradigm Spine Credit Agreement and the VB Royalty Agreement were negotiated separately.

The fair value of the VB Royalty Agreement royalty right at June 30, 2015, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a nine-year period. The discount rate utilized was approximately 17.5%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $1.3 million or increase by $1.5 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $0.4 million or decrease by $0.4 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. At each reporting period, an evaluation is performed to assess those estimates, discount rates utilized and general market conditions affecting fair market value.

As of June 30, 2015, and December 31, 2014, the carrying value of the asset acquired as reported in our Condensed Consolidated Balance Sheets was $16.7 million and $16.1 million, respectively. As of June 30, 2015, the maximum loss exposure was $16.7 million.

University of Michigan

On November 6, 2014, PDL acquired a portion of all royalty payments of the U-M’s worldwide royalty interest in Cerdelga (Eliglustat) for $65.6 million. Under the terms of the Michigan Royalty Agreement, PDL will receive 75% of all royalty payments due under U-M’s license agreement with Genzyme until expiration of the licensed patents, excluding any patent term extension. Cerdelga, an oral therapy for adult patients with Gaucher disease type 1, was developed by Genzyme. Cerdelga was approved in the United States on August 19, 2014, in the European Union on January 22, 2015, and in Japan on March 25, 2015. In addition, marketing applications for Cerdelga are under review by other regulatory authorities.

The fair value of the royalty right at June 30, 2015, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted

cash flow was based upon expected royalties from sales of licensed product over a seven-year period. The discount rate utilized was approximately 12.8%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $6.1 million or increase by $7.0 million, respectively. Should the expected royalties increase or decrease by 5%, the fair value of the asset could increase by $3.5 million or decrease by $3.5 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed in each reporting period.

As of June 30, 2015, and December 31, 2014, the fair value of the asset acquired as reported in our Condensed Consolidated Balance Sheets was $70.1 million and $66.9 million. As of June 30, 2015, the maximum loss exposure was $70.1 million.

The following tables summarize the changes in Level 3 assets and the gains and losses included in earnings for the six months ended June 30, 2015:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

(in thousands)		**Royalty Rights - At Fair Value**
Beginning Balance at December 31, 2014		$ 259,244
Transfer into Level 3		—
Total net change in fair value for the period		
Change in fair value of royalty rights - at fair value	$ 23,578	
Proceeds from royalty rights - at fair value	$ (2,091)	
Total net change in fair value for the period		21,487
Purchases, issues, sales, and settlements		
Purchases		—
Ending Balance at June 30, 2015		$ 280,731

Gains and losses included in earnings for each period are presented in "Royalty rights - change in fair value" as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(in thousands)	**2015**	**2014**	**2015**	**2014**
Total change in fair value for the period included in earnings for assets held at the end of the reporting period	$ 12,216	$ (4,061)	$ 23,578	$ (4,061)

Foreign Currency Hedge Contracts

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.

Warrants

Warrants consist primarily of purchased call options to buy U.S. corporate equity holdings and derivative assets acquired as part of loan receivable investments. The fair value of the warrants is estimated using recently quoted market prices and the Black-Scholes model.

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

	June 30, 2015			December 31, 2014		
	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	$ 50,191	$ —	$ 50,191	$ 50,191	$ —	$ 50,191
Hyperion note receivable	1,200	—	1,200	1,200	—	1,200
Avinger note receivable	20,694	—	21,339	20,611	—	20,760
LENSAR note receivable	46,467	—	46,467	39,668	—	40,451
Direct Flow Medical note receivable	51,307	—	52,751	50,397	—	49,940
Paradigm Spine note receivable	49,754	—	51,010	49,571	—	50,125
kaléo note receivable	151,522	—	151,471	151,574	—	151,073
Total[1]	$ 371,135	$ —	$ 374,429	$ 363,212	$ —	$ 363,740
Liabilities:						
Series 2012 Notes	$ —	$ —	$ —	$ 22,261	$ 33,506	$ —
May 2015 Notes	—	—	—	153,235	205,534	—
February 2018 Notes	279,751	285,420	—	276,228	289,665	—
March 2015 Term Loan	74,648	75,000	—	—	—	—
Total	$ 354,399	$ 360,420	$ —	$ 451,724	$ 528,705	$ —

[1] The carrying amount of notes receivable excludes the debt discount of $1.4 million arisen from the CareView transaction.

As of June 30, 2015 and December 31, 2014, the estimated fair values of our Paradigm Spine note receivable, kaléo note receivable, Hyperion note receivable, Avinger note receivable, LENSAR note receivable and Direct Flow Medical note receivable, were determined using one or more discounted cash flow models, incorporating expected payments and the interest rate extended on the notes receivable with fixed interest rates and incorporating expected payments for notes receivable with a variable rate of return. In some instances the carrying values of certain notes receivable differed from their estimated fair market values. This is generally the result of discount rates used when performing a discounted cash flow for fair value valuation purposes.

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

The Wellstat Diagnostics Note Receivable and Credit Agreement, as amended and restated, is collateralized by all assets and equity interest in Wellstat Diagnostics. The estimated fair value of the collateral was determined by using a discounted cash flow analysis related to the underlying technology included in the collateral. On June 30, 2015, and December 31, 2014, the discounted cash flow was based upon expected income from estimated sales of planned products over a period of 15 years. The terminal value was estimated using selected market multiples based on sales and EBITDA.

On June 30, 2015, the carrying values of several of our notes receivable differed from their fair value. This is the result of discount rates used when performing a discounted cash flow for fair value valuation purposes. We determined these notes receivable to be Level 3 assets, as our valuations utilized significant unobservable inputs, estimates of future revenues, expectations about settlement and required yield. To provide support for the fair value measurements, we considered forward-

looking performance, and current measures associated with high yield and published 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 Short-Term Investments

As of June 30, 2015, and December 31, 2014, we had invested our excess cash balances primarily in money market funds, and a corporate equity security. 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" in stockholders' equity, net of estimated taxes. See Note 3 for fair value measurement information. The cost of securities sold is based on the specific identification method. To date, we have not experienced credit losses on investments in these instruments, and we do not require collateral for our investment activities.

Summary of Cash and Available-For-Sale Securities	Adjusted Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	Cash and Cash Equivalents	Short-Term Investments
(In thousands)						
June 30, 2015						
Cash	$ 155,611	$ —	$ —	$ 155,611	$ 155,611	$ —
Money market funds	136,454	—	—	136,454	136,454	—
Corporate securities	1,750	270	—	2,020	—	2,020
Total	$ 293,815	$ 270	$ —	$ 294,085	$ 292,065	$ 2,020
December 31, 2014						
Cash	$ 69,585	$ —	$ —	$ 69,585	$ 69,585	$ —
Money market funds	221,792	—	—	221,792	221,792	—
Corporate securities	1,750	560	—	2,310	—	2,310
Total	$ 293,127	$ 560	$ —	$ 293,687	$ 291,377	$ 2,310

No gains or losses on sales of available-for-sale securities were recognized for the three and six months ended June 30, 2015 and 2014.

The unrealized gains on investments included in "Other comprehensive income (loss), net of tax" was approximately $175,000 and $364,000 as of June 30, 2015, and December 31, 2014, respectively.

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 June 30, 2015, and December 31, 2014, all outstanding Euro forward contracts were classified as cash flow hedges.

In October 2014, we entered into a series of Euro forward contracts covering the quarters in which our licensees' sales occurred through December 2015.

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			June 30, 2015		December 31, 2014	
			(In thousands)		*(In thousands)*	
Currency	Settlement Price ($ per Euro)	Type	Notional Amount	Fair Value	Notional Amount	Fair Value
Euro	1.256	Sell Euro	$ —	$ —	$ 6,000	$ 241
Euro	1.257	Sell Euro	—	—	15,750	728
Euro	1.259	Sell Euro	16,125	2,300	16,125	752
Euro	1.260	Sell Euro	33,000	4,685	33,000	1,468
Euro	1.270	Sell Euro	—	—	7,000	377
Euro	1.281	Sell Euro	—	—	8,000	503
Total			$ 49,125	$ 6,985	$ 85,875	$ 4,069

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

Cash Flow Hedge	Location	June 30, 2015	December 31, 2014
(In thousands)			
Euro contracts	Prepaid and other current assets	$ 6,985	$ 3,352
Euro contracts	Other assets	$ —	$ 717

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
(In thousands)				
Net gain (loss) recognized in OCI, net of tax [1]	$ (1,305)	$ 264	$ 4,363	$ 331
Gain (loss) reclassified from accumulated OCI into royalty revenue, net of tax [2]	$ 1,739	$ (2,027)	$ 2,408	$ (2,755)
Net gain (loss) recognized in interest and other income, net - cash flow hedges [3]	$ —	$ 1	$ —	$ 3

(1) Change in the fair value of cash flow hedges, net of tax.

(2) Effective portion classified as royalty revenue.

(3) Ineffectiveness from excess hedge was approximately $0 and ($1) for the three months ended June 30, 2015 and 2014, respectively, and $0 and ($3) for the six months ended June 30, 2015 and 2014, 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 receivable gave PDL certain rights to negotiate for certain future financing transactions. In August 2012, PDL and Wellstat Diagnostics 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 receivable. This $10.0 million note receivable was repaid on November 2, 2012, using the proceeds of the $40.0 million credit facility entered into with the Company on the same date.

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

In January 2013, the Company was informed that, as of December 31, 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. 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 forbearance period that ended on June 28, 2013, the Company agreed to forbear its exercise of remedies for additional periods of time to allow the owners and affiliates of Wellstat Diagnostics to complete a pending financing transaction. During such forbearance period, the Company provided approximately $1.3 million to Wellstat Diagnostics to fund ongoing operations of the business. During the year ended December 31, 2013, approximately $8.7 million was advanced pursuant to the forbearance agreement.

On August 15, 2013, the owners and affiliates of Wellstat Diagnostics completed a financing transaction to fulfill Wellstat Diagnostics' 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 and restated credit agreement are substantially the same as those of the original credit agreement, including quarterly interest payments at the rate of 5% per annum (payable in cash or in kind). In addition, PDL was to continue to receive quarterly royalty payments based on a low double-digit royalty rate of Wellstat Diagnostics' net revenues. However, pursuant to the amended and restated credit agreement: (i) the principal amount was reset to approximately $44.1 million, which was comprised of approximately $33.7 million original loan principal and interest, $1.3 million term loan principal and interest and $9.1 million forbearance principal and interest; (ii) the specified internal rates of return increased; (iii) the default interest rate was increased; (iv) Wellstat Diagnostics' obligation to provide certain financial information increased in frequency to monthly; (v) internal financial controls were strengthened by requiring Wellstat Diagnostics to maintain an independent, third-party financial professional with control over fund disbursements; (vi) the Company waived the existing events of default; and (vii) the owners and affiliates of Wellstat Diagnostics were required to contribute additional capital to Wellstat Diagnostics upon the sale of an affiliate entity. The amended and restated credit agreement had an ultimate maturity date of December 31, 2021 (but has subsequently been accelerated as described below).

When the principal amount was reset, a $2.5 million reduction of the carrying value 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 was to be repaid. The internal rate of return calculation, although increased, was reset when the credit agreement was amended and restated.

In June of 2014, the Company received information from Wellstat Diagnostics that showed that it was generally unable to pay its debts as they became due. This constituted an event of default under the amended and restated credit agreement. Wellstat Diagnostics entered into a transaction involving another lender, pursuant to which Wellstat Diagnostics obtained additional short-term funding for its operations. At the same time, the Company entered into the first amendment to amended and restated credit agreement with Wellstat Diagnostics. The material terms of the amendment included the following: (1) Wellstat Diagnostics acknowledged that an event of default had occurred; (2) the Company agreed to forbear from immediately enforcing its rights for up to 60 days, so long as the other lender provided agreed levels of interim funding to Wellstat Diagnostics; and (3) the Company obtained specified additional information rights with regard to Wellstat Diagnostics’ financial matters and investment banking activities.

On August 5, 2014, the Company received notice that the short-term funding being provided pursuant to the agreement with the other lender entered into during June 2014, was being terminated. Wellstat Diagnostics remained in default because it was still unable to pay its debts as they became due. Accordingly, the Company delivered the Wellstat Diagnostics Borrower Notice. The

Wellstat Diagnostics Borrower Notice accelerated all obligations under the amended and restated credit agreement and demanded immediate payment in full in an amount equal to approximately $53.9 million, (which amount, in accordance with the terms of the amended and restated credit agreement, included an amount that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company), plus accruing fees, costs and interest, and demanded that Wellstat Diagnostics protect and preserve all collateral securing its obligations. On August 7, 2014, the Company delivered the Wellstat Diagnostics Guarantor Notice. The Wellstat Diagnostics Guarantor Notice included a demand that the guarantors remit payment to the Company in the amount of the outstanding obligations. The guarantors include certain affiliates and related companies of Wellstat Diagnostics, including Wellstat Therapeutics and Wellstat Diagnostics' stockholders.

On September 24, 2014, the Company filed the Wellstat Diagnostics Petition, which was granted on the same day. The order granting the Wellstat Diagnostics Petition authorizes the receiver to take immediate possession of the physical assets of Wellstat Diagnostics, with the purpose of holding, protecting, insuring, managing and preserving the business of Wellstat Diagnostics and the value of the Company's collateral. Wellstat Diagnostics has remained in operation during the period of the receivership with incremental additional funding from the Company. The Company continues to assess its options with respect to collecting on the loan, including determining whether and when it will foreclose on the collateral and proceed with a sale of Wellstat Diagnostics' assets, whether providing further capital to the receiver to fund Wellstat Diagnostics' operations for a period of time prior to sale will best position Wellstat Diagnostics' assets for sale, and assessing the value of the guarantees obtained by the Company from Wellstat Diagnostics' guarantors, including Wellstat Diagnostics' stockholders and Wellstat Therapeutics.

On November 4, 2014, the Company entered into the third amendment to the amended and restated credit agreement with Wellstat Diagnostics. The amendment provides that additional funding, if any, to be made by the Company is conditioned upon the agreement by Wellstat Diagnostics to make certain operational changes within Wellstat Diagnostics, which the Company believes will allow the receiver to more efficiently optimize the value of the collateral.

During the second quarter of 2015, the receiver initiated a process for a public sale of the assets of Wellstat Diagnostics and retained the investment banking firm of Duff & Phelps to organize and manage the sale process. The receiver filed a "Motion For Approval of Sale Procedures" with the Circuit Court for Montgomery County, Maryland, which is the court having jurisdiction over the receivership and a hearing was held on July 22, 2015 at which time arguments were heard from interested parties regarding the sale procedures. No significant substantive disagreements between the parties regarding the sale procedures remained after the hearing and a decision approving the receiver's sale procedures is expected shortly. The sale process is ongoing and Duff & Phelps is actively contacting and holding discussions with interested third parties who may be willing to bid on the assets. In addition, depending on the nature and value of the bids received from third parties, it is possible that PDL will credit bid for the assets at a value corresponding to some portion of the outstanding amount due under the amended and restated credit agreement. We anticipate that the sale process will be completed during the third or fourth quarter of 2015.

Through the period ended June 30, 2015, PDL has advanced to Wellstat Diagnostics $10.0 million to fund the ongoing operations of the business and other associated costs. This funding has been expensed as incurred.

Effective April 1, 2014, and as a result of the event of default, we determined the loan to be impaired and we ceased to accrue interest revenue. At that time and as of June 30, 2015 it has been determined that an allowance on the carrying value of the note was not necessary as the Company believes the value of the collateral securing Wellstat Diagnostics' obligations exceeds the carrying value of the asset and is sufficient to enable the Company to recover the current carrying value of $50.2 million. There can be no assurance that this will be true in the event of the Company's foreclosure on the collateral, nor can there be any assurance of the timing in realizing value from such collateral, whether from the sale process currently underway or a subsequent monetization event if PDL makes a successful credit bid for the assets.

Hyperion Agreement

On January 27, 2012, PDL and Hyperion entered into an agreement whereby Hyperion sold to PDL the royalty streams due from SDK related to a certain patent license agreement between Hyperion and SDK dated December 31, 2008. The agreement assigned the patent license agreement royalty stream accruing from January 1, 2012, through December 31, 2013, to PDL in exchange for the lump sum payment to Hyperion of $2.3 million. In exchange for the lump sum payment, PDL was to receive two equal payments of $1.2 million on both March 5, 2013 and 2014. The first payment of $1.2 million was paid on March 5, 2013, but Hyperion has not made the payment that was due on March 5, 2014. The Company completed an impairment analysis as of June 30, 2015. Effective with this date and as a result of the event of default, we ceased to accrue interest revenue. As of June 30, 2015, the estimated fair value of the collateral was determined to be in excess of the carrying value. There can be no assurance that this will be true in the event of the Company's foreclosure on the collateral, nor can there be any

assurance of realizing value from such collateral. Hyperion is considering other sources of financing and strategic alternatives, including selling the company.

AxoGen Note Receivable and AxoGen Royalty Agreement

In October 2012, PDL entered into the AxoGen Royalty Agreement with AxoGen pursuant to which the Company would receive specified royalties on AxoGen's net revenues (as defined in the AxoGen Royalty Agreement) generated by the sale, distribution or other use of AxoGen's products. The AxoGen Royalty Agreement had an eight-year term and provided PDL with royalties of 9.95% based on AxoGen's net revenues, subject to agreed-upon guaranteed quarterly minimum payments of approximately $1.3 million to $2.5 million, which were to begin in the fourth quarter of 2014, and the right to require AxoGen to repurchase the royalties under the AxoGen Royalty Agreement at the end of the fourth year. AxoGen was 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 an interim funding of $1.8 million in August 2012. AxoGen was required to use a portion of the proceeds from the AxoGen Royalty Agreement to pay the outstanding balance under its existing credit facility. The royalty rights were secured by the cash and accounts receivable of AxoGen.

On August 14, 2013, PDL purchased 1,166,666 shares of registered common stock of AxoGen (AXGN) at $3.00 per share, totaling $3.5 million. On December 22, 2014, PDL sold these shares at $3.03 per share, totaling approximately $3.5 million.

On November 13, 2014, the Company agreed to terminate the AxoGen Royalty Agreement in consideration for a payment of $30.3 million in cash, which was the sum of the outstanding principal, interest and embedded derivative.

Subsequent to the pay-off, the Company acquired 643,382 shares of registered common stock of AxoGen for approximately $1.7 million at a public offering price of $2.72 per share. The shares are classified as available for sale securities and recorded as short-term investments on the Condensed Consolidated Balance Sheets. As of June 30, 2015, the shares were valued at $2.0 million, which resulted in an unrealized gain of $0.3 million and is recorded in "Other comprehensive income (loss), net of tax."

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 lumivascular catheter devices and the development of Avinger's lumivascular atherectomy device. Of the $40.0 million initially available to Avinger, we funded an initial $20.0 million, net of fees, at the close of the transaction. The additional $20.0 million in the form of a second tranche is no longer available to Avinger. Outstanding borrowings under the initial loan bear interest at a stated rate of 12% per annum.

Avinger is required to make quarterly interest and principal payments. Principal repayment will commence on the eleventh interest payment date, March 31, 2016. 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 loan. The loan 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.

LENSAR Credit Agreement

On October 1, 2013, PDL entered into a credit agreement with LENSAR, under which PDL made available to LENSAR up to $60.0 million to be used by LENSAR in connection with the commercialization of its currently marketed LENSAR™ Laser System. Of the $60.0 million available to LENSAR, an initial $40.0 million, net of fees, was funded by the Company at the close of the transaction. The additional $20.0 million in the form of a second tranche is no longer available to LENSAR under the terms of the credit agreement. 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 31, 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.

On May 12, 2015, PDL entered into a forbearance agreement with LENSAR under which PDL agreed to refrain from exercising certain remedies available to it resulting from the failure of LENSAR to comply with a liquidity covenant and make interest payments due under the credit agreement. Under the forbearance agreement, PDL has agreed to provide LENSAR with up to an aggregate of $8.5 million in weekly increments through the period ending September 30, 2015 in the form of additional loans subject to LENSAR meeting certain milestones related to LENSAR obtaining additional capital to fund the business or selling itself and repaying outstanding amounts under the credit agreement. As of June 30, 2015, PDL has funded an additional $5.2 million of principal under the forbearance agreement. In exchange for the forbearance, LENSAR agreed to additional reporting covenants, the engagement of a chief restructuring officer and an increase on the interest rate to 18.5%, applicable to all outstanding amounts under the credit agreement. The Company completed an impairment analysis as of June 30, 2015. Effective with this date and as result of the forbearance, we ceased to accrue interest revenue. LENSAR is evaluating its strategic alternatives which could include an equity raise, a sale of the company, a merger of the company or some combination of the preceding.

Durata Credit Agreement

On October 31, 2013, PDL entered into a credit agreement with Durata, under which 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. On May 27, 2014, the Company funded Durata an additional $15.0 million (tranche two) as a result of Durata's marketing approval of dalbavancin in the United States, which occurred on May 23, 2014, and was the milestone needed to receive the tranche two funding. Until the occurrence of the tranche two milestone, outstanding borrowings under tranche one bore 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 decreased to 12.75%.

On November 17, 2014, the Company received a payment of approximately $42.7 million constituting repayment in full of the outstanding principal amount of loans plus accrued interest and fees under the credit agreement. The repayment was made in connection with the acquisition of Durata by Actavis plc.

Direct Flow Medical Credit Agreement

On November 5, 2013, PDL entered into a credit agreement with Direct Flow Medical, under which PDL agreed to 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 funded by the Company at the close of the transaction. Pursuant to the original terms of the credit agreement the Company agreed to provide Direct Flow Medical an additional $15.0 million tranche, net of fees, upon the attainment of a specified revenue milestone to be accomplished no later than December 31, 2014 (the tranche two milestone). Until the occurrence of the tranche two milestone, outstanding borrowings under tranche one bore interest at the rate of 15.5% per annum, payable quarterly in arrears.

On November 10, 2014, PDL and Direct Flow Medical agreed to an amendment to the credit agreement to permit Direct Flow Medical to borrow the $15.0 million second tranche upon receipt by Direct Flow Medical of a specified minimum amount of proceeds from an equity offering prior to December 31, 2014. In exchange, the parties amended the credit agreement to provide for additional fees associated with certain liquidity events, such as a change of control or the consummation of an initial public offering, and granted PDL certain board of director observation rights. On November 19, 2014, upon Direct Flow Medical satisfying the amended tranche two milestone, the Company funded the $15.0 million second tranche to Direct Flow Medical, net of fees. Upon occurrence of the borrowing of the second tranche, the interest rate applicable to all loans under the credit agreement was decreased to 13.5% per annum, payable quarterly in arrears.

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

Paradigm Spine Credit Agreement

On February 14, 2014, the Company entered into the Paradigm Spine Credit Agreement, under which it made available to Paradigm Spine up to $75.0 million to be used by Paradigm Spine to refinance its existing credit facility and expand its domestic commercial operations. Of the $75.0 million available to Paradigm Spine, an initial $50.0 million, net of fees, was funded by the Company at the close of the transaction. The second and third tranches of up to an additional $25.0 million in the aggregate, net of fees, are no longer available under the terms of the Paradigm Spine Credit Agreement. Borrowings under the credit agreement bear interest at the rate of 13.0% per annum, payable quarterly in arrears.

Principal repayment will commence on the twelfth interest payment date, December 31, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on February 14, 2019. Paradigm Spine 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 Paradigm Spine Credit Agreement are secured by a pledge of substantially all of the assets of Paradigm Spine and its domestic subsidiaries and, initially, certain assets of Paradigm Spine’s German subsidiaries.

kaléo Note Purchase Agreement

On April 1, 2014, PDL entered into a note purchase agreement with Accel 300, a wholly-owned subsidiary of kaléo, pursuant to which the Company acquired $150.0 million of secured notes due 2029. The secured notes were issued pursuant to an indenture between Accel 300 and U.S. Bank, National Association, as trustee, and are secured by the kaléo Revenue Interests, and a pledge of kaléo’s equity ownership in Accel 300.

The secured notes bear interest at 13% per annum, paid quarterly in arrears on principal outstanding. The principal balance of the secured notes is repaid to the extent that the kaléo Revenue Interests exceed the quarterly interest payment, as limited by a quarterly payment cap. The final maturity of the secured notes is June 2029. kaléo may redeem the secured notes at any time, subject to a redemption premium.

As of June 30, 2015, the Company determined that its royalty purchase interest in Accel 300 represented a variable interest in a variable interest entity. However, the Company does not have the power to direct the activities of Accel 300 that most significantly impact Accel 300's economic performance and is not the primary beneficiary of Accel 300; therefore, Accel 300 is not subject to consolidation by the Company.

CareView Credit Agreement

On June 26, 2015, PDL entered into a credit agreement with CareView, under which the Company made available to CareView up to $40.0 million in two tranches of $20.0 million each. The first tranche of $20 million will be funded by the Company upon CareView’s attainment of a specified milestone relating to the placement of CareView Systems®, to be accomplished no later than October 31, 2015. The Company will fund CareView an additional $20.0 million upon CareView’s attainment of specified milestones relating to the placement of CareView Systems and EBITDA, to be accomplished no later than June 30, 2017. Outstanding borrowings under the credit agreement will bear interest at the rate of 13.5% per annum and are payable quarterly in arrears.

As part of the transaction, the Company received a warrant to purchase approximately 4.4 million shares of common stock of CareView at the exercise price of $0.45 per share. We have accounted for the warrant as derivative asset with an offsetting credit as debt discount. At each reporting period the warrant is marked to market for changes in fair value. At June 30, 2015, we determined an estimated fair value of the warrant of $1.3 million.

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

7. Accrued Liabilities

	June 30, 2015	December 31, 2014
(In thousands)		
Compensation	$ 2,616	$ 1,332
Interest	5,000	6,210
Dividend payable	49,267	90
Legal	472	296
Other	596	948
Total	$ 57,951	$ 8,876

8. Commitments and Contingencies

Legal Proceedings

From time to time, we are involved in lawsuits, arbitrations, claims, investigations and proceedings, consisting of intellectual property, commercial, employment and other matters, which arise in the ordinary course of business. We make provisions for liabilities when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Such provisions are reviewed at least quarterly and adjusted to reflect the impact of settlement negotiations, judicial and administrative rulings, advice of legal counsel, and other information and events pertaining to a particular case. Litigation is inherently unpredictable. If any unfavorable ruling were to occur in any specific period, there exists the possibility of a material adverse impact on the results of our operations of that period and on our cash flows and liquidity. We are not currently a party to any material legal proceedings.

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 June 30, 2015, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $73.3 million. In April 2010, Abbott Laboratories acquired Facet and later renamed the entity AbbVie. If AbbVie were to default, we could also be responsible for lease-related costs including utilities, property taxes and common area maintenance, which may be as much as the actual lease payments.

We have recorded a liability of $10.7 million on our Condensed Consolidated Balance Sheets as of June 30, 2015, and December 31, 2014, 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 and Term Loans

		Principal Balance Outstanding	Carrying Value	
Description	**Maturity Date**	**June 30, 2015**	**June 30, 2015**	**December 31, 2014**
(In thousands)				
Convertible Notes				
Series 2012 Notes	February 15, 2015	$ —	$ —	$ 22,261
May 2015 Notes	May 1, 2015	$ —	—	153,235
February 2018 Notes	February 1, 2018	$ 300,000	279,751	276,228
March 2015 Term Loan	February 15, 2016	$ 75,000	74,648	—
Total			$ 354,399	$ 451,724

As of June 30, 2015, 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 Series 2012 Notes for an identical principal amount of our then existing 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 Series 2012 Notes for an identical principal amount of our then existing 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 was outstanding.

On February 6, 2014, the Company entered into exchange and purchase agreements with certain holders of approximately $131.7 million aggregate principal amount of outstanding Series 2012 Notes. The exchange agreement provided for the issuance by the Company of shares of common stock and a cash payment for the Series 2012 Notes being exchanged, and the purchase agreement provided for a cash payment for the Series 2012 Notes being repurchased. The total consideration given was approximately $191.8 million. The Company issued to the participating holders of the February 2015 Notes a total of approximately 20.3 million shares of its common stock with a fair value of approximately $157.6 million and made an aggregate cash payment of approximately $34.2 million pursuant to the exchange and purchase agreements. Of the $34.2 million cash payment, $2.5 million is attributable to an inducement fee, $1.8 million is attributable to interest accrued through the date of settlement and $29.9 million is attributable to the repurchase of the Series 2012 Notes. It was determined that the exchange and purchase agreement represented an extinguishment of the related notes. As a result, a loss on extinguishment of $6.1 million was recorded. The $6.1 million loss on extinguishment included the derecognition of the original issuance discount of $5.8 million and a $0.3 million charge resulting from the difference of the face value of the notes and the fair value of the notes. Immediately following the exchange, $48.3 million principal amount of the Series 2012 Notes was outstanding with approximately $2.1 million of remaining original issuance discount to be amortized over the remaining life of the Series 2012 Notes.

On October 20, 2014, the Company entered into a privately negotiated exchange agreement under which it retired approximately $26.0 million in principal of the outstanding Series 2012 Notes. The exchange agreement provided for the issuance, by the Company, of shares of common stock and a cash payment for the Series 2012 Notes being exchanged. The Company issued approximately 1.8 million shares of its common stock and made a cash payment of approximately $26.2 million. Immediately following the exchange, $22.3 million principal amount of the Series 2012 Notes was outstanding with approximately $0.1 million of remaining original issuance discount to be amortized over the remaining life of the Series 2012 Notes.

The Series 2012 Notes were due February 15, 2015, and bore interest at a rate of 2.875% per annum, payable semi-annually in arrears on February 15 and August 15 of each year. On February 17, 2015, the Company completed the retirement of the remaining $22.3 million of aggregate principal of its Series 2012 notes at their stated maturity for $22.3 million, plus approximately 1.34 million shares of its common stock.

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

(In thousands)	**June 30, 2015**	**December 31, 2014**
Principal amount of the Series 2012 Notes	$ —	$ 22,337
Unamortized discount of liability component	—	(76)
Total	$ —	$ 22,261

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2015**	**2014**	**2015**	**2014**
Contractual coupon interest	$ —	$ 347	$ 80	$ 1,108
Amortization of debt issuance costs	—	62	13	932
Amortization of debt discount	—	399	76	1,379
Total	$ —	$ 808	$ 169	$ 3,419

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 were due May 1, 2015, and we paid 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 a portion of our Series 2012 Notes. Upon the occurrence of a fundamental change, as defined in the indenture, holders had the option to require PDL to redeem the May 2015 Notes at a purchase price equal to 100% of the principal, plus accrued interest.

On May 1, 2015, the Company completed the retirement of the remaining $155.1 million of aggregate principal of its May 2015 Notes at their stated maturity for $155.1 million, plus approximately 5.2 million shares of its common stock for the excess conversion value.

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

(In thousands)	**June 30, 2015**	**December 31, 2014**
Principal amount of the May 2015 Notes	$ —	$ 155,050
Unamortized discount of liability component	—	(1,815)
Total	$ —	$ 153,235

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2015**	**2014**	**2015**	**2014**
Contractual coupon interest	$ 484	$ 1,456	$ 1,938	$ 2,911
Amortization of debt issuance costs	109	317	435	632
Amortization of debt discount	458	1,283	1,815	2,544
Total	$ 1,051	$ 3,056	$ 4,188	$ 6,087

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. We exercised the purchased call options upon conversion of our May 2015 Notes on May 1, 2015, which required the hedge counterparties to deliver shares to the Company. The hedge counterparties delivered to us approximately 5.2 million of PDL common shares, which was the amount equal to the shares required to be delivered by us to the note holders for the excess conversion value.

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 through the 120 scheduled trading days beginning on July 30, 2015 and ending on January 20, 2016. If the VWAP of our common stock, as defined in the warrant agreement, exceeds the strike price of the warrants on the date of conversion, we will deliver to the warrant counterparties shares of our common stock 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 price is approximately $6.58, subject to further adjustment upon certain events including dividend payments, for the warrants.

Because the share price was above $5.59, but below $6.58, upon conversion of our May 2015 Notes, the purchased call options offset the share dilution, and the Company received shares on exercise of the purchased call options equal to the shares that the Company delivered to the note holders. If the share price is above $6.58, 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 $6.58. For example, a 10% increase in the share price above $6.58 would result in the issuance of 2.1 million incremental shares upon exercise of the warrants. If our share price continues to increase, additional dilution would occur.

While the purchased call options reduced the potential equity dilution upon conversion of our May 2015 Notes, prior to the conversion or exercise, our May 2015 Notes and the warrants had 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 June 30, 2015, and December 31, 2014, there were no related warrants exercised.

The warrants are considered indexed to PDL stock, require net-share settlement and met all criteria for equity classification at inception and at June 30, 2015, and December 31, 2014. 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 warrant issuance, was recorded as adjustments to additional paid-in capital. Subsequent changes in fair value will not be recognized as long as the warrants continue to meet all criteria for equity classification.

February 2018 Notes

On February 12, 2014, we issued $300.0 million in aggregate principal amount, at par, of our February 2018 Notes in an underwritten public offering, for net proceeds of $290.2 million. Our February 2018 Notes are due February 1, 2018, and we pay interest at 4.0% on our February 2018 Notes semiannually in arrears on February 1 and August 1 of each year, beginning August 1, 2014. A portion of the proceeds from our February 2018 Notes, net of amounts used for purchased call option transactions and provided by the warrant transactions described below, were used to redeem $131.7 million of our Series 2012 Notes. Upon the occurrence of a fundamental change, as defined in the indenture, holders have the option to require PDL to redeem the February 2018 Notes at a purchase price equal to 100% of the principal, plus accrued interest.

Our February 2018 Notes are convertible under any of the following circumstances:

- During any fiscal quarter ending after the quarter ended June 30, 2014, 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 August 1, 2017.

The initial conversion rate for the February 2018 Notes is 109.1048 shares of the Company's common stock per $1,000 principal amount of February 2018 Notes, which is equivalent to an initial conversion price of approximately $9.17 per share of common stock, subject to adjustments upon the occurrence of certain specified events as set forth in the indenture. Upon conversion, the Company will be required to pay cash and, if applicable, deliver shares of the Company's common stock as described in the indenture.

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 February 2018 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 7.0%, 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 $29.7 million, allocated $19.3 million to additional paid-in capital and allocated $10.4 million to deferred tax liability. The discount is being amortized to interest expense over the term of our February 2018 Notes and increases interest expense during the term of our February 2018 Notes from the 4.0% cash coupon interest rate to an effective interest rate of 6.9%. As of June 30, 2015, the remaining discount amortization period is 2.6 years.

The carrying value and unamortized discount of our February 2018 Notes were as follows:

(In thousands)	**June 30, 2015**	**December 31, 2014**
Principal amount of the February 2018 Notes	$ 300,000	$ 300,000
Unamortized discount of liability component	(20,249)	(23,772)
Total	$ 279,751	$ 276,228

Interest expense for our February 2018 Notes on our Condensed Consolidated Statements of Income was as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(In thousands)	**2015**	**2014**	**2015**	**2014**
Contractual coupon interest	$ 3,000	$ 3,062	$ 6,000	$ 4,633
Amortization of debt issuance costs	546	600	1,089	822
Amortization of debt discount	1,776	1,879	3,523	2,550
Total	$ 5,322	$ 5,541	$ 10,612	$ 8,005

As of June 30, 2015, our February 2018 Notes are not convertible. At June 30, 2015, the if-converted value of our February 2018 Notes did not exceed the principal amount.

Purchased Call Options and Warrants

In connection with the issuance of our February 2018 Notes, we entered into purchased call option transactions with two hedge counterparties. We paid an aggregate amount of $31.0 million for the purchased call options with terms substantially similar to the embedded conversion options in our February 2018 Notes. The purchased call options cover, subject to anti-dilution and certain other customary adjustments substantially similar to those in our February 2018 Notes, approximately 32.7 million shares of our common stock. We may exercise the purchased call options upon conversion of our February 2018 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 February 1, 2018, or the last day any of our February 2018 Notes remain outstanding.

In addition, we sold to the hedge counterparties warrants exercisable, on a cashless basis, for the sale of rights to receive shares of common stock that will initially underlie our February 2018 Notes at a strike price of $10.3610 per share, which represents a premium of approximately 30% over the last reported sale price of the Company's common stock of $7.97 on February 6, 2014. The warrant transactions could have a dilutive effect to the extent that the market price of the Company's common stock exceeds the applicable strike price of the warrants on the date of conversion. We received an aggregate amount of $11.4 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. If the VWAP of our common stock, as defined in the warrant agreement, 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 February 2018 Notes. The strike price is subject to further adjustment in the event that future quarterly dividends exceed $0.15 per share.

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 June 30, 2015. The purchased call options cost of $31.0 million, less deferred taxes of $10.8 million, and the $11.4 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 all criteria for equity classification.

March 2015 Term Loan

On March 30, 2015, PDL entered into a credit agreement among the Company, the lenders party thereto and the Royal Bank of Canada, as administrative agent. The credit agreement consists of a term loan of $100.0 million.

The interest rates per annum applicable to amounts outstanding under the term loan are, at the Company's option, either (a) the alternate base rate (as defined in the credit agreement) plus 0.75%, or (b) the adjusted Eurodollar rate (as defined in the credit agreement) plus 1.75% per annum. As of June 30, 2015, the interest rate, based upon the adjusted Eurodollar rate, was 2.04%. Interest payments under the credit agreement are due on the interest payment dates specified in the credit agreement.

The term loan requires amortization in the form of scheduled principal payments on June 15, September 15 and December 15 of 2015, with the remaining outstanding balance due on February 15, 2016.

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, a debt service coverage ratio and a minimum liquidity covenant, 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.

October 2013 Term Loan

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

The interest rates per annum applicable to amounts outstanding under the October 2013 Term Loan were, at the Company's option, either (a) the base rate plus 1.00%, or (b) the Eurodollar rate plus 2.00% per annum. As of the final payment date, the interest rate was 2.22%. This principal balance and outstanding interest was paid in full on October 28, 2014.

10. Other Long-Term Liabilities

	June 30, 2015	December 31, 2014
(In thousands)		
Accrued lease liability	$ 10,700	$ 10,700
Long term incentive accrual	1,675	578
Uncertain tax positions	31,969	26,356
Dividend payable	289	68
Total	$ 44,633	$ 37,702

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 June 30, 2015, the total lease payments for the duration of the guarantee, which runs through December 2021, are approximately $73.3 million. If Facet were to default, we could also be responsible for lease-related costs including utilities, property taxes and common area maintenance that 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 June 30, 2015, and December 31, 2014, related to this guarantee.

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 13, Stock-Based Compensation, of Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as amended.

The following table summarizes the Company's stock option and restricted stock award activity during the six months ended June 30, 2015:

		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 at December 31, 2014	4,166	58	$ 5.41	277	$ 8.39
Granted	(398)	—		398	7.29
Shares released	—	—		(30)	9.02
Forfeited or canceled	40	—		(40)	7.15
Balance at June 30, 2015	3,808	58	$ 5.41	605	$ 7.72

12. Cash Dividends

On January 27, 2015, our board of directors declared that the regular quarterly dividends to be paid to our stockholders in 2015 will be $0.15 per share of common stock, payable on March 12, June 12, September 11 and December 11 of 2015 to stockholders of record on March 5, June 5, September 4 and December 4 of 2015, the record dates for each of the dividend payments, respectively.

13. Income Taxes

Income tax expense for the three months ended June 30, 2015 and 2014, was $45.3 million and $54.0 million, respectively, and for the six months ended June 30, 2015 and 2014, was $94.3 million and $96.7 million, respectively, which resulted primarily from applying the federal statutory income tax rate to income before income taxes.

The uncertain tax positions increased during the three and six months ended June 30, 2015, by $2.2 million and $4.6 million, respectively, resulting from an increase in tax uncertainties and estimated tax liabilities.

In general, our income tax returns are subject to examination by U.S. federal, state and local tax authorities for tax years 1996 forward. In May 2012, PDL received a "no-change" letter from the IRS upon completion of an examination of the Company's 2008 federal tax return. We are currently under income tax examination in the state of California for tax years 2009 and 2010. 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 benefit over the next 12 months.

14. Accumulated Other Comprehensive Income

Comprehensive income is comprised of net income and other comprehensive income (loss). We include unrealized net gains (losses) 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, net of tax, was as follows:

	Unrealized gains (losses) on available-for-sale securities	Unrealized gains on cash flow hedges	Total Accumulated Other Comprehensive Income
(In thousands)			
Beginning Balance at December 31, 2014	$ 364	$ 2,585	$ 2,949
Activity for the six months ended June 30, 2015	(189)	1,955	1,766
Ending Balance at June 30, 2015	$ 175	$ 4,540	$ 4,715

15. Subsequent Event

ARIAD Revenue Interest Assignment

On July 28, 2015, PDL entered into a revenue interests assignment agreement with ARIAD pursuant to which ARIAD sold to the Company the right to receive specified royalties on ARIAD's Net Revenues (as defined in the ARIAD Royalty Agreement) generated by the sale, distribution or other use of ARIAD's product Iclusig® (ponatinib).

In exchange for the ARIAD Royalty Rights, the ARIAD Royalty Agreement provides for the funding of up to $200 million in cash to ARIAD. Funding of the first $100 million will be made in two tranches of $50 million each, with the initial amount funded on the closing date of the ARIAD Royalty Agreement and an additional $50 million to be funded on the 12-month anniversary of the closing date. In addition, ARIAD has an option to draw up to an additional $100 million in up to two draws at any time between the six- and twelve-month anniversaries of the closing date. Under the ARIAD Royalty Agreement, initially the Company is to receive a royalty payment of 2.5% of the worldwide Net Revenues from Iclusig until the one year anniversary of the closing date, at which time the royalty rate increases to 5.0% (subject to agreed-upon annual maximum payments through 2018). The royalty rate is then subject to additional increases to (i)6.5% beginning January 1, 2019 and (ii) to 7.5% beginning January 1, 2019 in the event the Company funds in excess of $150 million to ARIAD under the ARIAD Royalty Agreement. In addition, if the Net Revenues from Iclusig do not meet certain agreed-upon projections on an annual basis, ARIAD has agreed to provide PDL the same royalty percentage with respect to the worldwide Net Revenues of brigatinib, up to the amount of the shortfall from the projections for the applicable year. The term of the ARIAD Royalty Agreement runs until December 31, 2033; however, this term is subject to a put option of the Company and call option of ARIAD.

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

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts are "forward-looking statements" for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, including any statements concerning new licensing, any statements regarding future economic conditions or performance, and any statement of assumptions underlying any of the foregoing. 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 on Form 10-Q. All forward-looking statements and reasons why results may differ included in this Quarterly Report on Form 10-Q are made as of the date hereof, and we assume no obligation to update these forward-looking statements or reasons why actual results might differ.

OVERVIEW

PDL manages a portfolio of patents and royalty assets, consisting of its Queen et al. patents, license agreements with various biotechnology and pharmaceutical companies, and royalty and other assets acquired. To acquire new income generating assets, PDL provides 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 has invested approximately $830 million to date. PDL evaluates its investments based on the quality of the income generating assets and potential returns on investment. PDL is currently focused on acquiring new income generating assets, the management of its intellectual property and income generating assets, and maximizing value for its stockholders.

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. 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.

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

Our '761 Patent, which expired on December 2, 2014, covered 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 typically extended to the use or sale of compositions made with those methods and/or materials.

Our '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 extended our patent protection with respect to Avastin, Herceptin, Lucentis, Xolair and Tysabri generally until December 2014, except that the SPCs for Herceptin expired in July 2014. Because SPCs are granted on a jurisdiction-by-jurisdiction basis, the duration of the extension varies slightly in certain jurisdictions. We expect to receive royalties beyond expiration of our patents and SPCs based on the terms of our licenses and our legal settlements. We do not expect to receive any meaningful revenue from our Queen et al. patents or the related license and settlement agreements beyond the first quarter of 2016.

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. Although the Queen et al. patents and related rights have expired, we are entitled under our license agreements to continue to receive royalties in certain instances based on net sales of products that were made prior to but sold after patent expiry. In addition, in one instance we are entitled to royalties based on know-how provided to a licensee, noted below with respect to Lilly. 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 based upon our licensees’ net sales of covered antibodies.

Our total revenues from licensees under our Queen et al. patents were $116.9 million and $115.1 million, net of rebates and foreign exchange hedge adjustments, for the three months ended June 30, 2015 and 2014, respectively, and $244.7 million and $231.1 million for the six months ended June 30, 2015 and 2014, respectively.

Licensing Agreements for Marketed Products

In the six months ended June 30, 2015, we received royalties on sales of the ten 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	Tysabri
Chugai	Actemra®
Roche	Gazyva™
Takeda	Entyvio®

Genentech

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

On January 31, 2014, we entered into the Settlement Agreement with Genentech and Roche that resolved all then existing legal disputes between the parties.

Under the terms of the Settlement Agreement, Genentech pays a fixed royalty rate of 2.125% on worldwide sales of Avastin, Herceptin, Xolair, Perjeta and Kadcyla occurring on or before December 31, 2015. Pursuant to the agreement, Genentech and Roche confirmed that Avastin, Herceptin, Lucentis, Xolair and Perjeta are licensed products as defined in the relevant license agreements between the parties, and further agreed that Kadcyla and Gazyva are licensed products. With respect to Lucentis, Genentech owes no royalties on U.S. sales occurring after June 30, 2013, and paid a royalty of 2.125% on all ex-U.S.-based Sales occurring on or before December 28, 2014. The royalty term for Gazyva remains unchanged from the existing license agreement pertaining thereto.

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

Biogen

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. In April 2013, Biogen completed its purchase of Elan's interest in Tysabri. All obligations under our original patent license agreement with Elan were assumed by Biogen.

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 United States prior to patent expiry. The agreement continued until the expiration of the last to expire of our Queen et al. patents. Chugai is obligated to pay us royalties on sales occurring prior to the expiration of any Queen et al. patent which covers the manufacture, use or sale of Actemra. Because the relevant patent rights expired in the fourth quarter of 2014, we did not receive any revenues from Actemra after the first quarter of 2015.

Licensing Agreements for Non-Marketed Products

Solanezumab is the Lilly-licensed antibody for the treatment of Alzheimer's disease. If Lilly’s antibody for Alzheimer’s disease is approved, we would be entitled to receive a royalty based on a "know-how" license for technology provided in the design of this antibody. The 2% royalty payable for "know-how" runs for 12.5 years after the product's initial commercialization. It is currently in Phase 3 testing with results expected in late 2016.

Depomed

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

VB

On June 26, 2014, PDL entered into the VB Royalty Agreement, whereby VB conveyed to the Company the right to receive royalties payable on sales of a spinal implant that has received pre-market approval from the FDA in exchange for a $15.5 million cash payment, less fees.

The acquired royalties include royalties accruing from and after April 1, 2014. Under the terms of the VB Royalty Agreement, the Company will receive all royalty payments due to VB pursuant to certain technology transfer agreements between VB and Paradigm Spine until the Company has received payments equal to two and three tenths times the cash payment made to VB, after which all rights to receive royalties will be returned to VB. VB may repurchase the royalty right at any time on or before June 26, 2018, for a specified amount. The acting chief executive officer of Paradigm Spine is one of the owners of VB. The Paradigm Spine Credit Agreement and the VB Royalty Agreement where negotiated separately.

University of Michigan

On November 6, 2014, PDL acquired a portion of all royalty payments of U-M’s worldwide royalty interest in Cerdelga (eliglustat) for $65.6 million. Under the terms of the Michigan Royalty Agreement, PDL will receive 75% of all royalty payments due under U-M’s license agreement with Genzyme until expiration of the licensed patents, excluding any patent term extension. Cerdelga, an oral therapy for adult patients with Gaucher disease type 1, was developed by Genzyme. Cerdelga was approved in the United States on August 19, 2014, in the European Union on January 22, 2015, and in Japan on March 25, 2015. In addition, marketing applications for Cerdelga are under review by other regulatory authorities.

Protection of our Intellectual Property

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

Genentech - Roche Matter

Settlement Agreement

On January 31, 2014, we entered into the Settlement Agreement with Genentech and Roche that resolved all then existing legal disputes between the parties.

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 Quarter Report on Form 10-Q for additional factors that may impact our business and results of operations.

Recent Developments

Retirement of May 2015 Notes

On May 1, 2015, the Company completed the retirement of the remaining $155.1 million of aggregate principal of its May 2015 Notes at their stated maturity for $155.1 million, plus approximately 5.2 million shares of its common stock for the excess conversion value. In connection with the issuance of the May 2015 Notes, the Company entered into purchased call option transactions with two hedge counterparties. The purchased call options were exercised by PDL upon conversion of the May 2015 Notes and the hedge counterparties delivered to the Company approximately 5.2 million of PDL common shares, which was the amount equal to the shares required to be delivered by the us to the note holders for the excess conversion value.

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 through the 120 scheduled trading days beginning on July 30, 2015 and ending on January 20, 2016. If the VWAP of our common stock, as defined in the warrant agreement, exceeds the strike price of the warrants on the date of conversion, we will deliver to the warrant counterparties shares of our common stock 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.

LENSAR Forbearance Agreement

On May 12, 2015, PDL entered into a forbearance agreement with LENSAR under which PDL agreed to refrain from exercising certain remedies available to it resulting from the failure of LENSAR to comply with a liquidity covenant and make interest payments due under the credit agreement. Under the forbearance agreement, PDL has agreed to provide LENSAR with up to an aggregate of $8.5 million in weekly increments through the period ending September 30, 2015 in the form of additional loans subject to LENSAR meeting certain milestones related to LENSAR obtaining additional capital to fund the business or selling itself and repaying outstanding amounts under the credit agreement. As of June 30, 2015, PDL has funded an additional $5.2 million of principal under the forbearance agreement. In exchange for the forbearance, LENSAR agreed to additional reporting covenants, the engagement of a chief restructuring officer and an increase on the interest rate to 18.5%, applicable to all outstanding amounts under the credit agreement. The Company completed an impairment analysis as of June 30, 2015. Effective with this date and as result of the forbearance, we ceased to accrue interest revenue. LENSAR is evaluating its strategic alternatives which could include an equity raise, a sale of the company, a merger of the company or some combination of the preceding.

CareView Credit Agreement

On June 26, 2015, PDL entered into a credit agreement with CareView, under which the Company made available to CareView up to $40.0 million in two tranches of $20.0 million each. The first tranche of $20 million will be funded by the Company upon CareView’s attainment of a specified milestone relating to the placement of CareView Systems®, to be accomplished no later than October 31, 2015. The Company will fund CareView an additional $20.0 million upon CareView’s attainment of specified milestones relating to the placement of CareView Systems and EBITDA, to be accomplished no later than June 30, 2017.

Outstanding borrowings under the credit agreement will bear interest at the rate of 13.5% per annum and are payable quarterly in arrears.

As part of the transaction, the Company received a warrant to purchase approximately 4.4 million shares of common stock of CareView at the exercise price of $0.45 per share. We have accounted for the warrant as derivative asset with an offsetting credit as debt discount. At each reporting period the warrant is marked to market for changes in fair value. At June 30, 2015, we determined an estimated fair value of the warrant of $1.3 million.

Dividend Payment

On January 27, 2015, our board of directors declared that the regular quarterly dividends to be paid to our stockholders in 2015 will be $0.15 per share of common stock, payable on March 12, June 12, September 11 and December 11 of 2015 to stockholders of record on March 5, June 5, September 4 and December 4 of 2015, the record dates for each of the dividend payments, respectively. On June 12, 2015, we paid the regular quarterly dividend to our stockholders totaling $24.5 million using earnings generated in the three months ended June 30, 2015.

Subsequent Event

ARIAD Revenue Interest Assignment

On July 28, 2015, PDL entered into a revenue interests assignment agreement with ARIAD pursuant to which ARIAD sold to the Company the right to receive specified royalties on ARIAD's Net Revenues (as defined in the ARIAD Royalty Agreement) generated by the sale, distribution or other use of ARIAD's product Iclusig® (ponatinib).

In exchange for the ARIAD Royalty Rights, the ARIAD Royalty Agreement provides for the funding of up to $200 million in cash to ARIAD. Funding of the first $100 million will be made in two tranches of $50 million each, with the initial amount funded on the closing date of the ARIAD Royalty Agreement and an additional $50 million to be funded on the 12-month anniversary of the closing date. In addition, ARIAD has an option to draw up to an additional $100 million in up to two draws at any time between the six- and twelve-month anniversaries of the closing date. Under the ARIAD Royalty Agreement, initially the Company is to receive a royalty payment of 2.5% of the worldwide Net Revenues from Iclusig until the one year anniversary of the closing date, at which time the royalty rate increases to 5.0% (subject to agreed-upon annual maximum payments through 2018). The royalty rate is then subject to additional increases to (i) 6.5% beginning January 1, 2019 and (ii) to 7.5% beginning January 1, 2019 in the event the Company funds in excess of $150 million to ARIAD under the ARIAD Royalty Agreement. In addition, if the Net Revenues from Iclusig do not meet certain agreed-upon projections on an annual basis, ARIAD has agreed to provide PDL the same royalty percentage with respect to the worldwide Net Revenues of brigatinib, up to the amount of the shortfall from the projections for the applicable year. The term of the ARIAD Royalty Agreement runs until December 31, 2033; however, this term is subject to a put option of the Company and call option of ARIAD.

Critical Accounting Policies and Uses of Estimates

During the six months ended June 30, 2015, 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 fiscal year ended December 31, 2014, as amended.

Operating Results

Three and six months ended June 30, 2015, compared to three and six months ended June 30, 2014

Revenues

	Three Months Ended June 30,		Change from Prior	Six Months Ended June 30,		Change from Prior
	2015	2014	Year %	2015	2014	Year %
(Dollars in thousands)						
Revenues						
Royalties from Queen et al. patents	$ 116,884	$ 115,066	2%	$ 244,694	$ 231,092	6%
Royalty rights - change in fair value	12,216	34,498	(65%)	23,578	46,205	(49%)
Interest revenue	8,966	12,613	(29%)	19,500	21,684	(10%)
License and other	—	575	(100%)	—	575	(100%)
Total revenues	$ 138,066	$ 162,752	(15%)	$ 287,772	$ 299,556	(4%)

Total revenues were $138.1 million and $162.8 million for the three months ended June 30, 2015 and 2014, respectively, and $287.8 million and $299.6 million for the six months ended June 30, 2015 and 2014, respectively. During the three and six months ended June 30, 2015 and 2014, our Queen et al. royalty revenues consisted of royalties and maintenance fees earned on sales of products under license agreements associated with our Queen et al. patents. During the three and six months ended June 30, 2015 and 2014, royalty rights - change in fair value consisted of revenues associated with the change in fair value of our royalty right assets, Depomed, U-M, and VB. Revenues for the six months ended June 30, 2015 and three and six months ended June 30, 2014, are net of the payments made under the 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. No royalties were received on Lucentis sales in the second quarter of 2015 and consequently no payments were made to Novartis.

Total revenues decreased by 15% and 4%, respectively, for the three and six months ended June 30, 2015, when compared to the same periods in 2014. The decrease is primarily driven by the decrease in the Depomed royalty rights cash proceeds related to the Salix (recently acquired by Valeant Pharmaceuticals) excess supply of inventory of Glumetza at the distribution level, decreased interest revenues due to the early payoff of the AxoGen and Durata notes receivables, and the conclusion of the Actemra license agreement, partially offset by increased royalties from sales of Perjeta, Xolair, Kadcyla, Herceptin, and Tysabri.

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 six months ended June 30, 2015 and 2014:

		Three Months Ended June 30,		Six Months Ended June 30,	
Licensee	**Product Name**	**2015**	**2014**	**2015**	**2014**
Genentech	*Avastin*	28%	24%	27%	27%
	Herceptin	29%	24%	27%	25%
Biogen	*Tysabri*	10%	8%	10%	9%
Depomed	*Glumetza*	—%	16%	—%	13%

Foreign currency exchange rates also impact our reported revenues. More than 50% of our Queen et al. patent 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 10% during the reporting 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's quarter.

For the three and six months ended June 30, 2015 and 2014, we hedged certain Euro-denominated currency exposures related to our licensees' product sales with Euro forward contracts. We designate foreign currency exchange contracts used to hedge royalty revenues based on underlying Euro-denominated sales as cash flow hedges. The aggregate unrealized gain or loss, net of tax, on the effective portion of the hedge is recorded in stockholders' equity as "Accumulated other comprehensive income". Realized gains or losses on cash flow hedges are recognized as an adjustment to royalty revenue in the same period that the hedged transaction impacts earnings. For the three months ended June 30, 2015 and 2014, we recognized $2.7 million and ($3.1) million as additions/(reductions) in royalty revenues from our Euro contracts, respectively, and for the six months ended June 30, 2015 and 2014, we recognized $3.7 million and ($4.2) million as additions/(reductions) in royalty revenues from our Euro contracts, respectively.

Operating Expenses

	Three Months Ended June 30,		Change from Prior	Six Months Ended June 30,		Change from Prior
	2015	2014	Year %	2015	2014	Year %
(In thousands)						
General and administrative	$ 7,429	$ 6,920	7%	$ 15,095	$ 11,502	31%
Percentage of total revenues	5%	4%		5%	4%	

The increase in operating expenses for the three months ended June 30, 2015, as compared to the same period in 2014, was a result of an increase in general and administrative expenses of $1.0 million for professional service expenses mostly related to the asset management of Wellstat Diagnostics, partially offset by a decrease of $0.3 million for stock-based compensation and $0.2 million for legal services.

The increase in operating expenses for the six months ended June 30, 2015, as compared to the same period in 2014, was a result of an increase in general and administrative expenses of $2.8 million for professional service expenses mostly related to the asset management of Wellstat Diagnostics and an increase of $0.9 million in stock-based compensation, partially offset by a decrease of $0.3 million for legal services.

Non-operating Expense, Net

Non-operating expense, net, decreased, in part, primarily due to the decrease in interest expense from the expiration of the Series 2012 Notes and May 2015 Notes during the six months ended June 30, 2015. The decrease in interest expense for the three and six months ended June 30, 2015, as compared to the same period in 2014, consisted primarily of non-cash interest expense as we are required to compute interest expense using the interest rate for similar nonconvertible instruments in accordance with the accounting guidance for convertible debt instruments that may be settled in cash or other assets on conversion.

Income Taxes

Income tax expense for the three months ended June 30, 2015 and 2014, was $45.3 million and $54.0 million, respectively, and for the six months ended June 30, 2015 and 2014, was $94.3 million and $96.7 million, respectively, which resulted primarily from applying the federal statutory income tax rate to income before income taxes.

The uncertain tax positions increased during the three and six months ended June 30, 2015, by $2.2 million and $4.6 million, respectively, resulting from an increase in tax uncertainties and estimated tax liabilities.

In general, our income tax returns are subject to examination by U.S. federal, state and local tax authorities for tax years 1996 forward. In May 2012, PDL received a "no-change" letter from the IRS upon completion of an examination of the Company's 2008 federal tax return. We are currently under income tax examination in the state of California for tax years 2009 and 2010. Although the timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year,

except as noted above, we do not anticipate any material change to the amount of our unrecognized tax benefit over the next 12 months.

Net Income per Share

Net income per share for the three and six months ended June 30, 2015 and 2014, is presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Net income per share - basic	$ 0.48	$ 0.57	$ 1.00	$ 1.06
Net income per share - diluted	$ 0.47	$ 0.52	$ 0.97	$ 0.94

The decrease in net income per diluted share is primarily due to the increase in outstanding shares, as well as due to decreased revenues and the resulting decrease in net income for the period.

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 ten full-time employees managing our intellectual property, our asset acquisitions and other corporate activities as well as providing for certain essential reporting and management functions of a public company.

We had cash, cash equivalents and short-term investments in the aggregate of $294.1 million and $293.7 million at June 30, 2015, and December 31, 2014, respectively. The increase was primarily attributable to net cash provided by the proceeds from the March 2015 Term Loan of $100.0 million, proceeds from royalty rights of $2.1 million, and cash generated by operating activities of $155.9 million, offset in part by retirement of the Series 2012 Notes and May 2015 Notes for $177.4 million, payment of dividends of $49.1 million, repayment of a portion of the March 2015 Term Loan for $25.0 million, additional note receivable purchases of $5.2 million, and the payment of $0.6 million for debt issuance costs related to the March 2015 Term Loan.

Although the last of our Queen et al. patents expired in December 2014, we expect to receive royalties beyond expiration based on the terms of our licenses and our legal settlements. We do not expect to receive any meaningful revenue from our Queen et al. patents beyond the first quarter of 2016. We believe that cash from future revenues from the Queen et al. patent royalties through the first quarter of 2016 and from acquired revenue generating assets, 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. However, we do not expect that our acquired revenue generating assets will, in the near term, replace the revenues we generate from our license agreements related to the Queen et al. patents. In the second quarter of 2016, our revenues are likely to materially decrease after we stop receiving payments from these Queen et al. patents license agreements, which currently account for 85% of our revenue. The continued success of the Company will become more dependent on the timing and our ability to acquire new income generating assets in order to provide recurring revenues going forward and to support our business model and ability to pay dividends.

We continuously evaluate alternatives to increase return for our stockholders by, for example, purchasing income generating assets, selling discreet assets, buying back our convertible notes, repurchasing our common stock, paying dividends and selling the Company. On January 27, 2015, our board of directors declared regular quarterly dividends of $0.15 per share of common stock, payable on March 12, June 12, September 11 and December 11 of 2015 to stockholders of record on March 5, June 5, September 4 and December 4 of 2015, 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 receivable gave PDL certain rights to negotiate for certain future financing transactions. In August 2012, PDL and Wellstat Diagnostics 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 receivable. This $10.0 million note receivable was repaid on November 2, 2012, using the proceeds of the $40.0 million credit facility entered into with the Company on the same date.

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

In January 2013, the Company was informed that, as of December 31, 2012, Wellstat Diagnostics had used funds contrary to the terms of the credit agreement and breached Sections 2.1.2 and 7 of the credit agreement. 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 forbearance period that ended on June 28, 2013, the Company agreed to forbear its exercise of remedies for additional periods of time to allow the owners and affiliates of Wellstat Diagnostics to complete a pending financing transaction. During such forbearance period, the Company provided approximately $1.3 million to Wellstat Diagnostics to fund ongoing operations of the business. During the year ended December 31, 2013, approximately $8.7 million was advanced pursuant to the forbearance agreement.

On August 15, 2013, the owners and affiliates of Wellstat Diagnostics completed a financing transaction to fulfill Wellstat Diagnostics' 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 and restated credit agreement are substantially the same as those of the original credit agreement, including quarterly interest payments at the rate of 5% per annum (payable in cash or in kind). In addition, PDL was to continue to receive quarterly royalty payments based on a low double-digit royalty rate of Wellstat Diagnostics' net revenues. However, pursuant to the amended and restated credit agreement: (i) the principal amount was reset to approximately $44.1 million, which was comprised of approximately $33.7 million original loan principal and interest, $1.3 million term loan principal and interest and $9.1 million forbearance principal and interest; (ii) the specified internal rates of return increased; (iii) the default interest rate was increased; (iv) Wellstat Diagnostics' obligation to provide certain financial information increased in frequency to monthly; (v) internal financial controls were strengthened by requiring Wellstat Diagnostics to maintain an independent, third-party financial professional with control over fund disbursements; (vi) the Company waived the existing events of default; and (vii) the owners and affiliates of Wellstat Diagnostics were required to contribute additional capital to Wellstat Diagnostics upon the sale of an affiliate entity. The amended and restated credit agreement had an ultimate maturity date of December 31, 2021 (but has subsequently been accelerated as described below).

When the principal amount was reset, a $2.5 million reduction of the carrying value 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 was to be repaid. The internal rate of return calculation, although increased, was reset when the credit agreement was amended and restated.

In June 2014, the Company received information from Wellstat Diagnostics that showed that it was generally unable to pay its debts as they became due. This constituted an event of default under the amended and restated credit agreement. Wellstat Diagnostics entered into a transaction involving another lender, pursuant to which Wellstat Diagnostics obtained additional short-term funding for its operations. At the same time, the Company entered into the first amendment to amended and restated credit agreement with Wellstat Diagnostics. The material terms of the amendment included the following: (1) Wellstat Diagnostics acknowledged that an event of default had occurred; (2) the Company agreed to forbear from immediately enforcing its rights for up to 60 days, so long as the other lender provided agreed levels of interim funding to Wellstat Diagnostics; and (3) the Company obtained specified additional information rights with regard to Wellstat Diagnostics’ financial matters and investment banking activities.

On August 5, 2014, the Company received notice that the short-term funding being provided pursuant to the agreement with the other lender entered into during June 2014, was being terminated. Wellstat Diagnostics remained in default because it was still unable to pay its debts as they became due. Accordingly, the Company delivered the Wellstat Diagnostics Borrower Notice. The

Wellstat Diagnostics Borrower Notice accelerated all obligations under the amended and restated credit agreement and demanded immediate payment in full in an amount equal to approximately $53.9 million, (which amount, in accordance with the terms of the amended and restated credit agreement, included an amount that, together with interest and royalty payments already made to the Company, would generate a specified internal rate of return to the Company), plus accruing fees, costs and interest, and demanded that Wellstat Diagnostics protect and preserve all collateral securing its obligations. On August 7, 2014, the Company delivered the Wellstat Diagnostics Guarantor Notice. The Wellstat Diagnostics Guarantor Notice included a demand that the guarantors remit payment to the Company in the amount of the outstanding obligations. The guarantors include certain affiliates and related companies of Wellstat Diagnostics, including Wellstat Therapeutics and Wellstat Diagnostics' stockholders.

On September 24, 2014, the Company filed the Wellstat Diagnostics Petition, which was granted on the same day. The order granting the Wellstat Diagnostics Petition authorizes the receiver to take immediate possession of the physical assets of Wellstat Diagnostics, with the purpose of holding, protecting, insuring, managing and preserving the business of Wellstat Diagnostics and the value of the Company's collateral. Wellstat Diagnostics has remained in operation during the period of the receivership with incremental additional funding from the Company. The Company continues to assess its options with respect to collecting on the loan, including determining whether and when it will foreclose on the collateral and proceed with a sale of Wellstat Diagnostics' assets, whether providing further capital to the receiver to fund Wellstat Diagnostics' operations for a period of time prior to sale will best position Wellstat Diagnostics' assets for sale, and assessing the value of the guarantees obtained by the Company from Wellstat Diagnostics' guarantors, including Wellstat Diagnostics' stockholders and Wellstat Therapeutics.

On November 4, 2014, the Company entered into the third amendment to the amended and restated credit agreement with Wellstat Diagnostics. The amendment provides that additional funding, if any, to be made by the Company is conditioned upon the agreement by Wellstat Diagnostics to make certain operational changes within Wellstat Diagnostics, which the Company believes will allow the receiver to more efficiently optimize the value of the collateral.

During the second quarter of 2015, the receiver initiated a process for a public sale of the assets of Wellstat Diagnostics and retained the investment banking firm of Duff & Phelps to organize and manage the sale process. The receiver filed a "Motion For Approval of Sale Procedures" with the Circuit Court for Montgomery County, Maryland, which is the court having jurisdiction over the receivership and a hearing was held on July 22, 2015 at which time arguments were heard from interested parties regarding the sale procedures. No significant substantive disagreements between the parties regarding the sale procedures remained after the hearing and a decision approving the receiver's sale procedures is expected shortly. The sale process is ongoing and Duff & Phelps is actively contacting and holding discussions with interested third parties who may be willing to bid on the assets. In addition, depending on the nature and value of the bids received from third parties, it is possible that PDL will credit bid for the assets at a value corresponding to some portion of the outstanding amount due under the amended and restated credit agreement. We anticipate that the sale process will be completed during the third or fourth quarter of 2015.

Through the period ending June 30, 2015, PDL has advanced to Wellstat Diagnostics $10.0 million to fund the ongoing operations of the business and other associated costs. This funding has been expensed as incurred.

Effective April 1, 2014, and as a result of the event of default, we determined the loan to be impaired and we ceased to accrue interest revenue. At that time and as of June 30, 2015 it has been determined that an allowance on the carrying value of the note was not necessary as the Company believes the value of the collateral securing Wellstat Diagnostics' obligations exceeds the carrying value of the asset and is sufficient to enable the Company to recover the current value of $50.2 million. There can be no assurance that this will be true in the event of the Company's foreclosure on the collateral, nor can there be any assurance of the timing in realizing value from such collateral, whether from the sale process currently underway or a subsequent monetization event if PDL makes a successful credit bid for the assets.

Hyperion Agreement

On January 27, 2012, PDL and Hyperion entered into an agreement whereby Hyperion sold to PDL the royalty streams due from SDK related to a certain patent license agreement between Hyperion and SDK dated December 31, 2008. The agreement assigned the patent license agreement royalty stream accruing from January 1, 2012, through December 31, 2013, to PDL in exchange for the lump sum payment to Hyperion of $2.3 million. In exchange for the lump sum payment, PDL was to receive two equal payments of $1.2 million on both March 5, 2013 and 2014. The first payment of $1.2 million was paid on March 5, 2013, but Hyperion has not made the payment that was due on March 5, 2014. The Company completed an impairment analysis as of June 30, 2015. Effective with this date and as a result of the event of default, we ceased to accrue interest revenue. As of June 30, 2015, the estimated fair value of the collateral was determined to be in excess of the carrying value. There can be no assurance that this will be true in the event of the Company's foreclosure on the collateral, nor can there be any

assurance of realizing value from such collateral. Hyperion is considering other sources of financing and strategic alternatives, including selling the company.

AxoGen Note Receivable and AxoGen Royalty Agreement

In October 2012, PDL entered into the AxoGen Royalty Agreement with AxoGen pursuant to which the Company would receive specified royalties on AxoGen's net revenues (as defined in the AxoGen Royalty Agreement) generated by the sale, distribution or other use of AxoGen's products. The AxoGen Royalty Agreement had an eight-year term and provided PDL with royalties of 9.95% based on AxoGen's net revenues, subject to agreed-upon guaranteed quarterly minimum payments of approximately $1.3 million to $2.5 million, which were to begin in the fourth quarter of 2014, and the right to require AxoGen to repurchase the royalties under the AxoGen Royalty Agreement at the end of the fourth year. AxoGen was 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 an interim funding of $1.8 million in August 2012. AxoGen was required to use a portion of the proceeds from the AxoGen Royalty Agreement to pay the outstanding balance under its existing credit facility. The royalty rights were secured by the cash and accounts receivable of AxoGen.

On August 14, 2013, PDL purchased 1,166,666 shares of registered common stock of AxoGen (AXGN) at $3.00 per share, totaling $3.5 million. On December 22, 2014, PDL sold these shares at $3.03 per share, totaling approximately $3.5 million.

On November 13, 2014, the Company agreed to terminate the AxoGen Royalty Agreement in consideration for a payment of $30.3 million in cash, which was the sum of the outstanding principal, interest and embedded derivative.

Subsequent to the pay-off, the Company acquired 643,382 shares of registered common stock of AxoGen for approximately $1.7 million at a public offering price of $2.72 per share. The shares are classified as available for sale securities and recorded as short-term investments on the Condensed Consolidated Balance Sheets. As of June 30, 2015, the shares were valued at $2.0 million, which resulted in an unrealized gain of $0.3 million and is recorded in "Other comprehensive income (loss), net of tax."

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 lumivascular catheter devices and the development of Avinger's lumivascular atherectomy device. Of the $40.0 million initially available to Avinger, we funded an initial $20.0 million, net of fees, at the close of the transaction. The additional $20.0 million in the form of a second tranche is no longer available to Avinger. Outstanding borrowings under the initial loan bear interest at a stated rate of 12% per annum.

Avinger is required to make quarterly interest and principal payments. Principal repayment will commence on the eleventh interest payment date, March 31, 2016. 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 loan. The loan 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.

LENSAR Credit Agreement

On October 1, 2013, PDL entered into a credit agreement with LENSAR, under which PDL made available to LENSAR up to $60.0 million to be used by LENSAR in connection with the commercialization of its currently marketed LENSAR™ Laser System. Of the $60.0 million available to LENSAR, an initial $40.0 million, net of fees, was funded by the Company at the close of the transaction. The additional $20.0 million in the form of a second tranche is no longer available to LENSAR under the terms of the credit agreement. 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 31, 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.

On May 12, 2015, PDL entered into a forbearance agreement with LENSAR under which PDL agreed to refrain from exercising certain remedies available to it resulting from the failure of LENSAR to comply with a liquidity covenant and make interest payments due under the credit agreement. Under the forbearance agreement, PDL has agreed to provide LENSAR with up to an aggregate of $8.5 million in weekly increments through the period ending September 30, 2015 in the form of additional loans subject to LENSAR meeting certain milestones related to LENSAR obtaining additional capital to fund the business or selling itself and repaying outstanding amounts under the credit agreement. As of June 30, 2015, PDL has funded an additional $5.2 million of principal under the forbearance agreement. In exchange for the forbearance, LENSAR agreed to additional reporting covenants, the engagement of a chief restructuring officer and an increase on the interest rate to 18.5%, applicable to all outstanding amounts under the credit agreement. The Company completed an impairment analysis as of June 30, 2015. Effective with this date and as result of the forbearance, we ceased to accrue interest revenue. LENSAR is evaluating its strategic alternatives which could include an equity raise, a sale of the company, a merger of the company or some combination of the preceding.

Durata Credit Agreement

On October 31, 2013, PDL entered into a credit agreement with Durata, under which 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. On May 27, 2014, the Company funded Durata an additional $15.0 million (tranche two) as a result of Durata's marketing approval of dalbavancin in the United States, which occurred on May 23, 2014, and was the milestone needed to receive the tranche two funding. Until the occurrence of the tranche two milestone, outstanding borrowings under tranche one bore 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 decreased to 12.75%.

On November 17, 2014, the Company received a payment of approximately $42.7 million constituting repayment in full of the outstanding principal amount of loans plus accrued interest and fees under the credit agreement. The repayment was made in connection with the acquisition of Durata by Actavis plc.

Direct Flow Medical Credit Agreement

On November 5, 2013, PDL entered into a credit agreement with Direct Flow Medical, under which PDL agreed to 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 funded by the Company at the close of the transaction. Pursuant to the original terms of the credit agreement the Company agreed to provide Direct Flow Medical an additional $15.0 million tranche, net of fees, upon the attainment of a specified revenue milestone to be accomplished no later than December 31, 2014 (the tranche two milestone). Until the occurrence of the tranche two milestone, outstanding borrowings under tranche one bore interest at the rate of 15.5% per annum, payable quarterly in arrears.

On November 10, 2014, PDL and Direct Flow Medical agreed to an amendment to the credit agreement to permit Direct Flow Medical to borrow the $15.0 million second tranche upon receipt by Direct Flow Medical of a specified minimum amount of proceeds from an equity offering prior to December 31, 2014. In exchange, the parties amended the credit agreement to provide for additional fees associated with certain liquidity events, such as a change of control or the consummation of an initial public offering, and granted PDL certain board of director observation rights. On November 19, 2014, upon Direct Flow Medical satisfying the amended tranche two milestone, the Company funded the $15.0 million second tranche to Direct Flow Medical, net of fees. Upon occurrence of the borrowing of the second tranche, the interest rate applicable to all loans under the credit agreement was decreased to 13.5% per annum, payable quarterly in arrears.

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

Paradigm Spine Credit Agreement

On February 14, 2014, the Company entered into the Paradigm Spine Credit Agreement, under which it made available to Paradigm Spine up to $75.0 million to be used by Paradigm Spine to refinance its existing credit facility and expand its domestic commercial operations. Of the $75.0 million available to Paradigm Spine, an initial $50.0 million, net of fees, was funded by the Company at the close of the transaction. The second and third tranches of up to an additional $25.0 million in the aggregate, net of fees, are no longer available under the terms of the Paradigm Spine Credit Agreement. Borrowings under the credit agreement bear interest at the rate of 13.0% per annum, payable quarterly in arrears.

Principal repayment will commence on the twelfth interest payment date, December 31, 2016. The principal amount outstanding at commencement of repayment will be repaid in equal installments until final maturity of the loans. The loans will mature on February 14, 2019. Paradigm Spine 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 Paradigm Spine Credit Agreement are secured by a pledge of substantially all of the assets of Paradigm Spine and its domestic subsidiaries and, initially, certain assets of Paradigm Spine’s German subsidiaries.

kaléo Note Purchase Agreement

On April 1, 2014, PDL entered into a note purchase agreement with Accel 300, a wholly-owned subsidiary of kaléo, pursuant to which the Company acquired $150.0 million of secured notes due 2029. The secured notes were issued pursuant to an indenture between Accel 300 and U.S. Bank, National Association, as trustee, and are secured by the kaléo Revenue Interests, and a pledge of kaléo’s equity ownership in Accel 300.

The secured notes bear interest at 13% per annum, paid quarterly in arrears on principal outstanding. The principal balance of the secured notes is repaid to the extent that the kaléo Revenue Interests exceed the quarterly interest payment, as limited by a quarterly payment cap. The final maturity of the secured notes is June 2029. kaléo may redeem the secured notes at any time, subject to a redemption premium.

As of June 30, 2015, the Company determined that its royalty purchase interest in Accel 300 represented a variable interest in a variable interest entity. However, the Company does not have the power to direct the activities of Accel 300 that most significantly impact Accel 300's economic performance and is not the primary beneficiary of Accel 300; therefore, Accel 300 is not subject to consolidation by the Company.

CareView Credit Agreement

On June 26, 2015, PDL entered into a credit agreement with CareView, under which the Company made available to CareView up to $40.0 million in two tranches of $20.0 million each. The first tranche of $20 million will be funded by the Company upon CareView’s attainment of a specified milestone relating to the placement of CareView Systems®, to be accomplished no later than October 31, 2015. The Company will fund CareView an additional $20.0 million upon CareView’s attainment of specified milestones relating to the placement of CareView Systems and EBITDA, to be accomplished no later than June 30, 2017. Outstanding borrowings under the credit agreement will bear interest at the rate of 13.5% per annum and are payable quarterly in arrears.

As part of the transaction, the Company received a warrant to purchase approximately 4.4 million shares of common stock of CareView at the exercise price of $0.45 per share. The warrant was accounted as derivative asset with an offsetting credit as debt discount. At each reporting period the warrant is marked to market for changes in fair value. At June 30, 2015, we determined an estimated fair value of the warrant of $1.3 million.

Royalty Rights - At Fair Value

Depomed Royalty Agreement

On October 18, 2013, PDL entered into the Depomed Royalty Agreement, whereby the Company acquired the rights to receive royalties and milestones payable on sales of Type 2 diabetes products licensed by Depomed in exchange for a $240.5 million cash payment. Total arrangement consideration was $241.3 million, which was comprised of the $240.5 million cash payment to Depomed and $0.8 million in transaction costs.

The rights acquired include Depomed’s royalty and milestone payments accruing from and after October 1, 2013: (a) from Santarus (which was subsequently acquired by Salix, which itself was recently acquired by Valeant Pharmaceuticals) with

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

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

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

As of June 30, 2015, and December 31, 2014, the Company determined that its royalty purchase interest in Depo DR Sub represented a variable interest in a variable interest entity. However, the Company does not have the power to direct the activities of Depo DR Sub that most significantly impact Depo DR Sub's economic performance and is not the primary beneficiary of Depo DR Sub; therefore, Depo DR Sub is not subject to consolidation by the Company.

The asset acquired represents a single unit of accounting. The fair value of the asset acquired was determined by using a discounted cash flow analysis related to the expected future cash flows to be generated by each licensed product. This asset is classified as a Level 3 asset within the fair value hierarchy, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future commercialization for products not yet approved by the FDA or other regulatory agencies. The discounted cash flows are based upon expected royalties from sales of licensed products over a nine-year period. The discount rates utilized range from approximately 21% to 25%. Significant judgment is required in selecting appropriate discount rates. At June 30, 2015, an evaluation was performed to assess those rates and general market conditions potentially affecting the fair market value. Should these discount rates increase or decrease by 5%, the fair value of the asset could decrease by $18.4 million or increase by $23.4 million, respectively. A third-party expert was engaged to help management develop its original estimate of the expected future cash flows. The fair value of the asset is subject to variation should those cash flows vary significantly from those estimates. Should the expected royalties increase or decrease by 10%, the fair value of the asset could increase by $15.6 million or decrease by $16.3 million, respectively.

When PDL acquired the Depomed royalties, Glumetza was marketed by Santarus. In January 2014, Salix acquired Santarus and assumed responsibility for commercializing Glumetza, which was generally perceived to be a positive development because of Salix's larger sales force and track record in the successful commercialization of therapies. In late 2014, Salix made a number of disclosures relating to an excess of supply at the distribution level of Glumetza and other drugs that it commercialized, likely attributable to the practices of its distributors in drawing down such inventory and to a review by Salix's audit committee of its accounting practices. Because of these disclosures and PDL's lack of direct access to information as to the levels of inventory of Glumetza in the distribution channels, PDL commenced a review of all public statements by Salix, publicly available historical third-party prescription data, analyst reports and other relevant data sources. PDL also engaged a third-party expert to specifically assess estimated inventory levels of Glumetza in the distribution channel and to ascertain the potential effects those inventory levels may have on expected future cash flows. Our review concluded that it would be unlikely for us to receive royalties in the first half of 2015. We have received no royalties from Glumetza sales in 2015. Salix was acquired by Valeant Pharmaceuticals in early April 2015. On June 18, 2015, Valeant Pharmaceuticals implemented a price increase on Glumetza. As of June 30, 2015, we have not revised our expectations as to any impact, if any, the acquisition or price increase will have on future cash flows from Glumetza. We will monitor whether the acquisition or price increase by Valeant Pharmaceuticals has any effect on sales of Glumetza and thus royalties on such sales paid to PDL. There can be no assurances that we will be able to assess the impact of the acquisition or price increase on sales of Glumetza and thus royalties on such sales paid to PDL.

VB Royalty Agreement

On June 26, 2014, PDL entered into the VB Royalty Agreement, whereby VB conveyed to the Company the right to receive royalties payable on sales of a spinal implant that has received pre-market approval from the FDA, in exchange for a $15.5 million cash payment, less fees.

The acquired royalties include royalty amounts accruing from and after April 1, 2014. Under the terms of the VB Royalty Agreement, the Company will receive all royalty payments due to VB pursuant to certain technology transfer agreements between VB and Paradigm Spine until the Company has received payments equal to two and three tenths times the cash payment made to VB, after which all rights to receive royalties will be returned to VB. VB may repurchase the royalty right at any time on or before June 26, 2018, for a specified amount. The acting chief executive officer of Paradigm Spine is one of the owners of VB. The Paradigm Spine Credit Agreement and the VB Royalty Agreement were negotiated separately.

The fair value of the VB Royalty Agreement royalty right at June 30, 2015, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a nine-year period. The discount rate utilized was approximately 17.5%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $1.3 million or increase by $1.5 million, respectively. Should the expected royalties increase or decrease by 2.5%, the fair value of the asset could increase by $0.4 million or decrease by $0.4 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. At each reporting period, an evaluation is performed to assess those estimates, discount rates utilized and general market conditions affecting fair market value.

University of Michigan

On November 6, 2014, PDL acquired a portion of all royalty payments of the U-M’s worldwide royalty interest in Cerdelga (Eliglustat) for $65.6 million. Under the terms of the Michigan Royalty Agreement, PDL will receive 75% of all royalty payments due under U-M’s license agreement with Genzyme until expiration of the licensed patents, excluding any patent term extension. Cerdelga, an oral therapy for adult patients with Gaucher disease type 1, was developed by Genzyme. Cerdelga was approved in the United States on August 19, 2014, in the European Union on January 22, 2015, and in Japan on March 25, 2015. In addition, marketing applications for Cerdelga are under review by other regulatory authorities.

The fair value of the royalty right at June 30, 2015, was determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as a Level 3 asset, as our valuation utilized significant unobservable inputs, including estimates as to the probability and timing of future sales of the licensed product. The discounted cash flow was based upon expected royalties from sales of licensed product over a seven-year period. The discount rate utilized was approximately 12.8%. Significant judgment is required in selecting the appropriate discount rate. Should this discount rate increase or decrease by 2.5%, the fair value of this asset could decrease by $6.1 million or increase by $7.0 million, respectively. Should the expected royalties increase or decrease by 5%, the fair value of the asset could increase by $3.5 million or decrease by $3.5 million, respectively. A third-party expert is engaged to assist management with the development of its estimate of the expected future cash flows, when deemed necessary. The fair value of the asset is subject to variation should those cash flows vary significantly from our estimates. An evaluation of those estimates, discount rates utilized and general market conditions affecting fair market value is performed in each reporting period.

Convertible Notes

Series 2012 Notes

In January 2012, we exchanged $169.0 million aggregate principal of Series 2012 Notes for an identical principal amount of our then existing 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 Series 2012 Notes for an identical principal amount of our then existing 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 was outstanding.

On February 6, 2014, the Company entered into exchange and purchase agreements with certain holders of approximately $131.7 million aggregate principal amount of outstanding Series 2012 Notes. The exchange agreement provided for the issuance by the Company of shares of common stock and a cash payment for the Series 2012 Notes being exchanged, and the

purchase agreement provided for a cash payment for the Series 2012 Notes being repurchased. The total consideration given was approximately $191.8 million. The Company issued to the participating holders of the February 2015 Notes a total of approximately 20.3 million shares of its common stock with a fair value of approximately $157.6 million and made an aggregate cash payment of approximately $34.2 million pursuant to the exchange and purchase agreements. Of the $34.2 million cash payment, $2.5 million is attributable to an inducement fee, $1.8 million is attributable to interest accrued through the date of settlement and $29.9 million is attributable to the repurchase of the Series 2012 Notes. It was determined that the exchange and purchase agreement represented an extinguishment of the related notes. As a result, a loss on extinguishment of $6.1 million was recorded. The $6.1 million loss on extinguishment included the derecognition of the original issuance discount of $5.8 million and a $0.3 million charge resulting from the difference of the face value of the notes and the fair value of the notes. Immediately following the exchange, $48.3 million principal amount of the Series 2012 Notes was outstanding with approximately $2.1 million of remaining original issuance discount to be amortized over the remaining life of the Series 2012 Notes.

On October 20, 2014, the Company entered into a privately negotiated exchange agreement under which it retired approximately $26.0 million in principal of the outstanding Series 2012 Notes. The exchange agreement provided for the issuance, by the Company, of shares of common stock and a cash payment for the Series 2012 Notes being exchanged. The Company issued approximately 1.8 million shares of its common stock and made a cash payment of approximately $26.2 million. Immediately following the exchange, $22.3 million principal amount of the Series 2012 Notes was outstanding with approximately $0.1 million of remaining original issuance discount to be amortized over the remaining life of the Series 2012 Notes.

The Series 2012 Notes were due February 15, 2015, and bore interest at a rate of 2.875% per annum, payable semi-annually in arrears on February 15 and August 15 of each year. On February 17, 2015, the Company completed the retirement of the remaining $22.3 million of aggregate principal of its Series 2012 notes at their stated maturity for $22.3 million, plus approximately 1.34 million shares of its common stock.

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 were due May 1, 2015, and we paid 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 a portion of our 2012 Notes. Upon the occurrence of a fundamental change, as defined in the indenture, holders had the option to require PDL to Redeem the May 2015 Notes at a purchase price equal to 100% of the principal, plus accrued interest.

On May 1, 2015, the Company completed the retirement of the remaining $155.1 million of aggregate principal of its May 2015 Notes at their stated maturity for $155.1 million, plus approximately 5.2 million shares of its common stock for the excess conversion value.

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. We exercised the purchased call options upon conversion of our May 2015 Notes on May 1, 2015, which required the hedge counterparties to deliver shares to the Company. The hedge counterparties delivered to us approximately 5.2 million of PDL common shares, which was the amount equal to the shares required to be delivered by us to the note holders for the excess conversion value.

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 through the 120 scheduled trading days beginning on July 30, 2015 and ending on January 20, 2016. If the VWAP of our common stock, as defined in the warrant agreement, exceeds the strike price of the warrants on the date of conversion, we will deliver to the warrant counterparties shares of our common stock 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 price is approximately $6.58, subject to further adjustment upon certain events including dividend payments, for the warrants.

Because the share price was above $5.59, but below $6.58, upon conversion of our May 2015 Notes, the purchased call options offset the share dilution, and the Company received shares on exercise of the purchased call options equal to the shares that the Company delivered to the note holders. If the share price is above $6.58, 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 $6.58. For example, a 10% increase in the share price above $6.58 would result in the issuance of 2.1 million incremental shares upon exercise of the warrants. If our share price continues to increase, additional dilution would occur.

While the purchased call options reduced the potential equity dilution upon conversion of our May 2015 Notes, prior to the conversion or exercise, our May 2015 Notes and the warrants had 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 June 30, 2015, and December 31, 2014, there were no related warrants exercised.

The warrants are considered indexed to PDL stock, require net-share settlement and met all criteria for equity classification at inception and at June 30, 2015, and December 31, 2014. 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 warrant issuance, was recorded as adjustments to additional paid-in capital. Subsequent changes in fair value will not be recognized as long as the warrants continue to meet all criteria for equity classification.

February 2018 Notes

On February 12, 2014, we issued $300.0 million in aggregate principal amount, at par, of our February 2018 Notes in an underwritten public offering, for net proceeds of $290.2 million. Our February 2018 Notes are due February 1, 2018, and we pay interest at 4.0% on our February 2018 Notes semiannually in arrears on February 1 and August 1 of each year, beginning August 1, 2014. A portion of the proceeds from our February 2018 Notes, net of amounts used for purchased call option transactions and provided by the warrant transactions described below, were used to redeem $131.7 million of our Series 2012 Notes. Upon the occurrence of a fundamental change, as defined in the indenture, holders have the option to require PDL to redeem the February 2018 Notes at a purchase price equal to 100% of the principal, plus accrued interest.

Our February 2018 Notes are convertible under any of the following circumstances:

- During any fiscal quarter ending after the quarter ended June 30, 2014, 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 August 1, 2017.

The initial conversion rate for the February 2018 Notes is 109.1048 shares of the Company's common stock per $1,000 principal amount of February 2018 Notes, which is equivalent to an initial conversion price of approximately $9.17 per share of common stock, subject to adjustments upon the occurrence of certain specified events as set forth in the indenture. Upon conversion, the Company will be required to pay cash and, if applicable, deliver shares of the Company's common stock as described in the indenture.

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 February 2018 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 7.0%, 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 $29.7 million, allocated

$19.3 million to additional paid-in capital and allocated $10.4 million to deferred tax liability. The discount is being amortized to interest expense over the term of our February 2018 Notes and increases interest expense during the term of our February 2018 Notes from the 4.0% cash coupon interest rate to an effective interest rate of 6.9%. As of June 30, 2015, the remaining discount amortization period is 2.6 years.

As of June 30, 2015, our February 2018 Notes are not convertible. At June 30, 2015, the if-converted value of our February 2018 Notes did not exceed the principal amount.

Purchased Call Options and Warrants

In connection with the issuance of our February 2018 Notes, we entered into purchased call option transactions with two hedge counterparties. We paid an aggregate amount of $31.0 million for the purchased call options with terms substantially similar to the embedded conversion options in our February 2018 Notes. The purchased call options cover, subject to anti-dilution and certain other customary adjustments substantially similar to those in our February 2018 Notes, approximately 32.7 million shares of our common stock. We may exercise the purchased call options upon conversion of our February 2018 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 February 1, 2018, or the last day any of our February 2018 Notes remain outstanding.

In addition, we sold to the hedge counterparties warrants exercisable, on a cashless basis, for the sale of rights to receive shares of common stock that will initially underlie our February 2018 Notes at a strike price of $10.3610 per share, which represents a premium of approximately 30% over the last reported sale price of the Company's common stock of $7.97 on February 6, 2014. The warrant transactions could have a dilutive effect to the extent that the market price of the Company's common stock exceeds the applicable strike price of the warrants on the date of conversion. We received an aggregate amount of $11.4 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. If the VWAP of our common stock, as defined in the warrant agreement, 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 February 2018 Notes. The strike price is subject to further adjustment in the event that future quarterly dividends exceed $0.15 per share.

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 June 30, 2015. The purchased call options cost of $31.0 million, less deferred taxes of $10.8 million, and the $11.4 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 all criteria for equity classification.

March 2015 Term Loan

On March 30, 2015, PDL entered into a credit agreement among the Company, the lenders party thereto and the Royal Bank of Canada, as administrative agent. The credit agreement consists of a term loan of $100.0 million.

The interest rates per annum applicable to amounts outstanding under the term loan are, at the Company’s option, either (a) the alternate base rate (as defined in the credit agreement) plus 0.75%, or (b) the adjusted Eurodollar rate (as defined in the credit agreement) plus 1.75% per annum. As of June 30, 2015, the interest rate, based upon the adjusted Eurodollar rate, was 2.04%. Interest payments under the credit agreement are due on the interest payment dates specified in the credit agreement.

The term loan requires amortization in the form of scheduled principal payments on June 15, September 15 and December 15 of 2015, with the remaining outstanding balance due on February 15, 2016.

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, a debt service coverage ratio and a minimum liquidity covenant, 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.

October 2013 Term Loan

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

The interest rates per annum applicable to amounts outstanding under the October 2013 Term Loan were, at the Company's option, either (a) the base rate plus 1.00%, or (b) the Eurodollar rate plus 2.00% per annum. As of the final payment date, the interest rate was 2.22%. This principal balance and outstanding interest was paid in full on October 28, 2014.

Off-Balance Sheet Arrangements

As of June 30, 2015, 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 and Term Loans

As of June 30, 2015, our convertible notes and term loan contractual obligations consisted primarily of our February 2018 Notes and March 2015 Term Loan, which in the aggregate totaled $375.0 million in principal.

We expect that our debt service obligations over the next several years will consist of interest payments and repayment of our February 2018 Notes and March 2015 Term Loan. 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 to be available on favorable terms.

Notes Receivable and Other Long Term Receivables

On February 18, 2014, PDL entered into a credit agreement with Paradigm Spine, in which PDL will provide up to $75.0 million to Paradigm Spine. Of the $75.0 million available to Paradigm Spine, an initial $50.0 million, net of fees, was provided by the Company at the close of the transaction. The additional $25.0 million in the form of the second and third tranches is no longer available to Paradigm Spine under the terms of the Paradigm Spine Credit Agreement.

On June 26, 2015, PDL entered into a credit agreement with CareView, under which the Company made available to CareView up to $40.0 million in two tranches of $20.0 million each. The first tranche of $20 million will be funded by the Company upon CareView's attainment of a specified milestone relating to the placement of CareView Systems, to be accomplished no later than October 31, 2015. The Company will fund CareView an additional $20.0 million upon CareView's attainment of specified milestones relating to the placement of CareView Systems and EBITDA, to be accomplished no later than June 30, 2017.

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 June 30, 2015, the total lease payments for the duration of the guarantee, which runs through December 2021, were approximately $73.3 million.

We recorded a liability of $10.7 million on our Condensed Consolidated Balance Sheets as of June 30, 2015, and December 31, 2014, for the estimated liability resulting from this guarantee. We prepared a discounted, probability-weighted cash flow analysis to calculate the estimated fair value of the lease guarantee as of the Spin-Off. We were required to make assumptions

regarding the probability of Facet's default on the lease payment, the likelihood of a sublease being executed and the times at which these events could occur. These assumptions are based on information that we received from real estate brokers and the then-current economic conditions, as well as expectations of future economic conditions. The fair value of this lease guarantee was charged to additional paid-in capital upon the Spin-Off and any future adjustments to the carrying value of the obligation will also be recorded in additional paid-in capital. In future periods, we may increase the recorded liability for this obligation if we conclude that a loss, which is larger than the amount recorded, is both probable and estimable.

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 reporting 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 first quarter of 2016 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.

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), net of tax" 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 June 30, 2015, and December 31, 2014:

Euro Forward Contracts			**June 30, 2015**		**December 31, 2014**	
			(In thousands)		***(In thousands)***	
Currency	**Settlement Price ($ per Euro)**	**Type**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Euro	1.256	Sell Euro	$ —	$ —	$ 6,000	$ 241
Euro	1.257	Sell Euro	—	—	15,750	728
Euro	1.259	Sell Euro	16,125	2,300	16,125	752
Euro	1.260	Sell Euro	33,000	4,685	33,000	1,468
Euro	1.270	Sell Euro	—	—	7,000	377
Euro	1.281	Sell Euro	—	—	8,000	503
Total			$ 49,125	$ 6,985	$ 85,875	$ 4,069

Interest Rate Risk

Our investment portfolio was approximately $138.5 million at June 30, 2015, and $224.1 million at December 31, 2014, and consisted of investments in Rule 2a-7 money market funds and a corporate security. 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 $285.4 million at June 30, 2015, and $528.7 million at December 31, 2014, based on available pricing information. At June 30, 2015, and December 31, 2014, our convertible note consisted of our February 2018 Notes, with a fixed interest rate of 4.0%. At December 31, 2014, our convertible notes also 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 June 30, 2015, 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 accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and 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 June 30, 2015, 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

Reference is hereby made to our disclosures in “Legal Proceedings” under Note 8 to our Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q and the information under the heading “Legal Proceedings” is incorporated by reference herein.

ITEM 1A. RISK FACTORS

During the six months ended June 30, 2015, 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, 2014, as amended. 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 fiscal year ended December 31, 2014, as amended, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K for the year ended December 31, 2014, as amended, as well as other risks and uncertainties, could materially and adversely affect our business, results of operations and financial condition, which in turn could materially and adversely affect the trading price of shares of our common stock. Additional risks not currently known or currently material to us may also harm our business.

ITEM 6. EXHIBITS

The exhibits listed in the exhibit index following the signature page are filed or furnished as part of this report.

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: August 5, 2015

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/ Steffen Pietzke

Steffen Pietzke

Controller and Chief Accounting Officer (Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Exhibit Title
3.1	Restated Certificate of Incorporation effective March 23, 1993 (incorporated by reference to Exhibit 3.1 to Annual Report on Form 10-K filed March 31, 1993)
3.2	Certificate of Amendment of Certificate of Incorporation effective August 21, 2001 (incorporated by reference to Exhibit 3.3 to Annual Report on Form 10-K filed March 14, 2002)
3.3	Certificate of Amendment of Certificate of Incorporation effective January 9, 2006 (incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed January 10, 2006)
3.4	Certificate of Designation, Preferences and Rights of the Terms effective August 25, 2006 (incorporated by reference to Exhibit 3.4 to Registration Statement on Form 8-A filed September 6, 2006)
3.5	Third Amended and Restated Bylaws effective December 4, 2014 (incorporated by reference to Exhibit 99.1 to Current Report on Form 8-K filed December 9, 2014)
3.6	Certificate of Amendment of Restated Certificate of Incorporation effective May 22, 2013 (incorporated by reference to Exhibit 4.4 to Registration Statement on Form S-3 filed June 21, 2013)
4.6	Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., dated February 12, 2014 (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed February 12, 2014)
4.7	Supplemental Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., dated February 12, 2014 (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K filed February 12, 2014)
4.8	Second Supplemental Indenture between the Company and The Bank of New York Mellon Trust Company, N.A., dated February 28, 2014 (incorporated by reference to Exhibit 4.9 to Annual Report on Form 10-K filed March 3, 2014)
10.1*#	Employment Separation and Consultant Agreement between the Company and David L. Montez, executed April 21, 2015
10.2*	Offer Letter between the Company and Steffen Pietzke, executed May 19, 2015 (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K filed June 24, 2015)
10.3#	Second Amendment to Lease Agreement between 932936, LLC and the Company, effective May 19, 2015
10.4*#	Amended and Restated 2005 Equity Incentive Plan effective May 28, 2015
12.1#	Ratio of Earnings to Fixed Charges
31.1#	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2#	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1**#	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

Filed herewith.

* Management contract or compensatory plan or arrangement

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

932 Southwood Boulevard
Incline Village, NV 89451
Phone: (775) 832-8500
Fax: (775) 832-8502

April 21, 2015

VIA HAND DELIVERY

David L. Montez
3885 Aspen Hollow
Reno, Nevada 89511

Re: Employment Separation and Consultant Agreement

Dear Dave:

This letter, upon your signature, will constitute the Employment Separation and Consulting Agreement ("Agreement") between you and PDL BioPharma, Inc. or any of its affiliates ("PDL" or the "Company") and co-employer TriNet HR Corporation (with the Company, collectively referred to as "Releasees") and the terms of your separation from employment with the Company.

1. **Employment Resignation Date.** You agree that you will resign from employment with the Company effective May 15, 2015. Your last day of work as an employee will be May 15, 2015 (the "Resignation Date"). From and after that date, you will no longer represent to anyone that you are still an employee of the Company and you will not say or do anything purporting to bind the Releasees or any of them.

2. **Effective Date and Rescission**. You have up to 21 days after you receive this Agreement to review it and acknowledge that you received a copy of this Agreement on April 21, 2015. You are advised to consult an attorney of your own choosing (at your own expense) before signing this Agreement. Furthermore, you have up to seven days after you sign this Agreement to revoke it. If you wish to revoke this Agreement after signing it, you may do so by delivering a letter of revocation to me so that I receive it within this seven-day revocation period. If you do not revoke this Agreement, the eighth day after the date you sign it will be the "Effective Date". Because of the seven-day revocation period, no part of this Agreement will become effective or enforceable until the Effective Date.

3. **Salary and Benefits Paid**. You acknowledge that you will be paid your earned salary, accrued vacation pay, and all other amounts PDL owes you through the Resignation Date. You will receive by separate cover information regarding your rights to health insurance

continuation under the terms of COBRA and your retirement benefits. To the extent that you have such rights, nothing in this Agreement will impair those rights. You acknowledge that the only payments and benefits that you are entitled to receive from the Releasees in the future are those specified in this Agreement.

4. **Return of Property.** You will immediately return to the Company any building key(s), security pass, or other access or identification cards (including business cards) and any Company property that is currently in your possession, including any documents, computer equipment and any information you have about the Company's practices, procedures, trade secrets, customer lists, or product marketing. By no later than May 15, 2015, you will also clear all expense accounts.

5. **Representation regarding Property.** You represent that as of May 15, 2015, you will have returned to the Company all property that belongs to the Company, including (without limitation) the Company-issued laptop or tablet, copies of documents that belong to the Company and files stored on your computer(s) that contain information belonging to the Company.

6. **Consulting.**

a. Starting the Effective Date for a period of six months (the "Consulting Period") you agree to provide consulting services with respect to accounting and other matters you performed during your employment with the Company (the "Services"). You agree to use your best efforts in the performance of the Services and agree to cooperate with the Company's personnel, not to interfere with the conduct of the Company's business and to observe all rules, regulations and security requirements of the Company.

b. In consideration for your performance of the Services and your acceptance of all the terms of this Agreement, the Company shall pay you six payments of $42,848.00 (forty two thousand eight hundred forty eight dollars) on a monthly basis, with the first payment being made on the one month anniversary of the Effective Date and the last payment being made on the six month anniversary of the Effective Date. All payments will be less applicable withholding taxes and any other deductions you have authorized.

c. In performing the Services, the amount of time devoted by you on any given day and the location in which you perform the Services will be entirely within your control.

d. In your role as a consultant, you shall not be authorized to assume or create any obligation or responsibility, express or implied, on behalf of, or in the name of, the Company or to bind the Company in any manner. You shall not use the Company's trade names, trademarks, service names or servicemarks without the prior approval of the Company. You are not authorized to transact business, incur obligations, sell goods, receive payments, solicit orders or assign or create any obligation of any kind, express or implied, on behalf of the Company or any of the Company's related or affiliated entities, or to bind in any way whatsoever, or to make any promise, warranty or representation on behalf of the Company or any of the Company's related or affiliated entities with respect to any matter, except as expressly authorized in this Agreement or in another writing signed by an authorized representative of the Company.

e. It is the express intention of the parties to this Agreement that during the Consulting Period you shall be an independent contractor and not an employee, agent, joint venturer or partner of the Company for any purposes whatsoever. In your role as a consultant, you shall not be entitled to any benefits that the Company may make available to employees from time to time during the Consulting Period. You shall be solely responsible for all state and federal income taxes, unemployment insurance and social security taxes and for maintaining adequate workers' compensation insurance coverage. You shall be responsible for providing all the tools and equipment necessary to complete the Services.

7. **Severance Payment.** In consideration of your acceptance of all the terms of this Agreement, but without otherwise admitting your entitlement to such payments, the Company will pay you as follows:

a. $111,009.80 (one hundred eleven thousand nine dollars and eighty cents), *plus* 2772 shares of the Company's restricted stock, *plus* up to 12 months of COBRA coverage from your resignation date, assuming you timely elect COBRA benefits; provided that such COBRA coverage shall terminate upon entry by you into a new healthcare plan at any time before the end of the 12 month period; and you hereby agree to inform me in writing within ten days of the date you become eligible to participate in such a plan. The Company's payment to you under this sub-paragraph is contingent upon your irrevocable agreement that these payments are in lieu of and will forever extinguish your right to claim that the Releasees have an obligation to make any further payment to you or owes you anything other than as set forth in this Agreement.

b. Customary payroll deductions shall be made from payments described in 7.a. Payment shall be paid within 10 business days of the "Effective Date" of this Agreement as defined in paragraph 2 above.

c. The Company shall be entitled to recover all or a portion of the amounts provided in subsection 7.a. if the Company in good faith determines that you (i) intentionally or knowingly, through fraud or intentional misconduct, misstated financial information determined necessary for the proper functioning of the Company, (ii) are aware of any significant misstated financial information or other significant inaccuracy with respect to the Company's financial information, whether used internally or disclosed to the public, and have failed to attempt to remedy such misstatement and report same to the current management of the Company, whether or not such misstatement or inaccuracy requires restatement of the Company's public disclosures, or (iii) have violated any of the terms of this Agreement, including any of sections 10, 12 or 13 hereof. In the event that the Company, in its discretion, demands repayment of such amounts under this subsection, you will be obligated to repay such amount in cash within ten (10) days of the Company's written demand. The Company's rights under this subsection are not in lieu of and are not a waiver or release regarding any further or separate legal action for damages or other legal remedies based on fraud, intentional misconduct or gross negligence committed by you during your employment at the Company.

8. **Release.** In consideration for the payments and benefits described in Sections 6 and 7 above, you on your own behalf and on behalf of your heirs, executors, administrators and assigns hereby fully and forever waive, release, discharge and promise never to assert any claims

or causes of action, whether or not now known, against the Releasees or each of its predecessors, successors or past or present subsidiaries, affiliates, branches, representative offices or parents (collectively, including the Releasees, the "entities") and the entities' stockholders, directors, officers, employees, consultants, attorneys, agents, assigns, and employee benefit plans with respect to any matter, including (without limitation) any matter related to your employment with the Releasees or the resignation of that employment, including (without limitation) claims to attorneys' fees or costs, claims of wrongful discharge, constructive discharge, emotional distress, defamation, invasion of privacy, interference with a leave of absence, personal injury, fraud, breach of contract or breach of the covenant of good faith and fair dealing and any claims of discrimination or harassment based on sex, age, race, national origin, disability, or any other basis under Title VII of the Civil Rights Act of 1964, the Fair Labor Standards Act, the Equal Pay Act of 1963, the Civil Rights Act of 1866, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act, the Family Medical Leave Act, or any other federal, state, municipal or local law or regulation relating to employment or employment discrimination, including but not limited to Nev. Rev. Stat. §§613.300, 613.310, 613.320, 613.330, 613.333, 613.335 and 613.345 (prohibiting discrimination based on various protected factors), and including any claims you may have related to your Severance Agreement dated July 24, 2013 or your offer of employment letter dated July 3, 2013 or any other agreement which you have signed in relation to your employment at the Company. You understand that among the various rights and claims being waived in this release are those arising under the Age Discrimination in Employment Act of 1967. You understand that rights or claims under this law that may arise after the date this Agreement is executed are not waived. You further understand and agree that this waiver includes all claims, known and unknown, suspected and unsuspected, statutory and non-statutory, to the greatest extent permitted by applicable law. You understand that nothing in this Agreement seek to waive claims that cannot be waived under applicable law.

9. **Promise not to make Claims.** You also waive and release and promise never to assert any such claims, even if you do not believe that you have such claims. You understand and agree that claims or facts in addition to or different from those which are now known or believed by you to exist may hereafter be discovered, but it is your intention to release all claims you have or may have against the Releasees and the entities, their officers, directors, employees, agents, and representatives, whether known or unknown, suspected or unsuspected.

10. **Proprietary Information; No Solicitation.** You acknowledge that, because of your position with the Company, you have specific knowledge of many types of information which is proprietary to the Company, including, but not limited to, its current and planned technology; its current and planned corporate strategies; strategic customers and business partners; and the identity, skills, compensation and interest of its employees. You further agree to the following:

a. You will not, directly or indirectly, solicit, recruit, or induce to leave the employ of the Company any employee, agent, independent contractor or consultant of the Company;

b. You will not, unless required or otherwise permitted by law, disclose to others any proprietary information of the Company including, but not limited to, the Company's current and planned technology; current and planned corporate strategies; strategic customers and

business partners; and the identity, skills, compensation and interest of its employees. You agree to keep and treat all such proprietary information as confidential; and

c. You acknowledge and agree (i) that any violation of this Section 10 would cause immediate and irreparable damage to PDL, and (ii) that determining the amount of damage caused to PDL by any such violation would be extremely difficult or impossible. You therefore agree that PDL's remedies at law are inadequate, and you consent to the issuance of injunctive relief, including but not limited to, a temporary restraining order, a preliminary injunction, and a permanent injunction, by a court of appropriate jurisdiction in order to restrain any actual or threatened violation of this Section without limiting any remedy PDL may have at law or equity.

11. **Disputes.** To ensure the rapid and economical resolution of disputes that may arise in connection with your employment, you and the Releasees agree that any and all disputes, claims, or causes of action, in law or equity, arising from or relating to the enforcement, breach, performance, or interpretation of this Agreement, your employment, or the resignation of your employment, shall be resolved, to the fullest extent permitted by law, by final, binding and confidential arbitration in Carson City, Nevada conducted by Judicial Arbitration and Mediation Services, Inc. ("**JAMS**") or its successor, under the then applicable rules of JAMS. You acknowledge that by agreeing to this arbitration procedure, both you and the Releasees waive the right to resolve any such dispute through a trial by jury or judge or by administrative proceeding. The arbitrator shall: (i) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (ii) issue a written arbitration decision including the arbitrator's essential findings and conclusions and a statement of the award. The Company shall pay all JAMS' arbitration fees in excess of those administrative fees you would be required to pay if the dispute were decided in a court of law. Nothing in this Letter is intended to prevent either you or the Releasees from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any arbitration. Notwithstanding the provisions of this paragraph, any claims by either party arising under the Employee Proprietary Information and Invention Assignment Agreement or involving trade secrets shall be resolved through the courts and not through the arbitration procedure described above. This provision shall supersede all prior agreements between the parties relating to dispute resolution, including mediation or arbitration.

12. **Confidentiality of Agreement.** In consideration of this Agreement, you also agree to keep confidential and not disclose the terms of this Agreement, the benefit being paid under it or the fact of its payment, except that you may disclose this information to your spouse, domestic partner, attorney, accountant or other professional advisor to whom you must make the disclosure in order for them to render professional services to you. In addition, you are entitled to disclose the terms of this Agreement to federal and state unemployment officials, but only to the extent that such disclosure is necessary for you to receive unemployment benefits. You will instruct them, however, to maintain the confidentiality of this information just as you must.

13. **No Disparagement.** You agree that you shall not make any negative or disparaging remarks about the Company, its officers, employees, directors, products, services or business practices.

14. **Breach.** In the event that you breach any of your obligations under this Agreement or as otherwise imposed by law, the Releasees will be entitled to recover the benefit paid under the Agreement and to obtain all other relief provided by law or equity and to recover reasonable attorney's fees and costs incurred in any litigation, arbitration or other proceeding brought to enforce the terms of this Agreement.

15. **References.** If contacted by a prospective employer for reference information, the Releasees will confirm only your dates of employment and position held.

16. **Entire Agreement; Governing Law.** You agree that no promise, inducement or other agreement not expressly contained in this Agreement or referred to in this Agreement, has been made conferring any benefit upon you, and that this Agreement contains the entire agreement between you and the Releasees with respect to its subject matter, including but not limited to the resignation of your employment. All prior agreements, understandings, representations, oral agreements and writings are expressly superseded hereby and are of no further force and effect, and you expressly agree that you are not relying on any representations that are not contained in this Agreement. This Agreement is entered into and governed by the laws of the State of Nevada.

17. **No Admission of Wrongdoing.** Nothing contained in this Agreement will constitute or be treated as an admission by you, the Releasees or the entities of liability, any wrongdoing or any violation of law.

18. **Contractual Relationship.** You acknowledge that any employment relationship between PDL and you will end on May 15, 2015, and that you have no further employment or contractual relationship except as may arise out of this Agreement and that you waive any right or claim to reinstatement as an employee of PDL or to seek employment in the future with PDL or any Releasee(s).

19. **Tax Liability.** You agree that you shall be exclusively liable for the payment of all federal and state taxes which may be due as a result of the consideration received from this severance package, and you hereby represent that you shall make payments on such taxes at the time and in the amount required of you. In addition, you agree to defend, indemnify and hold harmless Releasees and each of them from payment of taxes, interest and/or penalties that are required of them by any government agency at any time as the result of payment of the consideration set forth herein.

20. **Counterparts; Paragraph Headings; Facsimilies; Modifications.** You agree that this Agreement may be executed in counterparts, each of which shall be an original, but all of which together shall constitute one agreement. Paragraph headings are for reference only, and are not to be deemed or construed as limiting or expanding the content of any particular paragraph or provision. Execution of a facsimile copy shall have the same force and effect as execution of an original, and a facsimile signature shall be deemed an original and valid signature. This Agreement may be modified only in a written document signed by you and an officer of the Company.

Very truly yours,

/s/ JOHN MCLAUGHLIN

John McLaughlin
Chief Executive Officer

By my signature below, I acknowledge that I have had the opportunity to review this Agreement carefully with an attorney of my choice; that I understand the terms of the Agreement; and that I voluntarily agree to them.

/s/ DAVID L. MONTEZ

David L. Montez

Date: April 22, 2015

Exhibit 10.3

SECOND AMENDMENT TO OFFICE LEASE

This Second Amendment to Office Lease (the "Amendment"), effective May 13, 2015, is made by and between 932936, LLC, a Nevada limited liability company, whose principal place of business for the purpose of the Amendment is 932 Southwood Blvd., Incline Village, Nevada 89451 ("Landlord"), and PDL BioPharma, Inc., a Delaware corporation, whose principal place of business is 932 Southwood Blvd., Suite 101, Incline Village, Nevada 89451 ("Tenant").

RECITALS

Whereas, Landlord and Tenant entered into that certain Office Lease dated as of May 27, 2014 (the "Lease") and the Term of the Lease is set to expire on May 31, 2016. The capitalized terms used herein and not otherwise defined have the same meanings and definitions as set forth in the Lease.

Whereas, Landlord and Tenant desire to extend the Term of the Lease until May 31, 2017.

Now, Therefore, in consideration of the foregoing, the mutual promises set forth herein, and other good and valuable consideration, the receipt and sufficiency of which the parties hereby acknowledge, the parties agree as follows:

Article 1. Article 3(a) of the Lease shall be replaced as follows and Exhibit A shall be deleted from the Lease:

Term. The term of this Lease ("Term") shall commence on June 1, 2014 ("Commencement Date"), and shall expire May 31, 2017 ("Termination Date"), unless extended by mutual agreement of the parties.

Article 2. The Monthly Rent set forth in Article 4 of the Lease shall be replaced and added to as follows:

Year(s)	Monthly	3-Year Term
1 ,2 and 3 (36 Months)	$14,459.62	$520,546.32

Article 3. The Lease, except as amended by this Amendment, continues in full force and effect and embodies the entire agreement between the parties and supersedes all prior agreements and understandings relating to the subject matter hereof. The Lease may be further amended or supplemented only by an instrument in writing executed by Landlord and Tenant. This Amendment and the Lease, as amended hereby, shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

Article 4. This Amendment may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of such counterparts shall constitute one instrument. To facilitate execution of this Amendment, the parties may execute and exchange by facsimile or email counterparts of the executed signature pages.

Article 5. This Amendment shall be construed and interpreted in accordance with the laws of the State of Nevada. The provisions of this Amendment shall be construed in accordance with the fair meaning of the language used and shall not be strictly construed against either party.

IN WITNESS HEREOF, the parties have caused this Amendment to be executed on the date set forth above pursuant to proper authority duly granted.

LANDLORD
932936, LLC
A Nevada limited liability company

By: 932936 Management, Inc.
A Nevada Corporation

By: /s/ SARA SKINNER
Name: Sara Skinner
Its: President

TENANT
PDL BioPharma, Inc.
A Delaware corporation

By: /s/ JOHN MCLAUGHLIN
Name: John McLaughlin
Its: Chief Executive Officer

PDL BIOPHARMA, INC.
AMENDED AND RESTATED 2005 EQUITY INCENTIVE PLAN

ORIGINALLY EFFECTIVE: JUNE 8, 2005
AMENDED EFFECTIVE: JUNE 20, 2007 AND JUNE 4, 2009
AMENDMENT AND RESTATEMENT ADOPTED BY THE BOARD: APRIL 8, 2015
AMENDMENT AND RESTATEMENT APPROVED BY THE STOCKHOLDERS: MAY 28, 2015

1. **GENERAL.**

(a) **Eligible Award Recipients.** Employees, Directors and Consultants are eligible to receive Awards under the Plan.

(b) **Available Awards.** The Plan provides for the grant of the following types of Awards: (i) Incentive Stock Options; (ii) Nonstatutory Stock Options; (iii) Stock Appreciation Rights; (iv) Restricted Stock Awards; (v) Restricted Stock Unit Awards; (vi) Performance Stock Awards; (vii) Performance Cash Awards; and (viii) Other Stock Awards.

(c) **Purpose.** The Plan, through the granting of Awards, is intended to help the Company secure and retain the services of eligible award recipients, provide incentives for such persons to exert maximum efforts for the success of the Company and any Affiliate and provide a means by which the eligible recipients may benefit from increases in value of the Common Stock.

2. **DEFINITIONS.** As used in the Plan, the following definitions will apply to the capitalized terms indicated below:

(a) "***Affiliate***" means, at the time of determination, any "parent" or "subsidiary" of the Company as such terms are defined in Rule 405. The Board will have the authority to determine the time or times at which "parent" or "subsidiary" status is determined within the foregoing definition.

(b) "***Award***" means a Stock Award or a Performance Cash Award.

(c) "***Award Agreement***" means a written agreement between the Company and a Participant evidencing the terms and conditions of an Award.

(d) "***Board***" means the Board of Directors of the Company.

(e) "***Capitalization Adjustment***" means any change that is made in, or other events that occur with respect to, the Common Stock subject to the Plan or subject to any Stock Award after the Effective Date without the receipt of consideration by the Company through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, large nonrecurring cash dividend, stock split, reverse stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or any similar equity restructuring transaction, as that term is used in Statement of Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any successor

thereto). Notwithstanding the foregoing, the conversion of any convertible securities of the Company will not be treated as a Capitalization Adjustment.

(f) "***Cause***" means the occurrence of any of the following: (i) the Participant's intentional theft, dishonesty, willful misconduct, breach of fiduciary duty for personal profit or falsification of any Company documents or records; (ii) the Participant's material failure to abide by the Company's code of conduct or other written policies (including, without limitation, policies relating to confidentiality and reasonable workplace conduct); (iii) the Participant's material and intentional unauthorized use, misappropriation, destruction or diversion of any tangible or intangible asset or corporate opportunity of the Company (including, without limitation, the Participant's improper use or disclosure of Company confidential or proprietary information); (iv) any willful act by the Participant that has a material detrimental effect on the Company's reputation or business; (v) the Participant's repeated failure or inability to perform any reasonable assigned duties after written notice from the person to whom the Participant reports of, and a reasonable opportunity to cure, such failure or inability; (vi) any material breach by the Participant of any employment, service, non-disclosure, non-competition, non-solicitation or other similar agreement between the Participant and the Company, which breach is not cured pursuant to the terms of such agreement or within twenty (20) days of receiving written notice of such breach; or (vii) the Participant's conviction (including any plea of guilty or nolo contendere) of any criminal act involving fraud, dishonesty, misappropriation or moral turpitude, or which impairs the Participant's ability to perform his or her duties with the Company. For purposes of the foregoing, no act or omission will be deemed 'willful' unless done, or omitted to be done, by the Participant without a reasonable good faith belief that the Participant were acting in the best interest of the Company. For purposes of clarity, a termination without Cause does not include a termination that occurs as a result of the Participant's death or disability. The determination that a termination of the Participant's Continuous Service is either for Cause or without Cause will be made by the Company, in its sole discretion. Any determination by the Company that the Continuous Service of a Participant was terminated with or without Cause for the purposes of outstanding Awards held by such Participant will have no effect upon any determination of the rights or obligations of the Company or such Participant for any other purpose.

(g) "***Change in Control***" means, unless such term or an equivalent term is otherwise defined with respect to an Award by the Participant's Award Agreement or by a written contract of employment or service, the occurrence of any of the following:

(i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person) "beneficial ownership" (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company possessing thirty-five percent (35%) or more of the total combined voting power of the Company's then-outstanding securities entitled to vote generally in the election of Directors; provided, however, that the following acquisitions shall not constitute a Change in Control: (1) an acquisition by any such person who prior to such acquisition is the beneficial owner of thirty-five percent (35%) or more of such voting power, (2) any acquisition directly from the Company, including, without limitation, a public offering of securities, (3) any acquisition by the Company, (4) any acquisition by a trustee or other fiduciary under an employee benefit plan of a Participating Company or (5) any acquisition by an entity owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the voting securities of the Company; or

(ii) a Corporate Transaction or series of related Corporate Transactions (collectively, a "***Transaction***") in which the stockholders of the Company immediately before the Transaction do not retain immediately after the Transaction direct or indirect beneficial ownership of more than fifty percent (50%) of the total combined voting power of the outstanding voting securities of the Company or, in the case of a Corporate Transaction described in Section 2(n)(iii), the entity to which the assets of the Company were transferred (the "***Transferee***"), as the case may be; or

(iii) the stockholders of the Company approve or the Board approves a plan of complete dissolution or liquidation of the Company, or a complete dissolution or liquidation of the Company will otherwise occur.

For purposes of the preceding sentence, indirect beneficial ownership shall include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities which own the Company or the Transferee, as the case may be, either directly or through one or more subsidiary corporations or other business entities. The Committee shall have the right to determine whether multiple sales or exchanges of the voting securities of the Company or multiple Corporate Transactions are related, and its determination shall be final, binding and conclusive. Notwithstanding the foregoing, to the extent that any amount constituting Section 409A Deferred Compensation would become payable under this Plan by reason of a Change in Control, such amount shall become payable only if the event constituting a Change in Control would also constitute a change in ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company within the meaning of Section 409A.

(h) "***Code***" means the Internal Revenue Code of 1986, as amended, including any applicable regulations and guidance thereunder.

(i) "***Committee***" means a committee of one (1) or more Directors to whom authority has been delegated by the Board in accordance with Section 3(c).

(j) "***Common Stock***" means the common stock of the Company.

(k) "***Company***" means PDL BioPharma, Inc., a Delaware corporation.

(l) "***Consultant***" means any person, including an advisor, who is (i) engaged by the Company or an Affiliate to render consulting or advisory services and is compensated for such services, or (ii) serving as a member of the board of directors of an Affiliate and is compensated for such services. However, service solely as a Director, or payment of a fee for such service, will not cause a Director to be considered a "Consultant" for purposes of the Plan. Notwithstanding the foregoing, a person is treated as a Consultant under this Plan only if a Form S-8 Registration Statement under the Securities Act is available to register either the offer or the sale of the Company's securities to such person.

(m) "***Continuous Service***" means that the Participant's service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Director or Consultant or a change in the Entity for which the Participant renders

such service, provided that there is no interruption or termination of the Participant's service with the Company or an Affiliate, will not terminate a Participant's Continuous Service; *provided, however,* that if the Entity for which a Participant is rendering services ceases to qualify as an Affiliate, as determined by the Board, in its sole discretion, such Participant's Continuous Service will be considered to have terminated on the date such Entity ceases to qualify as an Affiliate. For example, a change in status from an Employee of the Company to a Consultant of an Affiliate or to a Director will not constitute an interruption of Continuous Service. A leave of absence will be treated as Continuous Service for purposes of vesting in a Stock Award to such extent as may be provided in the Company's leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to the Participant, or as otherwise required by law. Notwithstanding the foregoing, to the extent permitted by law, the Board or the chief executive officer of the Company, in that party's sole discretion, may determine whether Continuous Service will be considered interrupted in the case of (i) any leave of absence approved by the Board or chief executive officer, including sick leave, military leave or any other personal leave, or (ii) transfers between the Company, an Affiliate, or their successors.

(n) "***Corporate Transaction***" means the consummation, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) a sale, exchange, transfer or other disposition of all or substantially all, as determined by the Board in its sole discretion, of the consolidated assets of the Company and its Subsidiaries (other than a sale, exchange, transfer or other disposition to one or more Subsidiaries);

(ii) a sale or other disposition of more than fifty percent (50%) of the outstanding securities of the Company; or

(iii) a merger, consolidation or similar transaction to which the Company is a party.

(o) "***Covered Employee***" will have the meaning provided in Section 162(m)(3) of the Code.

(p) "***Director***" means a member of the Board.

(q) "***Disability***" means, with respect to a Participant, the inability of such Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than twelve (12) months, as provided in Sections 22(e)(3) and 409A(a)(2)(c)(i) of the Code, and will be determined by the Board on the basis of such medical evidence as the Board deems warranted under the circumstances.

(r) "***Effective Date***" means the effective date of this Plan document, which is the date of the annual meeting of stockholders of the Company held in 2015, provided this Plan is approved by the Company's stockholders at such meeting.

(s) "***Employee***" means any person employed by the Company or an Affiliate. However, service solely as a Director, or payment of a fee for such services, will not cause a Director to be considered an "Employee" for purposes of the Plan.

(t) "***Entity***" means a corporation, partnership, limited liability company or other entity.

(u) "***Exchange Act***" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(v) "***Exchange Act Person***" means any natural person, Entity or "group" (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that "Exchange Act Person" will not include (i) the Company or any Subsidiary of the Company, (ii) any employee benefit plan of the Company or any Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, (iv) an Entity Owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their Ownership of stock of the Company; or (v) any natural person, Entity or "group" (within the meaning of Section 13(d) or 14(d) of the Exchange Act) that, as of the Effective Date, is the Owner, directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the combined voting power of the Company's then outstanding securities.

(w) "***Fair Market Value***" means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on any established market, the Fair Market Value of a share of Common Stock will be, unless otherwise determined by the Board, the closing sales price for such stock as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the date of determination, as reported in a source the Board deems reliable.

(ii) Unless otherwise provided by the Board, if there is no closing sales price for the Common Stock on the date of determination, then the Fair Market Value will be the closing selling price on the last preceding date for which such quotation exists.

(iii) In the absence of such markets for the Common Stock, the Fair Market Value will be determined by the Board in good faith and in a manner that complies with Sections 409A and 422 of the Code.

(x) "***Full Value Award***" means a Stock Award that is not an Option or SAR with respect to which the exercise or strike price is at least one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option or SAR on the date of grant.

(y) "***Incentive Stock Option***" means an option granted pursuant to Section 6 that is intended to be, and that qualifies as, an "incentive stock option" within the meaning of Section 422 of the Code.

(z) "***Non-Employee Director***" means a Director who either (i) is not a current employee or officer of the Company or an Affiliate, does not receive compensation, either directly or indirectly, from the Company or an Affiliate for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act

("***Regulation S-K***")), does not possess an interest in any other transaction for which disclosure would be required under Item 404(a) of Regulation S-K, and is not engaged in a business relationship for which disclosure would be required pursuant to Item 404(b) of Regulation S-K; or (ii) is otherwise considered a "non-employee director" for purposes of Rule 16b-3.

(aa) "***Nonstatutory Stock Option***" means any option granted pursuant to Section 6 that does not qualify as an Incentive Stock Option.

(bb) "***Officer***" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act.

(cc) "***Option***" means an Incentive Stock Option or a Nonstatutory Stock Option to purchase shares of Common Stock granted pursuant to the Plan.

(dd) "***Option Agreement***" means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an Option grant. Each Option Agreement will be subject to the terms and conditions of the Plan.

(ee) "***Optionholder***" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(ff) "***Original Effective Date***" means June 8, 2005.

(gg) "***Other Stock Award***" means an award based in whole or in part by reference to the Common Stock which is granted pursuant to the terms and conditions of Section 7(d).

(hh) "***Other Stock Award Agreement***" means a written agreement between the Company and a holder of an Other Stock Award evidencing the terms and conditions of an Other Stock Award grant. Each Other Stock Award Agreement will be subject to the terms and conditions of the Plan.

(ii) "***Outside Director***" means a Director who either (i) is not a current employee of the Company or an "affiliated corporation" (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "affiliated corporation" who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the taxable year, has not been an officer of the Company or an "affiliated corporation," and does not receive remuneration from the Company or an "affiliated corporation," either directly or indirectly, in any capacity other than as a Director, or (ii) is otherwise considered an "outside director" for purposes of Section 162(m) of the Code.

(jj) "***Own,***" "***Owned,***" "***Owner,***" "***Ownership***" A person or Entity will be deemed to "Own," to have "Owned," to be the "Owner" of, or to have acquired "Ownership" of securities if such person or Entity, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting, with respect to such securities.

(kk) "***Participant***" means a person to whom an Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

(ll) "***Performance Cash Award***" means an award of cash granted pursuant to the terms and conditions of Section 7(c)(ii).

(mm) "***Performance Measures***" have the same meanings as used in the Company's financial statements, or, if such terms are not used in the Company's financial statements, they shall have the meaning applied pursuant to generally accepted accounting principles, or as used generally in the Company's industry. Performance Measures shall be calculated with respect to the Company and each Subsidiary consolidated therewith for financial reporting purposes or such division or other business unit as may be selected by the Committee. For purposes of the Plan, the Performance Measures applicable to a Performance Cash Award or a Performance Stock Award shall be calculated in accordance with generally accepted accounting principles, if applicable, but prior to the accrual or payment of any Performance Cash Award or a Performance Stock Award for the same Performance Period and excluding the effect (whether positive or negative) of any change in accounting standards or any extraordinary, unusual or nonrecurring item, as determined by the Committee, occurring after the establishment of the Performance Goals applicable to the Performance Award. Each such adjustment, if any, shall be made solely for the purpose of providing a consistent basis from period to period for the calculation of Performance Measures in order to prevent the dilution or enlargement of the Participant's rights with respect to a Performance Award. Performance Measures may be one or more of the following, as determined by the Committee:

(i) revenue;

(ii) sales;

(iii) expenses;

(iv) operating income;

(v) gross margin;

(vi) operating margin;

(vii) earnings before any one or more of: stock-based compensation expense, interest, taxes, depreciation and amortization;

(viii) pre-tax profit;

(ix) net operating income;

(x) net income;

(xi) economic value added;

(xii) free cash flow;

(xiii) operating cash flow;

(xiv) stock price;

(xv) earnings per share;

(xvi) return on stockholder equity;

(xvii) return on capital;

(xviii) return on assets;

(xix) return on investment;

(xx) employee satisfaction;

(xxi) employee retention;

(xxii) balance of cash, cash equivalents and marketable securities;

(xxiii) market share;

(xxiv) product regulatory approvals;

(xxv) projects in development;

(xxvi) regulatory filings;

(xxvii) research and development expenses;

(xxviii) completion of a joint venture or other corporate transaction;

(xxix) acquisition of revenue-generating assets;

(xxx) capital structure financing;

(xxxi) surplus cash flow to pay dividends; and

(xxxii) to the extent that an Award is not intended to comply with Section 162(m) of the Code, other measures of performance selected by the Board.

(nn) "***Performance Goals***" means, for a Performance Period, the one or more goals established by the Committee (or, if not required for compliance with Section 162(m) of the Code, the Board or the Committee) for the Performance Period based upon the Performance Measures. Performance Goals may be based on a Company-wide basis, with respect to one or more business units, divisions, Affiliates or business segments, and in either absolute terms or relative to the performance of one or more comparable companies or the performance of one or more relevant indices. Unless specified otherwise by the Committee (or, if not required for compliance with Section 162(m) of the Code, the Board or the Committee) (i) in the Award Agreement at the time the Award is granted or (ii) in such other document setting forth the Performance Measures at the time the Performance Measures are established, the Committee (or Board, if applicable) will

appropriately make adjustments in the method of calculating the attainment of Performance Measures for a Performance Period as follows: (1) to exclude restructuring and/or other nonrecurring charges; (2) to exclude exchange rate effects, as applicable, for non-U.S. dollar denominated Performance Measures; (3) to exclude the effects of changes to generally accepted accounting principles; (4) to exclude the effects of any statutory adjustments to corporate tax rates; and (5) to exclude the effects of any "extraordinary items" as determined under generally accepted accounting principles.

(oo) "***Performance Period***" means the period of time selected by the Committee (or, if not required for compliance with Section 162(m) of the Code, the Board or the Committee) over which the attainment of one or more Performance Measures will be measured for the purpose of determining a Participant's right to and the payment of a Performance Stock Award or a Performance Cash Award. Performance Periods may be of varying and overlapping duration, at the sole discretion of the Committee (or Board, if applicable).

(pp) "***Performance Stock Award***" means a Stock Award granted under the terms and conditions of Section 7(c)(i).

(qq) "***Plan***" means this PDL BioPharma, Inc. 2015 Equity Incentive Plan.

(rr) "***Restricted Stock Award***" means an award of shares of Common Stock that is granted pursuant to the terms and conditions of Section 7(a).

(ss) "***Restricted Stock Award Agreement***" means a written agreement between the Company and a holder of a Restricted Stock Award evidencing the terms and conditions of a Restricted Stock Award grant. Each Restricted Stock Award Agreement will be subject to the terms and conditions of the Plan.

(tt) "***Restricted Stock Unit Award***" means a right to receive shares of Common Stock which is granted pursuant to the terms and conditions of Section 7(b).

(ss) "***Restricted Stock Unit Award Agreement***" means a written agreement between the Company and a holder of a Restricted Stock Unit Award evidencing the terms and conditions of a Restricted Stock Unit Award grant. Each Restricted Stock Unit Award Agreement will be subject to the terms and conditions of the Plan.

(vv) "***Rule 16b-3***" means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(ww) "***Rule 405***" means Rule 405 promulgated under the Securities Act.

(xx) "***Rule 701***" means Rule 701 promulgated under the Securities Act.

(yy) "***Section 409A Deferred Compensation***" means compensation provided pursuant to the Plan that constitutes deferred compensation subject to and not exempted from the requirements of Section 409A of the Code.

(zz) "***Securities Act***" means the Securities Act of 1933, as amended.

(aaa) "***Stock Appreciation Right***" or "***SAR***" means a right to receive the appreciation on Common Stock that is granted pursuant to the terms and conditions of Section 6.

(bbb) "***Stock Appreciation Right Agreement***" means a written agreement between the Company and a holder of a Stock Appreciation Right evidencing the terms and conditions of a Stock Appreciation Right grant. Each Stock Appreciation Right Agreement will be subject to the terms and conditions of the Plan.

(ccc) "***Stock Award***" means any right to receive Common Stock granted under the Plan, including an Incentive Stock Option, a Nonstatutory Stock Option, a Stock Appreciation Right, a Restricted Stock Award, a Restricted Stock Unit Award, a Performance Stock Award or any Other Stock Award.

(ddd) "***Stock Award Agreement***" means a written agreement between the Company and a Participant evidencing the terms and conditions of a Stock Award grant. Each Stock Award Agreement will be subject to the terms and conditions of the Plan.

(eee) "***Subsidiary***" means, with respect to the Company, (i) any corporation of which more than fifty percent (50%) of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, stock of any other class or classes of such corporation will have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, Owned by the Company, and (ii) any partnership, limited liability company or other entity in which the Company has a direct or indirect interest (whether in the form of voting or participation in profits or capital contribution) of more than fifty percent (50%).

(fff) "***Ten Percent Stockholder***" means a person who Owns (or is deemed to Own pursuant to Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Affiliate.

(ggg) "***Transaction***" means a Change in Control or a Corporate Transaction.

3. ADMINISTRATION.

(a) Administration by Board. The Board will administer the Plan. The Board may delegate administration of the Plan to a Committee or Committees, as provided in Section 3(c).

(b) Powers of Board. The Board will have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine: (A) who will be granted Awards; (B) when and how each Award will be granted; (C) what type of Award will be granted; (D) the provisions of each Award (which need not be identical), including when a person will be permitted to exercise or otherwise receive cash or Common Stock under the Award; (E) the number of shares of Common Stock subject to, or the cash value of, an Award; and (F) the Fair Market Value applicable to a Stock Award.

(ii) To construe and interpret the Plan and Awards granted under it, and to establish, amend and revoke rules and regulations for administration of the Plan and Awards. The Board, in the exercise of these powers, may correct any defect, omission or inconsistency in the Plan or in any Award Agreement, in a manner and to the extent it will deem necessary or expedient to make the Plan or Award fully effective.

(iii) To settle all controversies regarding the Plan and Awards granted under it.

(iv) To accelerate, in whole or in part, the time at which an Award may be exercised or vest (or at which cash or shares of Common Stock may be issued).

(v) To suspend or terminate the Plan at any time. Except as otherwise provided in the Plan or an Award Agreement, suspension or termination of the Plan will not impair a Participant's rights under his or her then-outstanding Award without his or her written consent except as provided in subsection (viii) below.

(vi) To amend the Plan in any respect the Board deems necessary or advisable, including, without limitation, by adopting amendments relating to Incentive Stock Options and certain nonqualified deferred compensation under Section 409A of the Code and/or to make the Plan or Awards granted under the Plan compliant with the requirements for Incentive Stock Options or exempt from or compliant with the requirements for nonqualified deferred compensation under Section 409A of the Code, subject to the limitations, if any, of applicable law. However, if required by applicable law or listing requirements, and except as provided in Section 9(a) relating to Capitalization Adjustments, the Company will seek stockholder approval of any amendment of the Plan that (A) materially increases the number of shares of Common Stock available for issuance under the Plan, (B) materially expands the class of individuals eligible to receive Awards under the Plan, (C) materially increases the benefits accruing to Participants under the Plan, (D) materially reduces the price at which shares of Common Stock may be issued or purchased under the Plan, (E) materially extends the term of the Plan, or (F) materially expands the types of Awards available for issuance under the Plan. Except as provided in the Plan (including Section 3(b)(viii)) or an Award Agreement, no amendment of the Plan will impair a Participant's rights under an outstanding Award without the Participant's written consent.

(vii) To submit any amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of (A) Section 162(m) of the Code regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to Covered Employees, (B) Section 422 of the Code regarding incentive stock options or (C) Rule 16b-3.

(viii) To approve forms of Award Agreements for use under the Plan and to amend the terms of any one or more Awards, including, but not limited to, amendments to provide terms more favorable to the Participant than previously provided in the Award Agreement, subject to any specified limits in the Plan that are not subject to Board discretion; *provided, however,* that a Participant's rights under any Award will not be impaired by any such amendment unless (A) the Company requests the consent of the affected Participant, and (B) such Participant consents in writing. Notwithstanding the foregoing, (1) a Participant's rights will not be deemed to have been impaired by any such amendment if the Board, in its sole discretion, determines that the

amendment, taken as a whole, does not materially impair the Participant's rights, and (2) subject to the limitations of applicable law, if any, the Board may amend the terms of any one or more Awards without the affected Participant's consent (A) to maintain the qualified status of the Award as an Incentive Stock Option under Section 422 of the Code; (B) to change the terms of an Incentive Stock Option, if such change results in impairment of the Award solely because it impairs the qualified status of the Award as an Incentive Stock Option under Section 422 of the Code; (C) to clarify the manner of exemption from, or to bring the Award into compliance with, Section 409A of the Code; or (D) to comply with other applicable laws or listing requirements.

(ix) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company and that are not in conflict with the provisions of the Plan or Awards.

(x) To adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Employees, Directors or Consultants who are foreign nationals or employed outside the United States (provided that Board approval will not be necessary for immaterial modifications to the Plan or any Award Agreement that are required for compliance with the laws of the relevant foreign jurisdiction).

(c) Delegation to Committee.

(i) General. The Board may delegate some or all of the administration of the Plan to a Committee or Committees. If administration of the Plan is delegated to a Committee, the Committee will have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, including the power to delegate to a subcommittee of the Committee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board will thereafter be to the Committee or subcommittee, as applicable). Any delegation of administrative powers will be reflected in resolutions, not inconsistent with the provisions of the Plan, adopted from time to time by the Board or Committee (as applicable). The Committee may, at any time, abolish the subcommittee and/or revest in the Committee any powers delegated to the subcommittee. The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, revest in the Board some or all of the powers previously delegated.

(ii) Section 162(m) and Rule 16b-3 Compliance. The Committee may consist solely of two (2) or more Outside Directors, in accordance with Section 162(m) of the Code, or solely of two (2) or more Non-Employee Directors, in accordance with Rule 16b-3.

(d) Delegation to an Officer. The Board may delegate to one (1) or more Officers the authority to do one or both of the following: (i) designate Employees who are not Officers to be recipients of Options and SARs (and, to the extent permitted by applicable law, other Stock Awards) and, to the extent permitted by applicable law, the terms of such Awards; and (ii) determine the number of shares of Common Stock to be subject to such Stock Awards granted to such Employees; *provided, however*, that the Board resolutions regarding such delegation will specify the total number of shares of Common Stock that may be subject to the Stock Awards granted by such Officer and that such Officer may not grant a Stock Award to himself or herself. Any such Stock Awards will be granted on the form of Award Agreement most recently approved

for use by the Committee or the Board, unless otherwise provided in the resolutions approving the delegation authority. The Board may not delegate authority to an Officer who is acting solely in the capacity of an Officer (and not also as a Director) to determine the Fair Market Value pursuant to Section 2(w)(iii) above.

(e) Effect of Board's Decision. All determinations, interpretations and constructions made by the Board in good faith will not be subject to review by any person and will be final, binding and conclusive on all persons.

(f) No Cancellation and Re-Grant or Repricing of Stock Awards without Stockholder Approval. Neither the Board nor any Committee will have the authority to (i) reduce the exercise, purchase or strike price of any outstanding Option or SAR under the Plan, or (ii) cancel any outstanding Option or SAR that has an exercise price or strike price greater than the then-current Fair Market Value of the Common Stock in exchange for cash or other Stock Awards under the Plan, unless the stockholders of the Company have approved such an action within twelve (12) months prior to such an event.

4. SHARES SUBJECT TO THE PLAN.

(a) Share Reserve.

(i) Subject to Section 10(a) relating to Capitalization Adjustments, the aggregate number of shares of Common Stock that may be issued pursuant to Stock Awards from and after the Original Effective Date will not exceed six million two hundred thousand (6,200,000) shares (the "***Share Reserve***").

(ii) For clarity, the Share Reserve in this Section 4(a) is a limitation on the number of shares of Common Stock that may be issued pursuant to the Plan, including the Plan prior to its amendment and restatement in 2015. Accordingly, this Section 4(a) does not limit the granting of Stock Awards except as provided in Section 8(a). Shares may be issued in connection with a merger or acquisition as permitted by NASDAQ Listing Rule 5635(c) or, if applicable, NYSE Listed Company Manual Section 303A.08, AMEX Company Guide Section 711 or other applicable rule, and such issuance will not reduce the number of shares available for issuance under the Plan.

(b) Reversion of Shares to the Share Reserve.

(i) Shares Available For Subsequent Issuance. If (A) any shares of Common Stock subject to a Stock Award are not issued because such Stock Award or any portion thereof expires or otherwise terminates without all of the shares covered by such Stock Award having been issued or is settled in cash (*i.e.*, the Participant receives cash rather than stock), (B) any shares of Common Stock issued pursuant to a Stock Award are forfeited back to or repurchased by the

Company because of the failure to meet a contingency or condition required for the vesting of such shares, or (C) any shares of Common Stock subject to an Award are reacquired or withheld (or not issued) by the Company to satisfy a tax withholding obligation in connection with such Award, such shares will again become available for issuance under the Plan. Any shares of Common Stock reacquired or withheld (or not issued) by the Company to satisfy the exercise or purchase price of a Stock Award will again become available for issuance under the Plan, including any shares subject to a Stock Award that are not delivered to a Participant because such Stock Award is exercised through a reduction of shares subject to such Stock Award (*i.e.*, "net exercised"). In addition, any shares reacquired or withheld (or not issued) by the Company to satisfy a tax withholding obligation in connection with an Option or Stock Appreciation Right, or any shares repurchased by the Company on the open market with the proceeds of the exercise or strike price of an Option or Stock Appreciation Right will again become available for issuance under the Plan.

(c) Incentive Stock Option Limit. Subject to the Share Reserve and Section 10(a) relating to Capitalization Adjustments, the aggregate maximum number of shares of Common Stock that may be issued pursuant to the exercise of Incentive Stock Options will be 6,200,000 shares of Common Stock.

(d) Section 162(m) Limitations. Subject to the Share Reserve and Section 10(a) relating to Capitalization Adjustments, at such time as the Company may be subject to the applicable provisions of Section 162(m) of the Code, the following limitations will apply; *provided, however,* that if any additional Awards are granted to any Participant during any calendar year in excess of the limits below, compensation attributable to such additional Awards will not satisfy the requirements to be considered "qualified performance-based compensation" under Section 162(m) of the Code unless such additional Award is approved by the Company's stockholders.

(i) A maximum of two million four hundred fifty thousand (2,450,000) shares of Common Stock subject to Options, SARs and Other Stock Awards whose value is determined by reference to an increase over an exercise or strike price of at least one hundred percent (100%) of the Fair Market Value on the date any such Stock Award is granted may be granted to any one Participant during any one calendar year.

(ii) A maximum of two million (2,000,000) shares of Common Stock subject to Performance Stock Awards may be granted to any one Participant during any one calendar year (whether the grant, vesting or exercise is contingent upon the attainment during the Performance Period of the Performance Goals).

(iii) A maximum of five million dollars ($5,000,000) may be granted as a Performance Cash Award to any one Participant during any one calendar year.

(e) Limitation on Grants to Non-Employee Directors. The maximum number of shares subject to Stock Awards granted under this Plan or under any other equity plan maintained by the Company during a single fiscal year to any Non-Employee Director, taken together with any cash fees paid to such Non-Employee Director during the fiscal year, will not exceed eight hundred thousand dollars ($800,000) in total value (calculating the value of any such Stock Awards based on the grant date fair value of such Stock Awards for financial reporting purposes and

excluding, for this purpose, the value of any dividend equivalent payments paid pursuant to any Stock Award granted in a previous fiscal year).

(f) Source of Shares. The stock issuable under the Plan will be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Company on the open market or otherwise.

5. ELIGIBILITY.

(a) Eligibility for Specific Stock Awards. Incentive Stock Options may be granted only to employees of the Company or a "parent corporation" or "subsidiary corporation" thereof (as such terms are defined in Sections 424(e) and 424(f) of the Code). Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants; *provided*, *however*, that Stock Awards may not be granted to Employees, Directors and Consultants who are providing Continuous Service only to any "parent" of the Company, as such term is defined in Rule 405, unless (i) the stock underlying such Stock Awards is treated as "service recipient stock" under Section 409A of the Code (for example, because the Stock Awards are granted pursuant to a corporate transaction such as a spin off transaction) or (ii) the Company, in consultation with its legal counsel, has determined that such Stock Awards are otherwise exempt from or alternatively comply with the distribution requirements of Section 409A of the Code.

(b) Ten Percent Stockholders. A Ten Percent Stockholder will not be granted an Incentive Stock Option unless the exercise price of such Option is at least one hundred ten percent (110%) of the Fair Market Value on the date of grant and the Option is not exercisable after the expiration of five (5) years from the date of grant.

6. PROVISIONS RELATING TO OPTIONS AND STOCK APPRECIATION RIGHTS.

Each Option or SAR will be in such form and will contain such terms and conditions as the Board deems appropriate. All Options will be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates will be issued for shares of Common Stock purchased on exercise of each type of Option. If an Option is not specifically designated as an Incentive Stock Option, or if an Option is designated as an Incentive Stock Option but some portion or all of the Option fails to qualify as an Incentive Stock Option under the applicable rules, then the Option (or portion thereof) will be a Nonstatutory Stock Option. The provisions of separate Options or SARs need not be identical; *provided, however*, that each Award Agreement will conform to (through incorporation of provisions hereof by reference in the applicable Award Agreement or otherwise) the substance of each of the following provisions:

(a) Term. Subject to the provisions of Section 5(b) regarding Ten Percent Stockholders, no Option or SAR will be exercisable after the expiration of ten (10) years from the date of its grant or such shorter period specified in the Award Agreement.

(b) Exercise Price. Subject to the provisions of Section 5(b) regarding Ten Percent Stockholders, the exercise or strike price of each Option or SAR will be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Option or SAR on the date the Award is granted. Notwithstanding the foregoing, an Option or SAR may be granted

with an exercise or strike price lower than one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the Award if such Award is granted pursuant to an assumption of or substitution for another option or stock appreciation right pursuant to a Corporate Transaction and in a manner consistent with the provisions of Section 409A of the Code and, if applicable, Section 424(a) of the Code. Each SAR will be denominated in shares of Common Stock equivalents.

(c) Purchase Price for Options. The purchase price of Common Stock acquired pursuant to the exercise of an Option may be paid, to the extent permitted by applicable law and as determined by the Board in its sole discretion, by any combination of the methods of payment set forth below. The Board will have the authority to grant Options that do not permit all of the following methods of payment (or that otherwise restrict the ability to use certain methods) and to grant Options that require the consent of the Company to use a particular method of payment. The permitted methods of payment are as follows:

(i) by cash, check, bank draft or money order payable to the Company;

(ii) pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of the stock subject to the Option, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds;

(iii) by delivery to the Company (either by actual delivery or attestation) of shares of Common Stock;

(iv) if an Option is a Nonstatutory Stock Option, by a "net exercise" arrangement pursuant to which the Company will reduce the number of shares of Common Stock issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price; *provided, however*, that the Company will accept a cash or other payment from the Participant to the extent of any remaining balance of the aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued. Shares of Common Stock will no longer be subject to an Option and will not be exercisable thereafter to the extent that (A) shares issuable upon exercise are used to pay the exercise price pursuant to the "net exercise," (B) shares are delivered to the Participant as a result of such exercise, and (C) shares are withheld to satisfy tax withholding obligations; or

(v) in any other form of legal consideration that may be acceptable to the Board and specified in the applicable Award Agreement.

(d) Exercise and Payment of a SAR. To exercise any outstanding SAR, the Participant must provide written notice of exercise to the Company in compliance with the provisions of the Award Agreement evidencing such SAR. The appreciation distribution payable on the exercise of a SAR will be not greater than an amount equal to the excess of (A) the aggregate Fair Market Value (on the date of the exercise of the SAR) of a number of shares of Common Stock equal to the number of Common Stock equivalents in which the Participant is vested under such SAR, and with respect to which the Participant is exercising the SAR on such date, over (B) the aggregate strike price of the number of Common Stock equivalents with respect to which the

Participant is exercising the SAR on such date. The appreciation distribution may be paid in Common Stock, in cash, in any combination of the two or in any other form of consideration, as determined by the Board and contained in the Award Agreement evidencing such SAR.

(e) Transferability of Options and SARs. The Board may, in its sole discretion, impose such limitations on the transferability of Options and SARs as the Board will determine. In the absence of such a determination by the Board to the contrary, the following restrictions on the transferability of Options and SARs will apply:

(i) Restrictions on Transfer. An Option or SAR will not be transferable except by will or by the laws of descent and distribution (and pursuant to Sections 6(e)(ii) and 6(e)(iii) below), and will be exercisable during the lifetime of the Participant only by the Participant (or his or her court-appointed guardian or legal representative). The Board may permit transfer of the Option or SAR in a manner that is not prohibited by applicable tax and securities laws. Except as explicitly provided in the Plan, neither an Option nor a SAR may be transferred for consideration.

(ii) Domestic Relations Orders. Subject to the approval of the Board or a duly authorized Officer, an Option or SAR may be transferred pursuant to the terms of a domestic relations order, official marital settlement agreement or other divorce or separation instrument as permitted by Treasury Regulations Section 1.421-1(b)(2). If an Option is an Incentive Stock Option, such Option may be deemed to be a Nonstatutory Stock Option as a result of such transfer.

(iii) Beneficiary Designation. Subject to the approval of the Board or a duly authorized Officer, a Participant may, by delivering written notice to the Company, in a form approved by the Company (or the designated broker), designate a third party who, upon the death of the Participant, will thereafter be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise. In the absence of such a designation, upon the death of the Participant, the executor or administrator of the Participant's estate will be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise. However, the Company may prohibit designation of a beneficiary at any time, including due to any conclusion by the Company that such designation would be inconsistent with the provisions of applicable laws.

(f) Vesting Generally. The total number of shares of Common Stock subject to an Option or SAR may vest and become exercisable in periodic installments that may or may not be equal. The Option or SAR may be subject to such other terms and conditions on the time or times when it may or may not be exercised (which may be based on the satisfaction of Performance Goals or other criteria) as the Board may deem appropriate. Each Option or SAR may be exercised in whole or in part at the election of the Participant as provided in any Award Agreement. The vesting provisions of individual Options or SARs may vary. The provisions of this Section 6(f) are subject to any Option or SAR provisions governing the minimum number of shares of Common Stock as to which an Option or SAR may be exercised.

(g) Termination of Continuous Service. Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company or an Affiliate, if a Participant's Continuous Service terminates (other than upon the Participant's death

or Disability or upon a Change in Control), the Participant may exercise his or her Option or SAR (to the extent that the Participant was entitled to exercise such Option or SAR as of the date of termination of Continuous Service), but only within such period of time ending on the earlier of (i) the date three (3) months following such termination of Continuous Service (or such longer or shorter period specified in the Award Agreement), and (ii) the expiration of the term of the Option or SAR as set forth in the Award Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Option or SAR (as applicable) within the applicable time frame, the Option or SAR (as applicable) will terminate.

(h) Extension of Termination Date. Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company or an Affiliate, if the exercise of an Option or SAR following the termination of the Participant's Continuous Service (other than upon the Participant's death or Disability or upon a Change in Control) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option or SAR will terminate on the earlier of (i) the expiration of a total period of time (that need not be consecutive) equal to the applicable post-termination exercise period after the termination of the Participant's Continuous Service during which the exercise of the Option or SAR would not be in violation of such registration requirements, or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Award Agreement. In addition, unless otherwise provided in a Participant's Award Agreement, if the sale of any Common Stock received upon exercise of an Option or SAR following the termination of the Participant's Continuous Service would violate the Company's insider trading policy, then the Option or SAR will terminate on the earlier of (i) the expiration of a period of time (that need not be consecutive) equal to the applicable post-termination exercise period after the termination of the Participant's Continuous Service during which the sale of the Common Stock received upon exercise of the Option or SAR would not be in violation of the Company's insider trading policy, or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Award Agreement.

(i) Disability of Participant. Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company or an Affiliate, if a Participant's Continuous Service terminates as a result of the Participant's Disability, the Participant may exercise his or her Option or SAR (to the extent that the Participant was entitled to exercise such Option or SAR as of the date of termination of Continuous Service), but only within such period of time ending on the earlier of (i) the date twelve (12) months following such termination of Continuous Service (or such longer or shorter period specified in the Award Agreement), and (ii) the expiration of the term of the Option or SAR as set forth in the Award Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Option or SAR (as applicable) within the applicable time frame, the Option or SAR (as applicable) will terminate.

(j) Death of Participant. Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company or an Affiliate, if (i) a Participant's Continuous Service terminates as a result of the Participant's death, or (ii) the Participant dies within the period (if any) specified in the Award Agreement for exercisability after the termination of the Participant's Continuous Service (for a reason other than death), then the Participant's Option or SAR may be exercised (to the extent that the Participant was entitled to

exercise such Option or SAR as of the date of death) by the Participant's estate, by a person who acquired the right to exercise the Option or SAR by bequest or inheritance or by a person designated to exercise the Option or SAR upon the Participant's death, but only within such period of time ending on the earlier of (i) the date twelve (12) months following the date of death (or such longer or shorter period specified in the Award Agreement), and (ii) the expiration of the term of such Option or SAR as set forth in the Award Agreement. If, after the Participant's death, the Option or SAR (as applicable) is not exercised within the applicable time frame, the Option or SAR (as applicable) will terminate.

(k) Non-Exempt Employees. If an Option or SAR is granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, the Option or SAR will not be first exercisable for any shares of Common Stock until at least six (6) months following the date of grant of the Option or SAR (although the Award may vest prior to such date). Consistent with the provisions of the Worker Economic Opportunity Act, (i) if such non-exempt employee dies or suffers a Disability, (ii) upon a Corporate Transaction in which such Option or SAR is not assumed, continued, or substituted, (iii) upon a Change in Control, or (iv) upon the Participant's retirement (as such term may be defined in the Participant's Award Agreement, in another agreement between the Participant and the Company or an Affiliate, or, if no such definition, in accordance with the Company's then current employment policies and guidelines), the vested portion of any Options and SARs may be exercised earlier than six (6) months following the date of grant. The foregoing provision is intended to operate so that any income derived by a non-exempt employee in connection with the exercise or vesting of an Option or SAR will be exempt from his or her regular rate of pay. To the extent permitted and/or required for compliance with the Worker Economic Opportunity Act to ensure that any income derived by a non-exempt employee in connection with the exercise, vesting or issuance of any shares under any other Stock Award will be exempt from the employee's regular rate of pay, the provisions of this Section 6(k) will apply to all Stock Awards and are hereby incorporated by reference into such Stock Award Agreements.

7. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS AND SARS.

(a) Restricted Stock Awards. Each Restricted Stock Award Agreement will be in such form and will contain such terms and conditions as the Board deems appropriate. To the extent consistent with the Company's bylaws, at the Board's election, shares of Common Stock underlying a Restricted Stock Award may be (i) held in book entry form subject to the Company's instructions until any restrictions relating to the Restricted Stock Award lapse, or (ii) evidenced by a certificate, which certificate will be held in such form and manner as determined by the Board. The terms and conditions of Restricted Stock Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Award Agreements need not be identical. Each Restricted Stock Award Agreement will conform to (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) Consideration. A Restricted Stock Award may be awarded in consideration for (A) cash, check, bank draft or money order payable to the Company, (B) services rendered to, or for the benefit of, the Company or an Affiliate, or (C) any other form of legal

consideration (including future services) that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

(ii) Vesting. Shares of Common Stock awarded under the Restricted Stock Award Agreement may be subject to forfeiture to the Company in accordance with a vesting schedule to be determined by the Board.

(iii) Termination of Participant's Continuous Service. If a Participant's Continuous Service terminates, the Company may receive through a forfeiture condition or a repurchase right any or all of the shares of Common Stock held by the Participant as of the date of termination of Continuous Service under the terms of the Restricted Stock Award Agreement.

(iv) Transferability. Rights to acquire shares of Common Stock under the Restricted Stock Award Agreement will be transferable by the Participant only upon such terms and conditions as are set forth in the Restricted Stock Award Agreement, as the Board will determine in its sole discretion, so long as Common Stock awarded under the Restricted Stock Award Agreement remains subject to the terms of the Restricted Stock Award Agreement.

(v) Dividends. A Restricted Stock Award Agreement may provide that any dividends paid on Restricted Stock will be subject to the same vesting and forfeiture restrictions as apply to the shares subject to the Restricted Stock Award to which they relate.

(b) Restricted Stock Unit Awards. Each Restricted Stock Unit Award Agreement will be in such form and will contain such terms and conditions as the Board deems appropriate. The terms and conditions of Restricted Stock Unit Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Unit Award Agreements need not be identical. Each Restricted Stock Unit Award Agreement will conform to (through incorporation of the provisions hereof by reference in the Agreement or otherwise) the substance of each of the following provisions:

(i) Consideration. At the time of grant of a Restricted Stock Unit Award, the Board will determine the consideration, if any, to be paid by the Participant upon delivery of each share of Common Stock subject to the Restricted Stock Unit Award. The consideration to be paid (if any) by the Participant for each share of Common Stock subject to a Restricted Stock Unit Award may be paid in any form of legal consideration that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

(ii) Vesting. At the time of the grant of a Restricted Stock Unit Award, the Board may impose such restrictions on or conditions to the vesting of the Restricted Stock Unit Award as it, in its sole discretion, deems appropriate.

(iii) Payment. A Restricted Stock Unit Award may be settled by the delivery of shares of Common Stock, their cash equivalent, any combination thereof or in any other form of consideration, as determined by the Board and contained in the Restricted Stock Unit Award Agreement.

(iv) Additional Restrictions. At the time of the grant of a Restricted Stock Unit Award, the Board, as it deems appropriate, may impose such restrictions or conditions that delay

the delivery of the shares of Common Stock (or their cash equivalent) subject to a Restricted Stock Unit Award to a time after the vesting of such Restricted Stock Unit Award.

(v) Dividend Equivalents. Dividend equivalents may be credited in respect of shares of Common Stock covered by a Restricted Stock Unit Award, as determined by the Board and contained in the Restricted Stock Unit Award Agreement. At the sole discretion of the Board, such dividend equivalents may be converted into additional shares of Common Stock covered by the Restricted Stock Unit Award in such manner as determined by the Board. Any additional shares covered by the Restricted Stock Unit Award credited by reason of such dividend equivalents will be subject to all of the same terms and conditions of the underlying Restricted Stock Unit Award Agreement to which they relate.

(vi) Termination of Participant's Continuous Service. Except as otherwise provided in the applicable Restricted Stock Unit Award Agreement, such portion of the Restricted Stock Unit Award that has not vested will be forfeited upon the Participant's termination of Continuous Service.

(c) Performance Awards.

(i) Performance Stock Awards. A Performance Stock Award is a Stock Award (covering a number of shares not in excess of that set forth in Section 4(d)(ii)) that is payable (including that may be granted, vest or be exercised) contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Stock Award may, but need not, require the Participant's completion of a specified period of Continuous Service. The length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained will be conclusively determined by the Committee (or, if not required for compliance with Section 162(m) of the Code, the Board or the Committee), in its sole discretion. In addition, to the extent permitted by applicable law and the applicable Award Agreement, the Board may determine that cash may be used in payment of Performance Stock Awards.

(ii) Performance Cash Awards. A Performance Cash Award is a cash award (for a dollar value not in excess of that set forth in Section 4(d)(iii)) that is payable contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Cash Award may, but need not, require the Participant's completion of a specified period of Continuous Service. The length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained will be conclusively determined by the Committee (or, if not required for compliance with Section 162(m) of the Code, the Board or the Committee), in its sole discretion. The Board may specify the form of payment of Performance Cash Awards, which may be cash or other property, or may provide for a Participant to have the option for his or her Performance Cash Award, or such portion thereof as the Board may specify, to be paid in whole or in part in cash or other property.

(iii) Committee and Board Discretion. The Committee (or, if not required for compliance with Section 162(m) of the Code, the Board or the Committee) retains the discretion to reduce or eliminate the compensation or economic benefit due upon the attainment of any

Performance Goals and to define the manner of calculating the Performance Measures it selects to use for a Performance Period.

(iv) Section 162(m) Compliance. Unless otherwise permitted in compliance with Section 162(m) of the Code with respect to an Award intended to qualify as "performance-based compensation" thereunder, the Committee will establish the Performance Goals applicable to, and the formula for calculating the amount payable under, the Award no later than the earlier of (A) the date ninety (90) days after the commencement of the applicable Performance Period, and (B) the date on which twenty-five percent (25%) of the Performance Period has elapsed, and in any event at a time when the achievement of the applicable Performance Goals remains substantially uncertain. Prior to the payment of any compensation under an Award intended to qualify as "performance-based compensation" under Section 162(m) of the Code, the Committee will certify the extent to which any Performance Goals and any other material terms under such Award have been satisfied (other than in cases where the Performance Goals relate solely to the increase in the value of the Common Stock). Notwithstanding satisfaction or any completion of any Performance Goals, shares subject to Options, cash or other benefits granted, issued, retainable and/or vested under an Award on account of satisfaction of such Performance Goals may be reduced by the Committee on the basis of any further considerations as the Committee, in its sole discretion, will determine.

(d) Other Stock Awards. Other forms of Stock Awards valued in whole or in part by reference to, or otherwise based on, Common Stock, including the appreciation in value thereof (*e.g.*, options or stock appreciation rights with an exercise price or strike price less than one hundred percent (100%) of the Fair Market Value of the Common Stock at the time of grant) may be granted either alone or in addition to Stock Awards granted under Section 6 and this Section 7. Subject to the provisions of the Plan, the Board will have sole and complete authority to determine the persons to whom and the time or times at which such Other Stock Awards will be granted, the number of shares of Common Stock (or the cash equivalent thereof) to be granted pursuant to such Other Stock Awards and all other terms and conditions of such Other Stock Awards.

8. COVENANTS OF THE COMPANY.

(a) Availability of Shares. The Company will keep available at all times the number of shares of Common Stock reasonably required to satisfy then-outstanding Stock Awards.

(b) Securities Law Compliance. The Company will seek to obtain from each regulatory commission or agency having jurisdiction over the Plan the authority required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; *provided, however*, that this undertaking will not require the Company to register under the Securities Act the Plan, any Stock Award or any Common Stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts and at a reasonable cost, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company will be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Stock Awards unless and until such authority is obtained. A Participant will not be eligible for the grant of an Award or the subsequent issuance of cash or Common Stock pursuant to the Award if such grant or issuance would be in violation of any applicable securities law.

(c) No Obligation to Notify or Minimize Taxes. The Company will have no duty or obligation to any Participant to advise such holder as to the time or manner of exercising a Stock Award. Furthermore, the Company will have no duty or obligation to warn or otherwise advise such holder of a pending termination or expiration of an Award or a possible period in which the Award may not be exercised. The Company has no duty or obligation to minimize the tax consequences of an Award to the holder of such Award.

9. MISCELLANEOUS.

(a) Use of Proceeds from Sales of Common Stock. Proceeds from the sale of shares of Common Stock issued pursuant to Stock Awards will constitute general funds of the Company.

(b) Corporate Action Constituting Grant of Awards. Corporate action constituting a grant by the Company of an Award to any Participant will be deemed completed as of the date of such corporate action, unless otherwise determined by the Board, regardless of when the instrument, certificate or letter evidencing the Award is communicated to, or actually received or accepted by, the Participant. In the event that the corporate records (*e.g.*, Board consents, resolutions or minutes) documenting the corporate action constituting the grant contain terms (*e.g.*, exercise price, vesting schedule or number of shares) that are inconsistent with those in the Award Agreement or related grant documents as a result of a clerical error in the papering of the Award Agreement or related grant documents, the corporate records will control and the Participant will have no legally binding right to the incorrect term in the Award Agreement or related grant documents.

(c) Stockholder Rights. No Participant will be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to an Award unless and until (i) such Participant has satisfied all requirements for exercise of, or the issuance of shares of Common Stock under, the Award pursuant to its terms, and (ii) the issuance of the Common Stock subject to such Award has been entered into the books and records of the Company.

(d) No Employment or Other Service Rights. Nothing in the Plan, any Award Agreement or any other instrument executed thereunder or in connection with any Award granted pursuant thereto will confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Award was granted or will affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate, or (iii) the service of a Director pursuant to the bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

(e) Change in Time Commitment. In the event a Participant's regular level of time commitment in the performance of his or her services for the Company or any Affiliate is reduced (for example, and without limitation, if the Participant is an Employee of the Company and the Employee has a change in status from a full-time Employee to a part-time Employee) after the date of grant of any Award to the Participant, the Board has the right in its sole discretion to (x) make a corresponding reduction in the number of shares or cash amount subject to any portion of such

Award that is scheduled to vest or become payable after the date of such change in time commitment, and (y) in lieu of or in combination with such a reduction, extend the vesting or payment schedule applicable to such Award. In the event of any such reduction, the Participant will have no right with respect to any portion of the Award that is so reduced or extended.

(f) Incentive Stock Option Limitations. To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and any Affiliates) exceeds one hundred thousand dollars ($100,000) (or such other limit established in the Code) or otherwise does not comply with the rules governing Incentive Stock Options, the Options or portions thereof that exceed such limit (according to the order in which they were granted) or otherwise do not comply with such rules will be treated as Nonstatutory Stock Options, notwithstanding any contrary provision of the applicable Option Agreement(s).

(g) Investment Assurances. The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that he or she is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, will be inoperative if (A) the issuance of the shares upon the exercise or acquisition of Common Stock under the Stock Award has been registered under a then currently effective registration statement under the Securities Act, or (B) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

(h) Withholding Obligations. Unless prohibited by the terms of an Award Agreement, the Company may, in its sole discretion, satisfy any federal, state or local tax withholding obligation relating to an Award by any of the following means or by a combination of such means: (i) causing the Participant to tender a cash payment; (ii) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to the Participant in connection with the Stock Award; *provided, however,* that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law (or such lesser amount as may be necessary to avoid classification of the Stock Award as a liability for financial accounting purposes); (iii) withholding cash from an Award settled in cash; (iv) withholding payment from any amounts otherwise payable to the Participant; or (v) by such other method as may be set forth in the Award Agreement.

(i) Electronic Delivery. Any reference herein to a "written" agreement or document will include any agreement or document delivered electronically, filed publicly at www.sec.gov (or any successor website thereto) or posted on the Company's intranet (or other shared electronic medium controlled by the Company to which the Participant has access).

(j) Deferrals. To the extent permitted by applicable law, the Board, in its sole discretion, may determine that the delivery of Common Stock or the payment of cash, upon the exercise, vesting or settlement of all or a portion of any Award may be deferred and may establish programs and procedures for deferral elections to be made by Participants. Deferrals by Participants will be made in accordance with Section 409A of the Code. Consistent with Section 409A of the Code, the Board may provide for distributions while a Participant is still an employee or otherwise providing services to the Company. The Board is authorized to make deferrals of Awards and determine when, and in what annual percentages, Participants may receive payments, including lump sum payments, following the Participant's termination of Continuous Service, and implement such other terms and conditions consistent with the provisions of the Plan and in accordance with applicable law.

(k) Compliance with Section 409A of the Code. To the extent that the Board determines that any Award granted hereunder is subject to Section 409A of the Code, the Award Agreement evidencing such Award will incorporate the terms and conditions necessary to avoid the consequences specified in Section 409A(a)(1) of the Code. To the extent applicable, the Plan and Award Agreements will be interpreted in accordance with Section 409A of the Code. Notwithstanding anything to the contrary in this Plan (and unless the Award Agreement specifically provides otherwise), if the shares of Common Stock are publicly traded and a Participant holding an Award that constitutes "deferred compensation" under Section 409A of the Code is a "specified employee" for purposes of Section 409A of the Code, no distribution or payment of any amount will be made upon a "separation from service" before a date that is six (6) months following the date of such Participant's "separation from service" (as defined in Section 409A of the Code without regard to alternative definitions thereunder) or, if earlier, the date of the Participant's death.

(l) Clawback/Recovery. All Awards granted under the Plan will be subject to recoupment in accordance with any clawback policy that the Company adopted in January 2013, and any additional policy that the Company may be required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law. In addition, the Board may impose such other clawback, recovery or recoupment provisions in an Award Agreement as the Board determines necessary or appropriate, including, but not limited to, a reacquisition right in respect of previously acquired shares of Common Stock or other cash or property upon the occurrence of an event constituting Cause. No recovery of compensation under such a clawback policy will be an event giving rise to a right to resign for "good reason" or "constructive termination" (or similar term) under any agreement with the Company.

10. ADJUSTMENTS UPON CHANGES IN COMMON STOCK; OTHER CORPORATE EVENTS.

(a) Capitalization Adjustments. In the event of a Capitalization Adjustment, the Board will appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 4(a), (ii) the class(es) and maximum number of securities that may be issued pursuant to the exercise of Incentive Stock Options pursuant to Section 4(c), (iii) the class(es) and maximum number of securities that may be awarded to any person pursuant to Section 4(d), and (iv) the class(es) and number of securities and price per share of stock subject to outstanding Stock Awards. The Board will make such adjustments, and its determination will be final, binding and conclusive.

(b) Dissolution or Liquidation. Except as otherwise provided in the Stock Award Agreement, in the event of a dissolution or liquidation of the Company, all outstanding Stock Awards (other than Stock Awards consisting of vested and outstanding shares of Common Stock not subject to a forfeiture condition or the Company's right of repurchase) will terminate immediately prior to the completion of such dissolution or liquidation, and the shares of Common Stock subject to the Company's repurchase rights or subject to a forfeiture condition may be repurchased or reacquired by the Company notwithstanding the fact that the holder of such Stock Award is providing Continuous Service.

(c) Corporate Transaction. The following provisions will apply to Stock Awards in the event of a Transaction unless otherwise provided in the Stock Award Agreement or any other written agreement between the Company or any Affiliate and the Participant or unless otherwise expressly provided by the Board at the time of grant of a Stock Award. In the event of a Corporate Transaction, then, notwithstanding any other provision of the Plan, the Board may take one or more of the following actions with respect to Stock Awards, contingent upon the closing or completion of the Transaction:

(i) arrange for the surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company) to assume or continue the Stock Award or to substitute a similar stock award for the Stock Award (including, but not limited to, an award to acquire the same consideration paid to the stockholders of the Company pursuant to the Transaction);

(ii) arrange for the assignment of any reacquisition or repurchase rights held by the Company in respect of Common Stock issued pursuant to the Stock Award to the surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company);

(iii) accelerate the vesting, in whole or in part, of the Stock Award (and, if applicable, the time at which the Stock Award may be exercised) to a date prior to the effective time of such Transaction as the Board determines (or, if the Board does not determine such a date, to the date that is five (5) days prior to the effective date of the Corporate Transaction), with such Stock Award terminating if not exercised (if applicable) at or prior to the effective time of the Transaction; *provided, however*, that the Board may require Participants to complete and deliver to the Company a notice of exercise before the effective date of a Transaction, which exercise is contingent upon the effectiveness of such Transaction;

(iv) arrange for the lapse, in whole or in part, of any reacquisition or repurchase rights held by the Company with respect to the Stock Award;

(v) cancel or arrange for the cancellation of the Stock Award, to the extent not vested or not exercised prior to the effective time of the Transaction, and pay such cash consideration, if any, as the Board, in its sole discretion, may consider appropriate; and

(vi) make a payment, in such form as may be determined by the Board, equal to the excess, if any, of (A) the value of the property the Participant would have received upon the exercise of the Stock Award immediately prior to the effective time of the Transaction, over (B) any exercise price payable by such holder in connection with such exercise. For clarity, this payment may be zero ($0) if the value of the property is equal to or less than the exercise price. Payments under this provision may be delayed to the same extent that payment of consideration to the holders of the Company's Common Stock in connection with the Transaction is delayed as a result of escrows, earn outs, holdbacks or any other contingencies.

The Board need not take the same action or actions with respect to all Stock Awards or portions thereof or with respect to all Participants. The Board may take different actions with respect to the vested and unvested portions of a Stock Award.

(q) Change in Control. An Award may be subject to additional acceleration of vesting and exercisability upon or after a Change in Control as may be provided in the Award Agreement for such Award or as may be provided in any other written agreement between the Company or any Affiliate and the Participant or in any director compensation policy of the Company, but in the absence of such provision, no such acceleration will occur.

11. PLAN TERM; EARLIER TERMINATION OR SUSPENSION OF THE PLAN.

(a) The Board may suspend or terminate the Plan at any time. No Incentive Stock Option will be granted after the tenth (10th) anniversary of the earlier of (i) the date the Plan is adopted by the Board, or (ii) the date the Plan is approved by the stockholders of the Company. No Awards may be granted under the Plan while the Plan is suspended or after it is terminated.

(b) No Impairment of Rights. Suspension or termination of the Plan will not impair rights and obligations under any Award granted while the Plan is in effect except with the written consent of the affected Participant or as otherwise permitted in the Plan.

12. EFFECTIVE DATE OF PLAN.

This Plan will become effective on the Effective Date.

13. CHOICE OF LAW.

The laws of the State of Delaware will govern all questions concerning the construction, validity and interpretation of this Plan, without regard to that state's conflict of laws rules.

Exhibit 12.1

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

	2010	2011	2012	2013	2014	For the Six Months Ended June 30, 2015
Earnings:						
Income before income taxes	$ 150,370	$ 307,428	$ 327,133	$ 401,876	$ 501,272	$ 257,075
Add: fixed charges	43,578	36,153	29,097	24,931	39,274	15,841
Earnings	$ 193,948	$ 343,581	$ 356,230	$ 426,807	$ 540,546	$ 272,916
Fixed Charges:						
Interest expense[1]	$ 43,529	$ 36,102	$ 29,036	$ 24,871	$ 39,211	$ 15,809
Estimated interest portion of rent expense[2]	49	51	61	60	63	32
Fixed charges	43,578	$ 36,153	$ 29,097	$ 24,931	$ 39,274	$ 15,841
Ratio of earnings to fixed charges	4.45	9.50	12.24	17.12	13.76	17.23

[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: August 5, 2015

/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: August 5, 2015

/s/ Peter S. Garcia

Peter S. Garcia

Vice President and Chief Financial Officer

(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. Section 1350), John P. McLaughlin, Chief Executive Officer of PDL BioPharma, Inc. (the "Company"), and Peter S. Garcia, Vice President and Chief Financial Officer of the Company, each hereby certifies that, to the best of their knowledge:

(1) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, and

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

Dated: August 5, 2015

By:

/s/ JOHN P. MCLAUGHLIN

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

By:

/s/ PETER S. GARCIA

Peter S. Garcia
Vice President and Chief Financial Officer
(Principal Financial Officer)

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